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Commodity outlook and financial performance of key agricultural industries in the Yorke and Lower North region of South Australia

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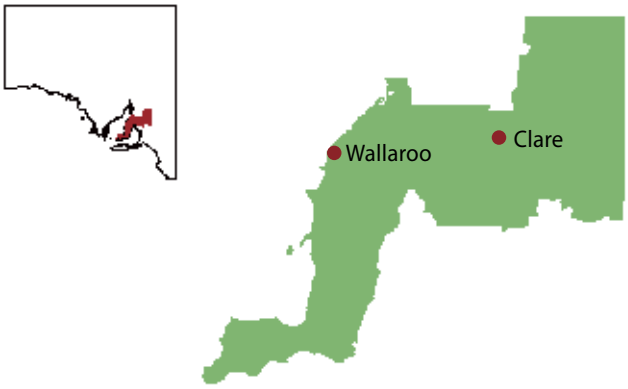
This paper presents the current commodity outlook and the recent financial performance of some key agricultural industries in South Australia and highlights the performance of grains, sheep and dairy farms. Financial performance of broadacre farms in the Yorke Peninsula and Lower North of South Australia is also discussed.

The agricultural sector profile for the Yorke and Lower North region covered in the opening section of this paper is based on Australian Bureau of Statistics data for an area which contains the major regional centres of Clare and Wallaroo (map 1). The analysis of broadacre farm performance in the region which is presented later in the paper draws from estimates for a slightly larger area which extends further north to include the regional centres of Port Pirie and Peterborough (map 2).

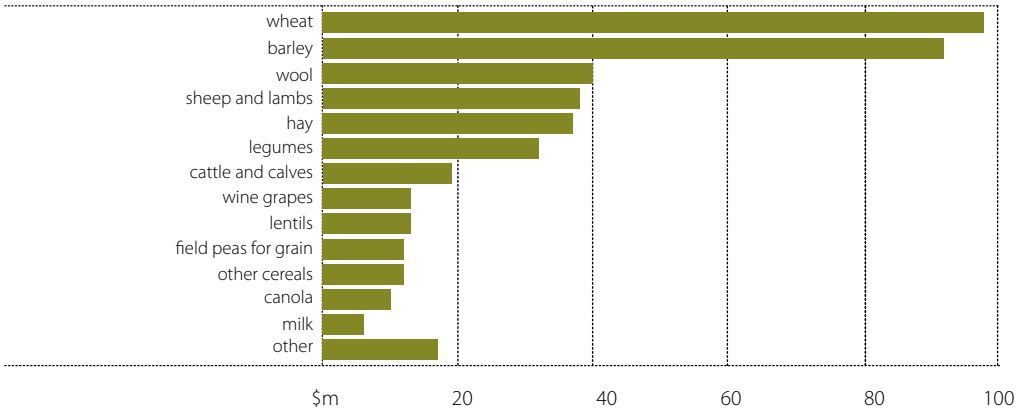
map 1 Yorke and Lower North region (ABS)



Agricultural sector profile

In dollar value terms, wheat was the most significant agricultural product in the Yorke and Lower North region in 2006-07, accounting for 23 per cent, or $98 million of the $439 million 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).

a Value of agricultural production, Yorke and Lower North, South Australia, 2006-07



Source: Australian Bureau of Statistics.

Barley for grain had the second largest contribution, accounting for 21 per cent ($92 million) of the total value of agricultural production in the region. Sheep and lambs for slaughter and wool accounted for a further 9 per cent ($38 million and $40 million, respectively).

Pastures, cereals and grasses cut for hay were the fifth largest agricultural product by value of production in the region in 2006-07, representing 8 per cent ($37 million). Legumes and cattle and calves for slaughter were also important contributors to the total value of production in the region in 2006-07.

Wine grapes accounted for around 3 per cent of the total value of agricultural production from the Yorke and Lower North region in 2006-07.

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 56 per cent ($456 million and $380 million, respectively) of the total value of production. However, in 2006-07 its share of the total value of agricultural production fell to around 46 per cent ($202 million).

Number of farms

Australian Bureau of Statistics data indicate that in 2006-07 there were 2096 farms in the Yorke and Lower North 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 the Yorke and Lower North region of South Australia, around 42 per cent of farms operated grain enterprises, compared with only 20 per cent at the state level. Mixed grain-livestock farms were the second most common farm type in 2006-07, accounting for around one-third of farms, followed by grape producers which accounted for around 9 per cent of all farms in the region. Specialised sheep and beef operations accounted for only 7 per cent and 2 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 and business size of farms, which is somewhat similar to turnover. Around 20 per cent of farms in the Yorke and Lower North region

