

WANGARATTA, VIC Regional Outlook CONFERENCE

Wednesday 29 July 2009

Commodity outlook and financial performance of key agricultural industries in Central Northern Victoria

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 Victoria and highlights the performance of dairy, beef and sheep farms. The financial performance of dairy farms in northern Victoria and broadacre farms in the Central Northern region is also discussed.

The Central Northern region covered in this paper is outlined in map 1. The major regional centres include Benalla, Bendigo, Echuca, Shepparton and Wangaratta.

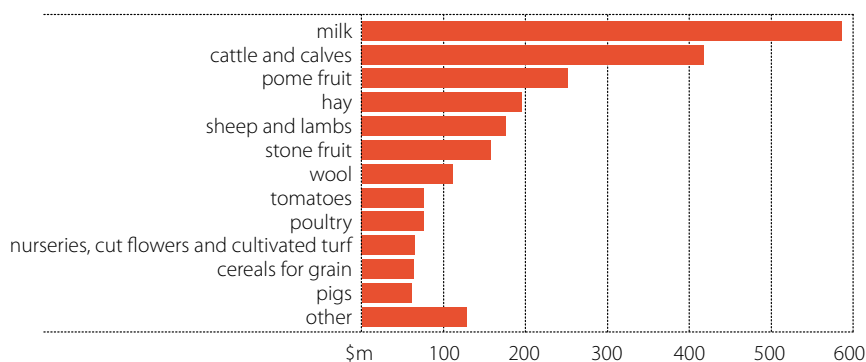
map 1 Central Northern region

Agricultural sector profile

In dollar value terms, milk was the most significant agricultural product in Central Northern Victoria in 2006-07, accounting for 25 per cent, or \$586 million, of the \$2.4 billion total value of agricultural production for the region. This is the most recent year for which Australian Bureau of Statistics data are available on a regional basis (figure a).

Cattle and calves made the second largest contribution, accounting for a further 18 per cent (\$418 million) of the total value of agricultural production in the region. Pome fruit accounted for 11 per cent (\$251 million), of which two-thirds were for apples and around one-third for pears (excluding nashi). Hay was the fourth largest agricultural product by value produced in the region in 2006-07, representing 11 per cent (\$196 million). Sheep and lambs, stone fruit, wool and tomatoes were also important contributors to the total value of production in the region in 2006-07.

a Value of agricultural production, Central Northern Victoria, 2006-07



Source: Australian Bureau of Statistics.

Agricultural production in some industries was significantly affected by drought in 2006-07. In most years, cereals for grain account for a larger share of the region's total value of agricultural production. For example, in 2004-05 and 2005-06 the total value of cereal production accounted for around 6 per cent (\$144 million) and 7 per cent (\$162 million) of the total value of production, respectively. However, in 2006-07 its share of the total value of agricultural production fell to only 3 per cent (\$63 million).

Number of farms

Australian Bureau of Statistics data indicate that in 2006-07 there were 10 779 farms in the Central Northern Victoria 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 Central Northern Victoria, around 36 per cent of farms operated beef cattle enterprises, compared with 30 per cent at the state level. Dairy farms were the second most common farm type in 2006-07, accounting for around 18 per cent of farms, followed by specialised sheep farms which accounted for around 10 per cent of all farms in the region. Mixed grains-livestock and sheep-beef farms accounted for around 9 per cent and 5 per cent of farms in the region, respectively, in 2006-07.

As in most parts of Australia, a high proportion of farms in the region are small in terms of their business size. 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 40 per cent of farms in the Central Northern Victoria region had an EVAO of less than \$50 000, and a further 30 per cent had a value between \$50 000 and \$150 000 (figure b). Many of these farms are small beef farms. Just 6 per cent of farms in the region had an EVAO of more than \$500 000, but these farms accounted for almost 50 per cent of the value of agricultural operations in 2006-07.

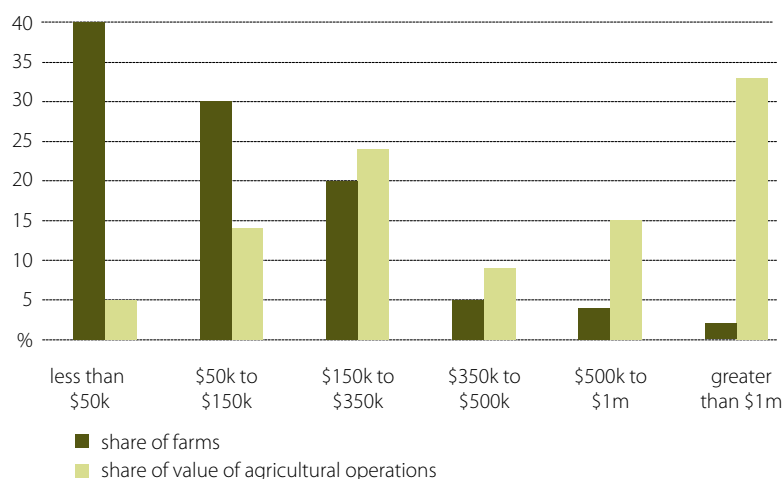
1 Number of farms, by industry classification, 2006-07 ^a

	Central Northern Victoria		Victoria	
	no.	%	no.	%
beef (specialised)	3 881	36	10 049	30
dairy	1 908	18	5 808	17
sheep (specialised)	1 069	10	3 906	12
mixed grains-livestock	944	9	2 567	8
sheep-beef	563	5	1 943	6
grapes	370	3	1 972	6
horses	305	3	774	2
grains	269	2	2 513	7
apple and pear	229	2	305	1
stone fruit	128	1	287	1
nurseries (outdoors)	63	1	218	1
other	1 050	10	3 603	11
all agricultural industries	10 779	100	33 944	100

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

Source: Australian Bureau of Statistics.

b Distribution of farms by value of agricultural operations, Central Northern Victoria, 2006-07



Source: Australian Bureau of Statistics.

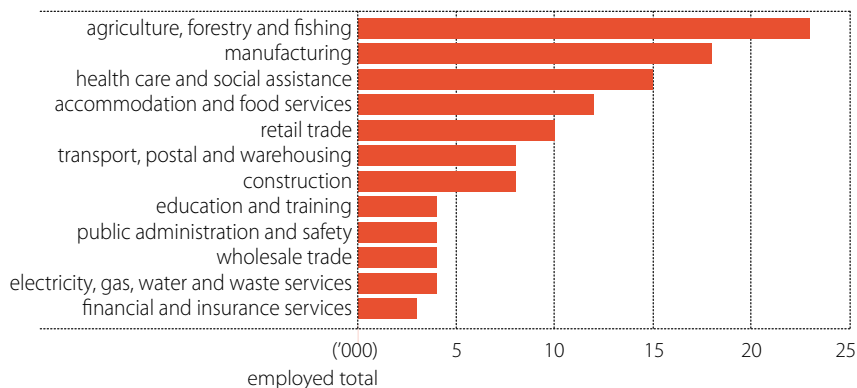
Employment profile

Australian Bureau of Statistics quarterly data from November 2008 show that around 124 000 people were employed in the Goulburn and Ovens-Murray regions (map 2). The agriculture, forestry and fishing industry employed the largest number of people, with approximately 19 per cent (23 000 people) of the total labour force (figure c). Manufacturing accounted for a further 15 per cent (18 000 people) and the health and social assistance industry accounted for 12 per cent (15 000 people). The accommodation and food services industry and retail trade industry were the fourth and fifth largest employing sectors, accounting for 10 per cent (12 000 people) and 8 per cent (10 000 people) of the Goulburn and Ovens-Murray labour force for the November quarter in 2008.

map **2** Goulburn and Ovens-Murray regions



C Employment profile, Goulburn-Ovens-Murray, November 2008



Source: Australian Bureau of Statistics.

Dairy farm performance – Australia and Victoria

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

Partly offsetting this projected reduction in milk receipts, average total cash costs are projected to fall 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 is projected to remain 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 have been 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
average per farm



Victorian farms accounted for 66 per cent of Australia’s milk production in 2007–08 (Dairy Australia 2009). Historically, Victorian dairy farms have driven most of the year to year change in dairy industry income observed at the national level (figure d). In 2007–08, average farm cash income for Victorian dairy farms was \$99 300 a farm. This was around 9 per cent less than the national average farm cash income.

In 2008-09, average farm cash income for Victorian dairy farms is projected to fall by more than that expected nationally, to an average of \$54 000 per farm. The larger projected reduction in average farm cash income for Victorian farms reflects greater falls in average milk prices in Victoria because of stronger reliance on the market for manufactured milk products, combined with continued high expenditure on fodder because of drought and low availability of irrigation water.