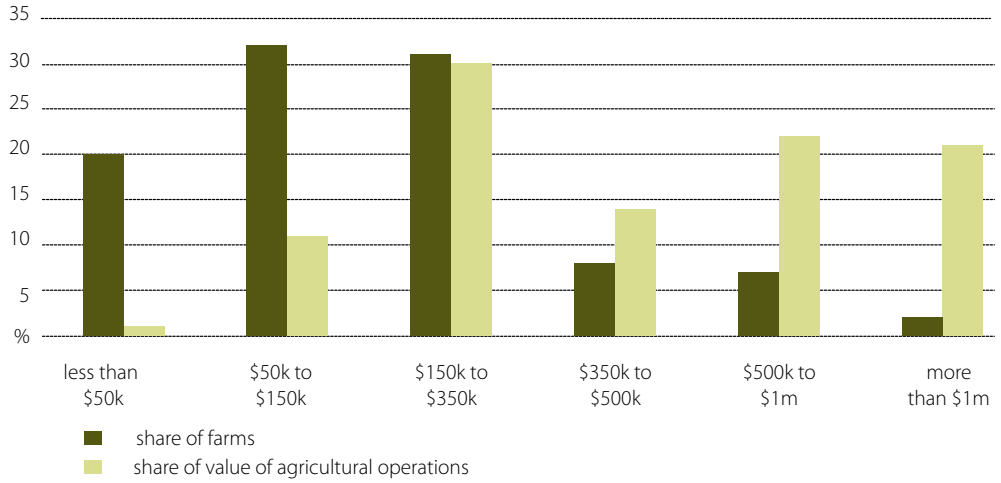
1 Number of farms, by industry classification, 2006-07 a

	Yorke and Lower North		South Australia	
	no.	%	no.	%
Grains	886	42	2 767	20
Mixed grain-livestock	688	33	2 437	17
Grapes	187	9	2 250	16
Sheep (specialised)	144	7	1 456	10
Beef cattle (specialised)	39	2	1 501	11
Pigs	39	2	155	1
Olives	15	1	65	0
Dairy	12	1	453	3
Poultry (eggs)	12	1	48	0
Other	75	4	2 869	20
All agricultural industries	2 096	100	13 999	100

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

had an EVAO of less than $50 000 and a further 32 per cent had a value between $50 000 and $150 000 (figure b). In comparison, 9 per cent of farms in the region had an EVAO of more than $500 000, with these farms accounting for almost 43 per cent of the value of agricultural operations in 2006-07.

b Distribution of farms, by value of agricultural operations, Yorke and Lower North, South Australia, 2006-07

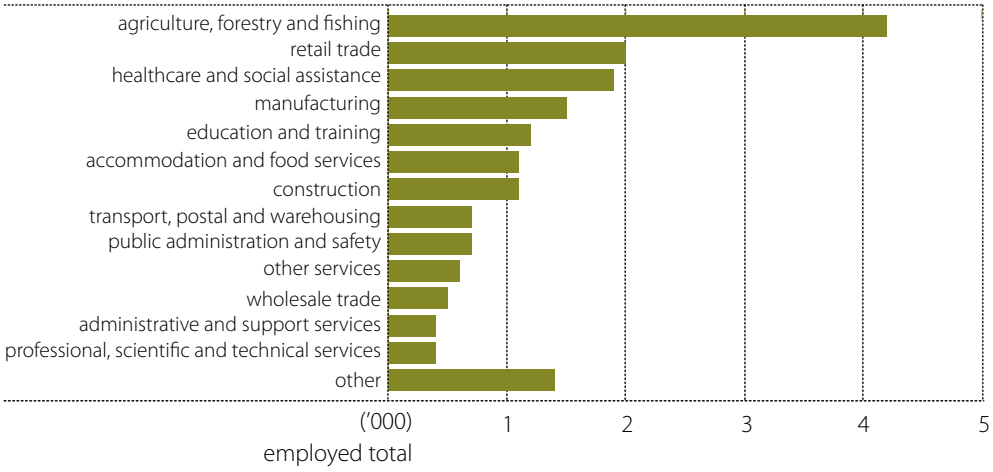


Source: Australian Bureau of Statistics.

Employment profile

Australian Bureau of Statistics data from the 2006 Census of Population and Housing show around 18 000 people were employed in the Yorke and Lower North region. The agriculture, forestry and fishing industry employed the largest number of people, with approximately 24 per cent (4200 people) of the total labour force (figure c). The retail trade and the healthcare and social assistance industries accounted for a further

c Employment profile, Yorke and Lower North, South Australia, 2006 Census of population and housing