2 Financial performance, dairy industry

average per farm

	Victoria			Australia			
	2006-07	2007-08 ^p	2008-09 ^s	2006-07	2007-08 ^p	2008-09 ^s	
Physical							
Area of land operated 30 June	ha	210	200 (8)	200	240	250 (5)	250
Dairy cattle at 30 June	no	300	320 (5)	300	310	330 (4)	340
Dairy cows	no	216	216 (6)	200	211	215 (4)	200
Milk production	L	1 030 050	1 118 300 (5)	1 147 000	1 044 470	1 136 900 (4)	1 171 000
Milk production per cow	L	4 780	5 200 (3)	6 000	4 950	5 300 (2)	6 000
Receipts							
Milk – net of freight	\$	318 400	529 400 (6)	409 000	334 920	538 100 (4)	439 000
Dairy cattle	\$	30 630	27 100 (7)	33 000	31 730	29 900 (5)	32 000
Total cash receipts	\$	372 930	603 600 (6)	467 000	394 580	625 500 (4)	507 000
Costs							
Dairy cattle purchases	\$	4 840	8 000 (27)	7 000	6 630	9 300 (18)	7 000
Fodder	\$	133 110	180 200 (7)	162 000	135 610	185 200 (5)	166 000
Fertiliser	\$	20 800	33 900 (8)	29 000	22 580	35 600 (6)	33 000
Fuel, oil and lubricants	\$	12 870	14 800 (10)	14 000	13 680	15 800 (6)	15 000
Repairs and maintainance	\$	20 920	34 500 (10)	26 000	22 510	34 500 (7)	28 000
Water charges	\$	18 880	20 200 (13)	18 000	16 980	19 500 (10)	18 000
Interest payments	\$	29 760	42 800 (11)	29 000	32 690	44 800 (8)	31 000
Hired labour	\$	18 460	19 300 (12)	20 000	20 950	23 200 (7)	22 000
Total cash costs	\$	334 140	504 300 (6)	413 000	351 460	516 500 (4)	433 000
Financial performance							
Farm cash income	\$	38 780	99 300 (15)	54 000	43 110	109 000 (9)	74 000
Farms with negative farm cash income	%	34	13 (45)	29	32	12 (33)	26
Farm business profit	\$	-32 920	38 000 (38)	-22 000	-30 060	45 500 (22)	-6 000
Farms with negative farm business profit	%	77	52 (12)	71	73	47 (10)	65
Rate of return							
– excluding capital appreciation	%	0.2	3.2 (16)	0.6	0.3	3.1 (10)	1.2
– including capital appreciation	%	11.0	11.5 (15)	na	10.3	9.8 (11)	na
Farm debt and equity							
Farm capital at 30 June ^a	\$	2 753 660	3 085 400 (10)	na	3 206 040	3 550 200 (0)	na
Farm debt at 30 June ^{bc}	\$	366 500	600 500 (10)	na	479 760	571 800 (10)	na
Equity ratio at 30 June ^{bd}	%	83	82 (2)	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.

Dairy industry performance – Northern Victoria

The Northern dairy region is slightly larger than the broadacre Central Northern region, extending further south and east to include the regional centres of Castlemaine, Seymour, Myrtleford and Wodonga.

Average farm cash income for dairy farms in Northern Victoria has fallen below the state average in recent years because of the sustained drought and reduced irrigation water allocations (figure d).

3 Financial performance, Northern Victorian dairy industry average per farm

		2006-07	2007-08 ^p	2008-09 ^s
Physical				
Area of land operated 30 June	ha	228	206 (17)	223
Dairy cattle at 30 June	no	283	273 (10)	291
Dairy cows	no	206	168 (11)	141
Milk production	L	1 001 491	945 317 (10)	935 669
Milk yield	L	4 867	5 615 (6)	6 652
Receipts				
Milk – net of freight	\$	311 670	456 200 (10)	337 000
Dairy cattle	\$	34 110	22 500 (11)	41 000
Total cash receipts	\$	378 830	549 400 (11)	412 000
Costs				
Dairy cattle purchases	\$	5 770	9 200 (41)	6 000
Fodder	\$	171 010	213 400 (11)	163 000
Fertiliser	\$	11 210	11 400 (28)	9 000
Fuel, oil and lubricants	\$	12 370	15 300 (19)	14 000
Repairs and maintainance	\$	17 580	30 500 (20)	22 000
Water charges	\$	25 090	22 100 (22)	21 000
Interest payments	\$	28 120	35 600 (15)	24 000
Hired labour	\$	17 560	16 600 (17)	21 000
Total cash costs	\$	367 460	483 400 (10)	382 000
Financial performance				
Farm cash income	\$	11 370	66 000 (36)	30 000
Farms with negative farm cash income	%	54	14 (76)	36
Farm business profit	\$	-67 730	7 300 (346)	-44 000
Farms with negative farm business profit	%	84	60 (19)	86
Rate of return				
– excluding capital appreciation	%	-1.6	2.1 (53)	-0.6
– including capital appreciation	%	9.8	4.0 (30)	na
Farm capital, debt and equity				
Farm capital at 30 June ^a	\$	2 522 940	2 447 100 (10)	na
Farm debt at 30 June ^{bc}	\$	400 650	473 600 (10)	na
Equity ratio at 30 June ^{bd}	%	83	81 (4)	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.

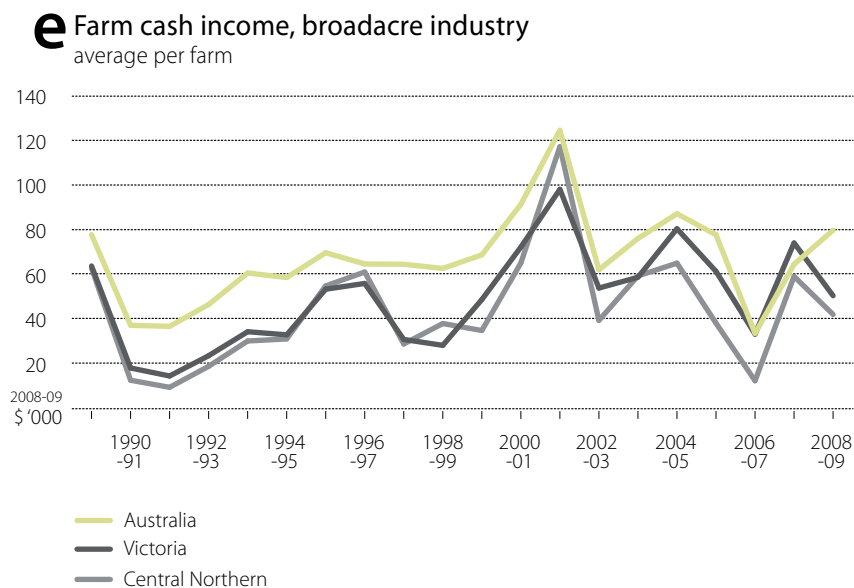
Note: Figures in parentheses are standard errors expressed as a percentage of the estimate provided.

In 2007-08, Northern Victoria accounted for around 22 per cent of Australian milk production and around one-third (32.6 per cent) of Victorian milk production (Dairy Australia 2009). In 2007-08, dairy farms in the region responded to the continued dry seasonal conditions and low water allocations by reducing dairy cattle numbers and increasing expenditure on fodder and feed grains. Overall, average milk yield per cow is projected to have increased, but average milk production per farm is projected to fall, on average, by more than 5 per cent (table 3).

Farm cash income for dairy farms in the Northern Victorian region averaged \$66 000 a farm in 2007-08, well below the Victorian average, and is projected to fall to an average of around \$30 000 in 2008-09, mainly because of lower milk prices.

Broadacre farm performance – Australia and Victoria

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 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 4).



Australian broadacre farm financial performance is projected to improve further in 2008-09, building on the recovery recorded in 2007-08.

Average farm cash income is projected to increase from \$62 300 in 2007-08 to \$80 000 in 2008-09 because of increased grain production, strong livestock prices and reductions in fodder prices and interest rates. However, improvement in farm financial performance has mainly been in Western Australia, northern New South Wales and Queensland.

In Victoria, continued dry seasonal conditions are projected to result in average farm cash income for broadacre farms declining from \$71 600 in 2007-08 to \$50 000 in 2008-09. In 2008-09, dry seasonal conditions reduced crop yields, lowered lambing rates and resulted in fodder purchases remaining high. In addition, prices for grains, wool and beef cattle were lower (although prices for sheep and lambs remained high). With dry

conditions continuing throughout most of 2008-09, cattle purchase for herd rebuilding was reduced and, combined with lower interest rates, led to a small reduction in average total cash costs despite continued high expenditure on fodder.

Historically, average farm cash income for Victorian broadacre farms has been lower than the national average (figure e). This is partly because of the smaller average farm size in Victoria. In 2007-08, average farm cash income for Victorian broadacre farms exceeded the national average for the first time in more than 30 years. Grain crop yields increased more in Victoria than in the other states, leading to a relatively large increase in