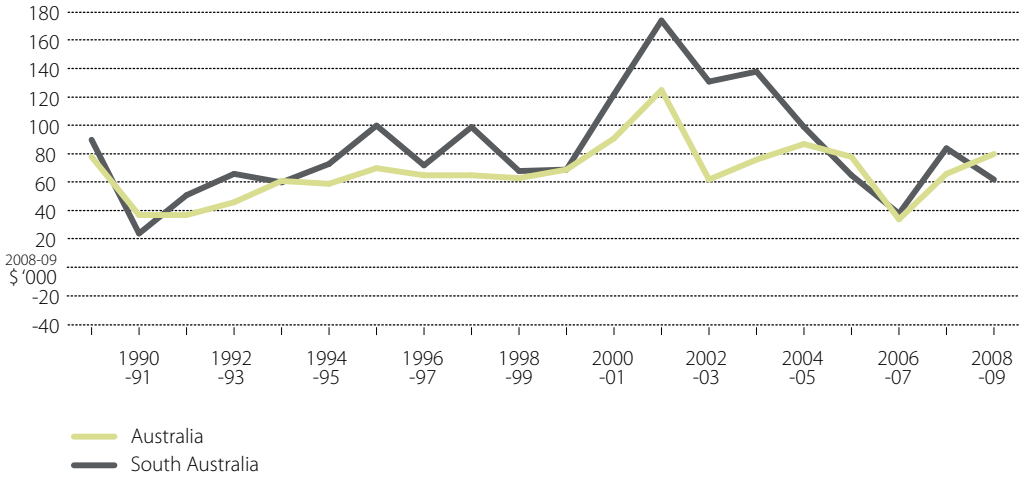
Source: Australian Bureau of Statistics.

11 per cent (2000 and 1900 people, respectively). Manufacturing, including food and beverage processing, was the fourth largest employing industry, accounting for around 8 per cent (1500 people). Education and training, accommodation and food services and the construction industries were also important contributors to the Yorke and Lower North region's total labour force.

Broadacre farm performance – Australia and South Australia

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 d). 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 2).

d Farm cash income, broadacre industry
average per farm



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

2 Financial performance, broadacre industry

average per farm

		South Australia				Australia			
		2006-07	2007-08 p		2008-09 s	2006-07	2007-08 p		2008-09 s
Receipts									
Wheat	$	55 980	94 300	(10)	85 000	43 610	79 300	(6)	102 000
Barley	$	33 950	56 400	(11)	43 000	17 840	35 100	(8)	31 000
Other crops	$	42 780	41 800	(25)	51 000	41 471	52 308	(13)	62 866
Beef cattle	$	47 250	35 800	(13)	60 000	115 250	100 300	(5)	116 000
Sheep and lambs	$	44 620	38 800	(8)	60 000	36 650	44 200	(5)	47 000
Wool	$	34 140	36 200	(9)	31 000	28 280	37 300	(4)	30 000
Total cash receipts	$	297 400	339 000	(6)	373 000	346 950	415 100	(3)	450 000
Costs									
Sheep and lamb purchases		9 730	5 500	(14)	9 000	6 840	8 100	(9)	7 000
Beef cattle purchases	$	11 050	7 500	(23)	17 000	34 410	26 100	(12)	26 000
Fodder	$	10 690	4 100	(22)	4 000	23 150	12 500	(12)	10 000
Fertiliser	$	31 570	44 600	(9)	46 000	24 470	39 300	(4)	45 000
Sprays	$	25 480	24 600	(10)	30 000	16 380	23 400	(4)	26 000
Fuel, oil and lubricants	$	24 360	25 000	(5)	28 000	21 900	28 300	(4)	29 000
Repairs and maintenance	$	22 100	19 900	(7)	25 000	24 870	28 000	(4)	28 000
Interest payments	$	23 890	22 500	(12)	22 000	34 430	43 900	(5)	33 000
Hired labour		9 510	7 200	(15)	13 000	12 730	13 400	(6)	15 000
Total cash costs	$	262 090	257 500	(6)	311 000	315 800	352 800	(3)	370 000
Financial performance									
Farm cash income	$	35 300	81 500	(12)	62 000	31 150	62 300	(11)	80 000
Farms with negative farm cash income	%	45	22	(19)	37	45	38	(5)	36
Farm business profit	$	–78 810	–13 200	(69)	–43 000	–64 750	–21 300	(34)	–7 000
Rate of return									
– excluding capital app.	%	–1.6	0.6	(50)	–0.3	–0.7	0.8	(22)	0.9
– including capital app.	%	1.9	1.8	(31)	na	7.1	2.7	(13)	na
Farm capital, debt and equity									
Farm capital at 30 June a	$	3 157 060	3 107 600	(5)	na	3 697 750	4 207 300	(2)	na
Farm debt at 30 June bc	$	341 030	309 600	(11)	399 000	471 650	547 200	(4)	551 000
Equity ratio at 30 June bd	%	89	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.

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

South Australian broadacre farms recorded a larger improvement in average farm cash income in 2007-08, compared with that recorded nationally. Although seasonal conditions remained dry for most of South Australia in 2007-08, farm cash income increased to an average of $81 500 a farm, up from $35 300 a farm in 2006-07. This was on the back of higher grain prices and substantial increases in grain production as grain yields increased from the poor levels of 2006-07. Higher crop receipts more than compensated for reduced livestock receipts because of reduced livestock turn-off, and reduced expenditure on livestock purchases offset increases in fertiliser and fuel expenditure.

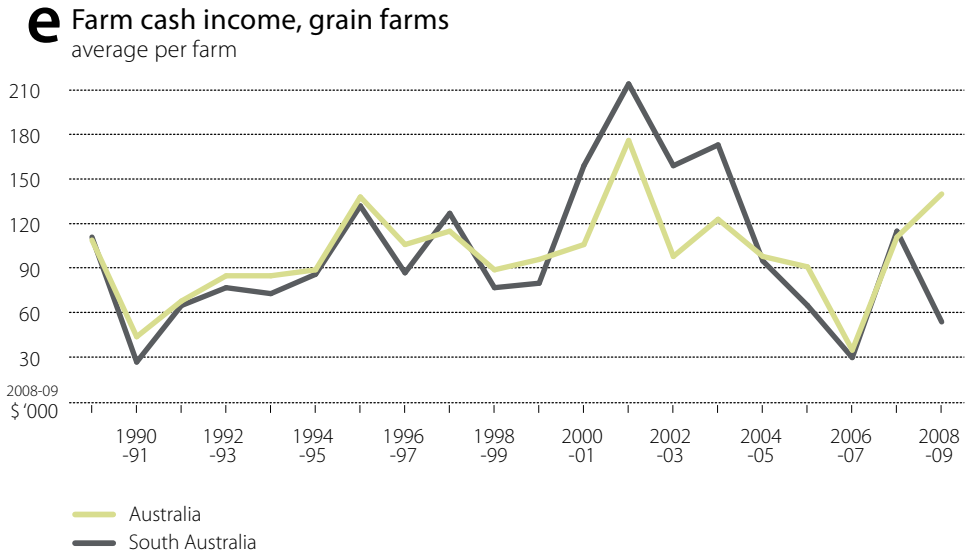
In 2008-09, South Australian broadacre farm cash incomes are estimated to have fallen to average $62 000 a farm, as a return to dry conditions reduced grain production and, in combination with lower grain prices, reduced crop receipts. Some of the fall in crop receipts was offset by increased livestock receipts, as turn-off of both sheep and beef cattle increased, and also because of an increase in sheep and lamb prices.

Around 22 per cent of South Australian broadacre farms recorded negative farm cash incomes in 2007-08, almost half the percentage which recorded negative farm cash income nationally (table 2). Average farm business debt declined by around 9 per cent for broadacre producers in South Australia in 2007-08. In contrast, nationally, average farm business debt increased by 16 per cent.

Grain farm performance – Australia and South Australia

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 $111 000 a farm, on the back of record grain prices and production increases in some regions (figure e). This was despite large increases in expenditure on the key crop inputs of fuel, chemicals and fertiliser.



Nationally, the financial performance of grain farms 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 estimated 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 estimated to have risen to average $136 000 a farm in 2008-09.

Farm cash income of South Australian grain farms increased by a similar amount to the increase recorded nationally in 2007-08. Higher grain yields and prices more than compensated for a sharp increase in crop production costs.

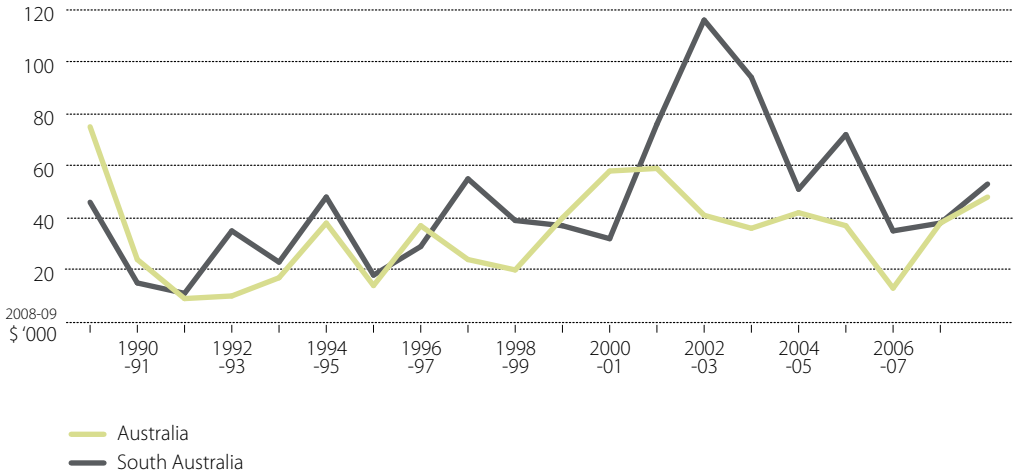
South Australian crop production declined slightly in 2008-09 as seasonal conditions remained dry and relatively similar to conditions in 2007-08. The small reduction in crop production combined with lower grain prices resulted in total crop receipts declining by around 8 per cent. Strong sheep and lamb prices offset some of the reduction in crop receipts, but increased sheep and lamb purchases and continued high crop production costs led to higher farm costs in 2008-09. Overall, average farm cash income for South Australian grain farms is estimated to have fallen from an average of $99 000 in 2007-08 to $57 000 in 2008-09 (figure e).