4 Financial performance, broadacre industry

average per farm

	Victoria			Australia			
	2006-07	2007-08 ^p	2008-09 ^s	2006-07	2007-08 ^p	2008-09 ^s	
Physical							
Area of land operated 30 June	ha	700	750 (5)	750	6 580	6 960 (6)	7 000
Sheep numbers at 30 June	no.	1 170	1 210 (9)	1 200	1 330	1 390 (4)	1 400
Wool production	kg	5 190	5 950 (10)	5 400	6 324	6 660 (4)	6 200
Beef cattle numbers at 30 June	no.	140	150 (11)	140	350	360 (4)	370
Beef cattle purchases	no.	40	40 (39)	30	60	50 (12)	50
Beef cattle sold	no.	120	100 (18)	90	160	150 (5)	160
Receipts							
Beef cattle sales	\$	76 740	64 200 (14)	59 000	115 250	100 300 (5)	116 000
Sheep and lamb sales	\$	40 730	47 100 (11)	48 000	36 650	44 200 (5)	47 000
Wool	\$	21 040	33 300 (13)	26 000	28 280	37 300 (4)	30 000
Total crop receipts	\$	57 090	122 890 (8)	106 000	102 920	166 700 (5)	196 000
Total cash receipts	\$	218 760	312 100 (5)	279 000	346 950	415 100 (3)	450 000
Costs							
Beef cattle purchases	\$	17 040	22 200 (39)	15 000	34 410	26 100 (12)	26 000
Fodder	\$	15 200	10 000 (25)	11 000	23 150	12 500 (12)	10 000
Fertiliser	\$	16 520	29 800 (7)	30 000	24 470	39 300 (4)	45 000
Fuel, oil and lubricants	\$	13 710	18 200 (5)	18 000	21 900	28 300 (4)	29 000
Repairs and maintenance	\$	16 010	17 900 (6)	17 000	24 870	28 000 (4)	28 000
Interest payments	\$	17 980	25 200 (10)	18 000	34 430	43 900 (5)	33 000
Hired labour	\$	4 260	6 800 (14)	8 000	12 730	13 400 (6)	15 000
Total cash costs	\$	187 910	240 500 (7)	228 000	315 800	352 800 (3)	370 000
Financial performance							
Farm cash income	\$	30 860	71 600 (16)	50 000	31 150	62 300 (11)	80 000
Farms with negative farm cash income	%	39	30 (15)	39	45	38 (5)	36
Farm business profit	\$	-66 600	-3 700 (343)	-29 000	-64 750	-21 300 (34)	-7 000
Farms with negative farm business profit	%	87	66 (5)	79	81	70 (2)	69
Rate of return							
- excluding capital appreciation	%	-1.7	1.0 (41)	0.0	-0.7	0.8 (22)	0.9
- including capital appreciation	%	5.4	4.9 (15)	na	7.1	2.7 (13)	na
Farm debt and equity							
Farm capital at 30 June ^a	\$	2 645 030	3 256 700 (5)	na	3 697 750	4 207 300 (2)	na
Farm debt at 30 June ^{bc}	\$	237 210	311 800 (9)	na	471 650	547 200 (4)	na
Equity ratio at 30 June ^{bd}	%	91	90 (1)	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.

grain receipts in Victoria. In addition, sheep and lambs accounted for a larger share of broadacre farm receipts in Victoria than in the other states. High sheep and lamb prices in recent years have provided a significant additional boost to Victorian broadacre farm incomes.

Broadacre farm performance – Central Northern Victoria

Farm cash income in the Central Northern region was similar to the state average in the 1990s and early 2000s (figure e). However, in the five years since 2003-04, broadacre farms in the region have recorded farm financial performance markedly below the state average, reflecting the more severe effects of drought in this region. During this period, many producers in the region sharply reduced the number of beef cattle and sheep carried, particularly in the driest periods of 2004-05 and 2006-07.

In 2007-08, the increase in Central Northern Victorian average farm cash income was larger than that recorded for all Victorian broadacre farms (table 5). On average, broadacre farms continued to reduce livestock numbers, raising turn-off and, in combination with higher sheep and lamb prices, resulting in higher receipts from sheep and lambs in 2007-08. Early in 2007-08, planting conditions for winter crops in the Central Northern region looked promising. However, adverse spring conditions resulted in poor crop establishment and yields. Consequently, many Central Northern Victorian broadacre farms cut their crops early for hay, encouraged by high prices because of demand from the dairy sector, leading to higher cropping receipts in 2007-08.

In 2008-09, average farm receipts for Central Northern farms are projected to fall by around 3 per cent, with large increases in average beef cattle turn-off and prices received more than offset by lower receipts from wool, sheep and lambs. Farm costs are projected to increase by around 2 per cent on average in 2008-09, with higher beef cattle expenditure and repairs and maintenance costs mostly offset by reduced fertiliser costs and interest payments. Overall, average farm cash income for broadacre farms in the region is projected to decrease to around \$42 000 a farm in 2008-09, from an average of \$57 100 in 2006-07 (table 5).