Sheep farm performance – Australia and South Australia

Sheep farms have been defined in this section as farms classified to the 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.

f Farm cash income, sheep farms
average per farm



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. Lower wool receipts were more than offset by increases in receipts from sheep, lambs and crops, on average. 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.

Since 2001-02, average farm cash incomes for South Australian sheep farmers have been well above those for sheep farms nationally, as a result of a number of divergent factors affecting the pastoral zone and the higher rainfall south-eastern portion of the state.

In the north-central and eastern pastoral area of South Australia, dry seasons led to destocking and an initial sharp rise in farm cash income in 2001-02 and 2002-03. However, since then continued destocking and low wool production has seen a progressive decline in farm cash income. In contrast, sheep farms in the south-east and mid-north regions, where the majority of South Australian sheep farms are located, have been relatively less affected by dry seasonal conditions than sheep farms in most other regions of Australia. Further, sheep farms in the south-east of South Australia have a relatively higher reliance on production of prime lambs than sheep farms in most other regions of Australia. As a result, these farms have benefited from the generally high lamb prices throughout this period.

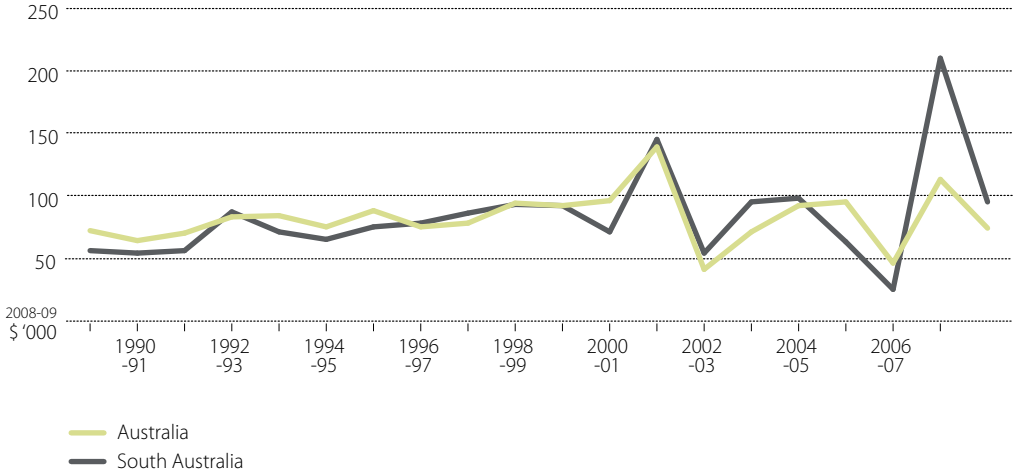
South Australian sheep farms are estimated to have recorded a small increase in average farm cash income in 2008-09. Despite a small reduction in turn-off, sheep and lambs receipts rose with higher sheep and lamb prices in 2008-09. Crop receipts were also higher with many sheep farms increasing the areas of winter grains and oilseeds sown. However, these increases were mostly offset by reduced wool receipts because of lower wool prices and reduced wool production. Additionally, there was a reduction in expenditure on fertiliser and interest payments. Overall, average farm cash income for South Australian sheep farms is estimated to have increased from around $38 000 a farm in 2007-08 to around $53 000 a farm in 2008-09.

Dairy farm performance – Australia and South Australia

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 g). 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 3) 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 response to lower manufacturing milk prices, average farm cash income for Australian dairy farms is estimated to fall to around $74 000 a farm in 2008-09. Despite increased milk production in most states, average total cash receipts are estimated to have fallen by around one-fifth in 2008-09. Lessening the effect of reduced milk receipts on farm cash income, total cash costs are estimated to have fallen by around 16 per cent because of falls in hay and feed grain prices, together with a decline in interest rates.

g Farm cash income, dairy industry
average per farm



Farm cash income for South Australian dairy farms increased sharply in 2007-08 to average $202 900 a farm, the highest average farm cash income recorded in the past 20 years (figure g). Farm-gate milk prices increased by 47 per cent and, combined with a small increase in milk production, more than offset a 36 per cent increase in total farm costs, mostly because of higher fodder and fertiliser expenditure. Although this was a large year-to-year change in farm costs, the increase was relatively smaller than the increase nationally. Consequently, South Australian dairy farms recorded a bigger increase in average farm cash income, compared with dairy farms nationally (figure g).

Farm cash income for South Australian dairy farms is estimated to have averaged $95 000 in 2008-09, sharply lower than in the previous year but still higher than the national average. This was mainly because of lower milk prices and a reduction in the number of cows being milked as farms looked to cut back on expenses, particularly for fodder (table 3).