5 Financial performance, Central Northern Victorian broadacre industry

average per farm

		2006-07	2007-08 ^p	2008-09 ^s
Physical				
Area of land operated 30 June	ha	629	707 (9)	712
Sheep numbers at 30 June	no.	1 026	1 215 (15)	1 267
Wool production	kg	4 185	5 151 (16)	4 865
Beef cattle numbers at 30 June	no.	86	123 (23)	138
Beef cattle purchases	no.	9	21 (41)	33
Beef cattle sold	no.	76	73 (25)	85
Receipts				
Total crops	\$	54 800	76 200 (14)	66 000
Beef cattle sales	\$	41 240	51 200 (25)	67 000
Sheep and lambs	\$	47 040	59 600 (18)	51 000
Wool	\$	13 190	24 600 (18)	21 000
Total cash receipts	\$	180 530	297 300 (11)	287 000
Costs				
Sheep and lamb purchases	\$	19 630	16 100 (29)	12 000
Beef cattle purchases	\$	4 030	11 500 (39)	20 000
Fodder	\$	21 560	22 500 (55)	23 000
Fertiliser	\$	14 100	25 400 (12)	21 000
Sprays	\$	7 310	11 200 (14)	12 000
Fuel, oil and lubricants	\$	11 750	16 700 (10)	16 000
Repairs and maintenance	\$	14 890	14 700 (10)	17 000
Interest payments	\$	17 710	24 100 (14)	16 000
Hired labour	\$	2 830	9 200 (33)	11 000
Total cash costs	\$	169 090	240 200 (13)	245 000
Financial performance				
Farm cash income	\$	11 440	57 100 (20)	42 000
Farms with negative farm cash income	%	47	24 (25)	34
Farm business profit	\$	-76 780	-25 000 (48)	-31 000
Farms with negative farm business profit	%	90	70 (10)	80
Rate of return				
– excluding capital appreciation	%	-2.6	0.3 (140)	-0.2
– including capital appreciation	%	7.9	4.2 (29)	na
Farm capital, debt and equity				
Farm capital at 30 June ^a	\$	2 381 300	3 188 400 (10)	na
Farm debt at 30 June ^{bc}	\$	201 800	312 300 (15)	na
Equity ratio at 30 June ^{bd}	%	90	90 (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.

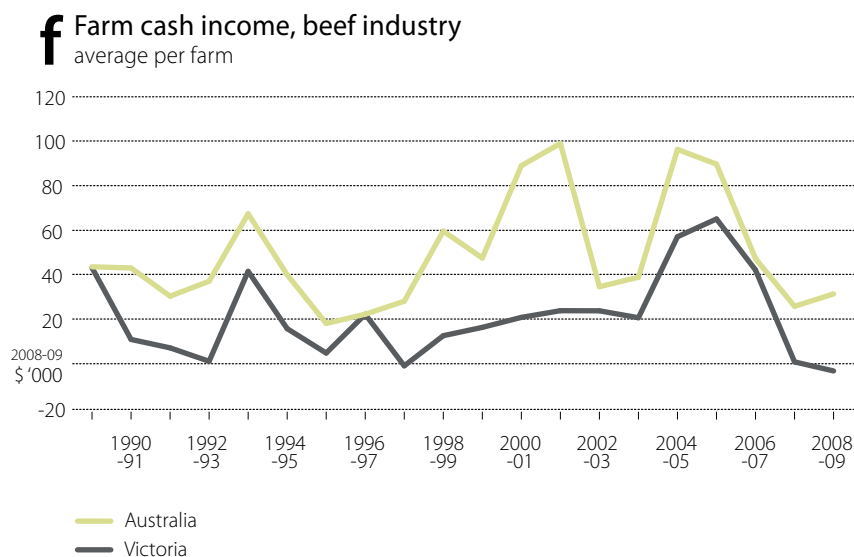
Beef farm performance – Australia and Victoria

In 2007-08, the average farm cash income for Australian beef farms almost halved, falling to \$25 100 a farm. 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 projected to rise by 27 per cent for beef farms nationally because of higher beef cattle prices combined with a projected increase in beef cattle turn-off in northern Australia. The rise in farm cash receipts is projected to be partly offset by a rise in average total cash costs as expenditure on cattle purchase and hired labour increases. Farm cash income for beef farms nationally is projected to average \$32 000 a farm in 2008-09.

Average farm cash income for Victorian beef farms fell by relatively more than for other Australian beef farms in 2007-08. This occurred because Victorian farms began to rebuild beef herds in 2007-08, increasing expenditure on beef cattle purchases. Combined with increases in expenditure on fertiliser, interest and fuel, this resulted in cash costs for Victorian beef farms increasing by 25 per cent in 2007-08.

While farm cash incomes are projected to rise for beef industry farms nationally in 2008-09, average farm cash income for Victorian farms is projected to decline further in 2008-09 to be slightly negative (figure f). Receipts from the sale of beef cattle are estimated to have fallen by 20 per cent mainly because of lower prices received. While total cash costs are projected to decline by 19 per cent, this is not sufficient to offset the projected reduction in total cash receipts.



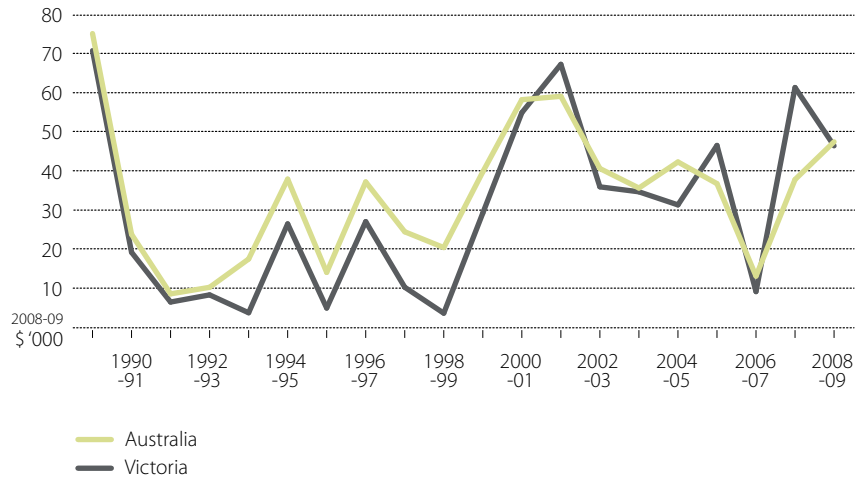
Sheep farm performance – Australia and Victoria

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 g). 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 projected to improve further, despite a fall in wool receipts resulting from lower wool prices and production. Lower wool receipts are projected to be more than offset by increases in receipts on average from sheep, lambs and crops. In addition, total cash costs are projected to fall by around 6 per cent on average, mainly because of lower interest rates together with a reduction in fodder expenditure. Farm cash income is projected to increase to average \$47 500 a farm.

Sheep farms in Victoria had a higher average farm cash income than for Australian sheep farms as a whole in 2007-08. This partly reflects a greater reliance on lamb production by Victorian sheep farms in recent years.

g Farm cash income, sheep industry
average per farm



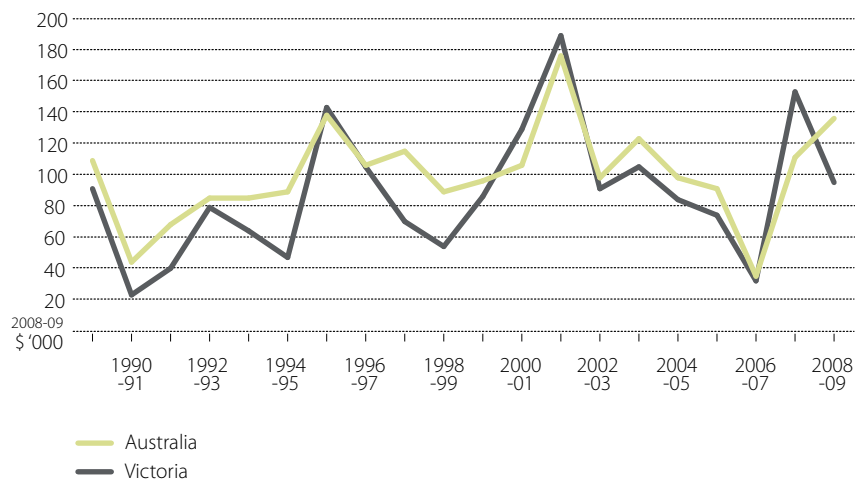
In contrast to the improvement in incomes for sheep farms nationally, average farm cash income for Victorian sheep farms is projected to fall slightly in 2008-09. Cash receipts are projected to be affected by lower lamb and sheep turn-off, in combination with lower wool prices and reduced wool production. At the same time, total cash costs are projected to remain similar to 2007-08, with lower interest payments being offset by an increase in fodder expenditure.

Grain farm performance – Australia and Victoria

Grain farms have been defined in this section as all farms classified to either the wheat and other crops industry or the mixed livestock-crops industry (table 1).