3 Financial performance, dairy industry
average per farm

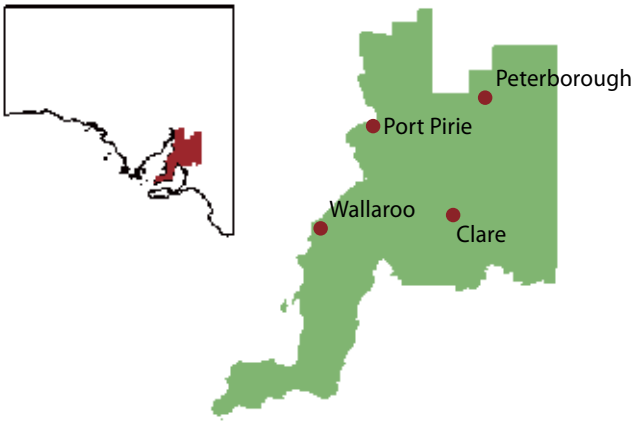
		South Australia				Australia			
		2006-07	2007-08 p		2008-09 s	2006-07	2007-08 p		2008-09 s
Receipts									
Milk – net of freight	$	506 720	774 900	(6)	607 000	334 920	538 100	(4)	439 000
Dairy cattle	$	44 300	61 800	(16)	51 000	31 730	29 900	(5)	32 000
Total cash receipts	$	584 820	965 300	(5)	752 000	394 580	625 500	(4)	507 000
Costs									
Dairy cattle purchases	$	6 850	11 000	(34)	8 000	6 630	9 300	(18)	7 000
Fodder	$	211 200	310 400	(8)	265 000	135 610	185 200	(5)	166 000
Fertiliser	$	24 190	40 800	(12)	37 000	22 580	35 600	(6)	33 000
Fuel, oil and lubricants	$	23 560	27 100	(16)	24 000	13 680	15 800	(6)	15 000
Repairs and maintainance	$	38 170	48 600	(9)	46 000	22 510	34 500	(7)	28 000
Water charges	$	18 500	24 100	(19)	22 000	16 980	19 500	(10)	18 000
Interest payments	$	62 610	73 600	(14)	56 000	32 690	44 800	(8)	31 000
Hired labour	$	40 240	47 700	(15)	39 000	20 950	23 200	(7)	22 000
Total cash costs	$	561 740	762 400	(6)	657 000	351 460	516 500	(4)	433 000
Financial performance									
Farm cash income	$	23 080	202 900	(15)	95 000	43 110	109 000	(9)	74 000
Farms with negative farm cash income	%	43	12	(76)	30	32	12	(33)	26
Farm business profit	$	–81 530	87 900	(35)	–9 000	–30 060	45 500	(22)	–6 000
Rate of return									
– excluding capital appreciation	%	–0.4	4.1	(15)	1.7	0.3	3.1	(10)	1.2
– including capital appreciation	%	7.0	5.2	(36)	na	10.3	9.8	(11)	na
Farm capital, debt and equity									
Farm capital at 30 June a	$	3 643 920	4 402 600	(10)	na	3 206 040	3 550 200		na
Farm debt at 30 June bc	$	779 780	850 000	(10)	na	479 760	571 800	(10)	na
Equity ratio at 30 June bd	%	79	81	(3)	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.

Broadacre farm performance – Yorke and Lower North

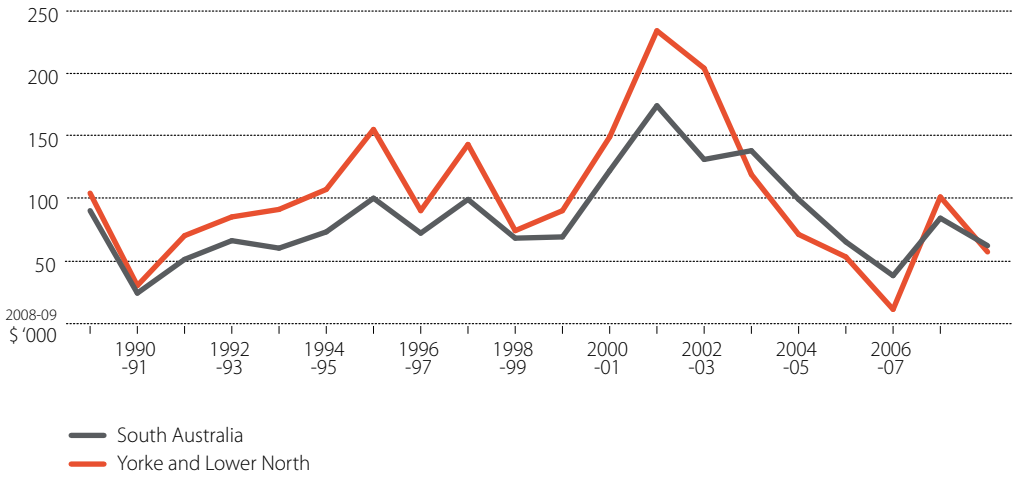
South Australia's Yorke and Lower North region covered in this section includes the regional centres of Clare, Peterborough, Port Pirie and Wallaroo (map 2). Broadacre farms in this region are mainly involved in the production of grains, oilseeds, pulses, sheep and wool.