Farm cash income for Australian grain farms in 2007-08 rebounded from the drought reduced income of 2006-07, to average \$107 100 a farm on the back of record grain prices and production increases in some regions (figure h). This was despite large increases in expenditure on the key crop inputs of fuel, chemicals and fertiliser.

h Farm cash income, grain industry
average per farm



Nationally, the financial performance of grain farms is projected to have strengthened further in 2008-09, as increases in grain production led to higher crop receipts despite a reduction in grain prices. Cash costs for grain farms are projected to have risen in 2008-09, as a result of increases in the area planted to crops. Average farm cash income for Australian grain farms is projected to rise to average \$136 000 a farm in 2008-09.

In 2007-08, average farm cash income of Victorian grain farms exceeded the national average. With improved seasonal conditions, the area planted to grains increased by more in Victoria than other states and together with improved crop yields and high grain prices, led to a large increase in grain receipts. Although northern Victorian grain yields remained low, increased receipts from crops cut for hay helped to increase total cropping receipts slightly.

With drier seasonal conditions in 2008-09, grain yields were reduced. This, along with lower grain prices and continued high cash costs, resulted in a projected decline in farm cash income for Victorian grain farms.

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 (24 July 2009) seasonal rainfall outlook for the August to October period shows a moderate to strong shift in the odds favouring a drier than normal season across much of eastern Australia. In southwest Western Australia the odds are shifted in favour of a wetter than normal season.

Livestock

Dairy

World dairy product prices declined sharply in 2008-09 following the global economic downturn, with demand for dairy products falling in many regions. In 2009-10 relatively large supplies of dairy products in the major exporting countries combined with continuing subdued demand for dairy products, particularly in emerging economies, are expected to keep downward pressure on world dairy product prices.

World prices for whole milk powder and skim milk powder are forecast to be around 15 per cent lower in 2009-10 than the average prices for 2008-09. In 2009-10, world prices for butter and cheese are forecast to decline by around 25 per cent and 20 per cent, respectively.

The contraction in world demand for dairy products in 2008-09, in response to the slowdown in global economic activity, has reduced the export demand in major dairy producing countries. This has resulted in increased supplies to the domestic markets of major producing regions, particularly the European Union, the United States and New Zealand, putting additional downward pressure on their domestic prices.

Both the European Union and the United States commenced purchasing dairy products to support domestic prices from early 2009. The buildup of government stocks, together with the re-introduction of EU and US export subsidies, is expected to place downward pressure on world dairy product prices through 2009-10.

Despite government support for domestic prices, EU and US farm-gate prices are expected to average lower in 2009-10. This, together with relatively high feed costs, is likely to constrain any growth in EU milk production

in 2009-10. However, in the United States, lower milk prices are expected to lead to a forecast fall in milk production. New Zealand milk production in 2009-10 is expected to be close to the record output of 2008-09.

World dairy demand is expected to be under continued downward pressure because of weak world economic activity in 2009-10. In particular, weak economic activity in emerging economies, particularly in the Russian Federation and in Asia, is expected to affect import demand for dairy products, especially in the second half of 2009.

Australian milk production is estimated to have risen by 1.7 per cent to 9.38 billion litres in 2008-09. However, production in 2009-10 is forecast to decline by 0.9 per cent to 9.3 billion litres as farmers respond to significantly lower farm-gate prices. Australian milk production in 2009-10 will also be significantly influenced by seasonal conditions, water allocations for irrigation and the cost of supplementary feeds.

The adjustments producers are able to make to accommodate lower milk prices, particularly those producers in the irrigation areas of the Murray-Darling Basin, will be critical in determining Australian milk production in 2009-10. Without sustained, above average rainfall in the main catchment areas, water allocations in 2009-10 are unlikely to return to the relatively high levels of previous years.

With world dairy product prices forecast to remain relatively low in 2009-10, the Australian farm-gate milk price is forecast to decline by 17.5 per cent, to average 33 cents a litre in 2009-10.

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 in 2009-10 are also forecast to fall by around 3 per cent to 350 000 tonnes. The principal reasons for the decline are increased competition from US beef in the Japanese market 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. 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 production 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, however, 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 only 2 per cent to around 4 million head and are forecast to 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 have increased by 16 per cent relative to 2007-08, to \$334 million. A 0.5 per cent increase to \$336 million is forecast for the value of live exports in 2009-10.

Wool

The eastern market indicator (EMI) price for wool is forecast 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 which has led to 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 (US hard red winter, fob Gulf ports). 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 be 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 of vegetable oil (mainly biodiesel) 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.

References

Dairy Australia 2009, *Latest statistics*, available at: <http://www.dairyaustralia.com.au/Our-Dairy-Industry/Industry-Statistics/Latest-Statistics.aspx>, accessed 15/07/09.