map **2** Yorke and Lower North region (ABARE)



For most of the past 20 years, average farm cash incomes for broadacre farms in the Yorke and Lower North region have been above the average for all South Australian broadacre farms (figure h). However, since peaking in the early 2000s, average farm cash incomes for the region have been subdued by dryer seasonal conditions, particularly in the northern and eastern portions of the region. This was most pronounced in 2006-07, where average farm cash income of broadacre farms in the region fell to its lowest level in more than 20 years.

h Farm cash income, Yorke and Lower North, broadacre industry
average per farm



Improved seasonal conditions throughout the autumn of 2007 encouraged Yorke and Lower North broadacre farms to expand winter crop areas sown for the 2007-08 season. A return to average seasonal conditions through winter and spring boosted grain yields in the region in 2007-08, which when combined with higher grain prices led to sharply higher crop receipts in 2007-08 (table 4). Despite lower sheep, lamb and wool receipts, total cash receipts increased by around 40 per cent in 2007-08 (figure i). Farm costs were also higher in 2007-08, mostly because of increased expenditure on cropping inputs.

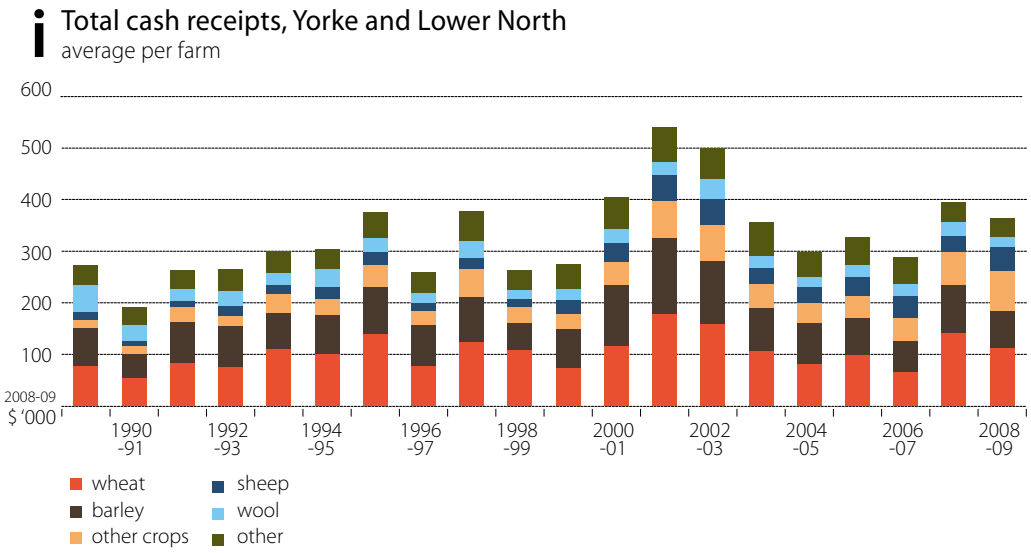
Overall, average farm cash income for broadacre farms in South Australia's Yorke and Lower North region rebounded strongly from the drought reduced income of 2006-07, increasing to around $97 800 in 2007-08. At the same time, the proportion of farms recording negative farm cash income almost halved from around 50 per cent in 2006-07 to 27 per cent in 2007-08 (table 4).

4 Financial performance, Yorke and Lower North South Australia, broadacre industry

average per farm

		2006-07	2007-08 p		2008-09 s
Receipts					
Wheat	$	59 800	134 900	(21)	111 000
Barley	$	57 630	90 700	(23)	73 000
Grain legumes	$	18 170	28 900	(34)	11 000
Oilseeds	$	4 230	11 400	(29)	7 000
Other crops	$	17 520	21 800	(31)	58 000
Beef cattle sales	$	14 690	6 900	(27)	11 000
Sheep and lambs	$	40 280	29 600	(18)	47 000
Wool	$	23 360	26 700	(17)	20 000
Total cash receipts	$	269 020	380 200	(15)	365 000
Costs					
Sheep and lamb purchases	$	11 940	6 700	(27)	14 000
Beef cattle purchases	$	5 090	3 000	(51)	4 000
Fodder	$	3 030	800	(47)	1 000
Fertiliser	$	36 900	51 600	(16)	45 000
Sprays	$	36 160	32 800	(20)	38 000
Fuel, oil and lubricants	$	23 600	23 300	(11)	25 000
Repairs and maintenance	$	17 900	20 500	(12)	30 000
Interest payments	$	25 010	22 300	(22)	24 000
Hired labour	$	4 910	5 700	(33)	7 000
Total cash costs	$	259 200	282 400	(15)	307 000
Financial performance:					
Farm cash income	$	9 820	97 800	(28)	57 000
Farms with negative farm cash income	%	51	27	(34)	43
Farm business profit	$	–99 100	4 100	(452)	–44 000
Rate of return					
– excluding capital appreciation	%	–1.8	1.3	(41)	0.0
– including capital appreciation	%	–0.5	4.6	(32)	na
Farm capital, debt and equity					
Farm capital at 30 June a	$	3 391 350	3 389 100	(9)	na
Farm debt at 30 June bc	$	347 620	325 700	(22)	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.



In 2008-09, expanded areas sown to wheat, barley and oilseeds, combined with closer to average seasonal conditions, increased overall crop production in the region. However, this was more than offset by reduced grain prices, leading to a 10 per cent reduction in average crop receipts. Despite increased receipts from sheep and lambs, total cash receipts are estimated to have fallen by around 4 per cent (table 4). On the costs side, increased expenditure on repairs and maintenance and continued high levels of expenditure on crop inputs raised total cash costs in 2008-09. With total cash costs rising and total cash receipts falling, average farm cash income for broadacre farms in the Yorke and Lower North region is estimated to have fallen to around $57 000 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 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 south-west Western Australia the odds are shifted in favour of a wetter than normal season.

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 South Australia good rainfall in late April encouraged winter crop plantings in a number of areas. Reflecting the early start to the season, the area planted to wheat in 2009-10 in South Australia is forecast to be similar to the previous year at 2.1 million hectares. Assuming a return to average yields, South Australian wheat production is forecast to be 3.2 million tonnes, which is a 41 per cent increase from the previous 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.

Wine

The demand for Australian wine has declined recently as export markets, historically the stimulus for industry growth, have become significantly more competitive. Deteriorating global economic conditions have also contributed to lower demand for Australian wine in the domestic and international markets. In the short term, the value of Australian wine sales is expected to continue to decline. Sales are expected to recover from 2010-11 onwards, but at a slower rate than the historical average.

ABARE's pre-harvest forecast for 2008-09 (2009 vintage) wine grape production was around 1.6 million tonnes, a decrease of 13 per cent from the 1.84 million tonnes produced in 2007-08. The first post-harvest estimate of 2008-09 production by the Winemakers Federation of Australia was 1.7 million tonnes. This decrease in production reflects ongoing shortages of water for irrigation in some regions and high temperatures in late January and early February 2009, which placed stress on grape production in south-eastern Australia. In 2009-10 Australian wine grape production is forecast to recover to 1.8 million tonnes.

In South Australia wine grape production is forecast to be 662 000 tonnes in 2008-09, down from 778 000 tonnes in 2007-08. In the Clare Valley total wine grape production is forecast to be around 27 500 tonnes in 2008-09, up from 25 220 in the previous year. The region predominately produces premium red grape varieties, accounting for around 60 per cent of the region's wine grape production.

Falling domestic and global demand and increased supply of Australian wine have placed significant downward pressure on the prices received by Australian wine and wine grape producers. Because of this and the relatively poor outlook for Australian wine sales in the short term, wineries are expected to reduce the quantity of grapes purchased in 2008-09 and 2009-10.

Increased competition and changing consumer preferences have resulted in declining export unit prices of Australian wine since 2000-01. The average export unit value of Australian wine increased slightly in 2007-08. However, the relatively small size of the 2006-07 wine grape crop was one of the main reasons for this, as the proportion of bulk wine shipments fell significantly in that year. Reflecting the larger wine grape crop of 2007-08 and weaker demand for Australian wine, average export unit values are estimated to have declined by 15 per cent in 2008-09 to $3.22 a litre. In 2009-10 the export value of Australian wine is forecast to decrease further to $3.19 a litre.

Australia's export markets for wine are highly concentrated. In the five years to 2007-08, an average of 75 per cent of the value of wine exported from Australia was shipped to the United States, the United Kingdom and Canada. The United States and United Kingdom are the largest markets by far, accounting for 28 per cent and 33 per cent of total wine exports by value in 2007-08, respectively. Demand for Australian wine in both of these key export markets is expected to remain constrained until the end of 2009-10.

Australian wine producers will face ever-increasing competition from other high-quality producers from regions including New Zealand, the United States, Chile and the European Union. The ability of the wine industry to increase exports will depend on producing wines that satisfy consumer preferences. This may mean significant changes to wine styles, varieties, alcohol content, packaging, environmental practices and production methods.

Imports of wine into Australia have been increasing as consumers' tastes and preferences change. Imports from New Zealand, Italy, France, Spain and Portugal all increased significantly in 2007-08 and 2008-09. In 2009-10 imports are forecast to remain strong, reflecting the relatively high expected value of the Australian dollar, and ongoing strength in demand for imported wines.

Livestock

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.

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.

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.

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.