Commodity outlook and financial performance of key agricultural industries in Tasmania

Daniel Mackinnon, Peter Martin and commodity analysts

Agriculture plays an important role in the Tasmanian economy, more so than for the economies of other Australian states. Agriculture accounted for 5 per cent of Tasmania’s gross state product (GSP) in 2008-09 and currently accounts for around 7 per cent of state employment, according to the Australian Bureau of Statistics. Agriculture accounted for 2.5 per cent of Australian GDP in 2008-09 and 3 per cent of national employment this year.

This paper contains a brief overview of the Tasmanian agriculture and forestry sectors, review of recent financial performance of some key Tasmanian agricultural industries, including the sheep, beef and dairy industries, and discussion of the outlook for some key commodities.

Agricultural sector profile

In value terms, milk was the most significant agricultural product produced in Tasmania, accounting for 27 per cent, or $292 million, of the $1.1 billion total value of the state’s agricultural production in 2008-09 (figure a).

Cattle and calves accounted for a further 16 per cent ($170 million) of the total value of agricultural production, while other vegetables accounted for 13 per cent ($182 million) and potatoes 9 per cent ($144 million).

Production of hay, wool, sheep, lambs and fruit was also important to the total value of agricultural production in Tasmania in 2008-09.

Number of farms

Australian Bureau of Statistics data indicate that in 2007-08 there were 3583 Tasmanian farms with an estimated value of agricultural operations of more than $5000 (table 1).
Farms are classified in table 1 according to the activities that generate most of their value of production. Around 34 per cent of Tasmanian farms were specialised beef cattle farms in 2007-08. Dairy farms were the second most common farm type in 2007-08, accounting for 14 per cent of all Tasmanian farms, followed by sheep farms which accounted for 13 per cent. Vegetable farms accounted for around 9 per cent of Tasmanian farms, which is three times that for the nation as a whole.

As in most parts of Australia, a large proportion of farms in the region are small in terms of their business size. Estimated value of agricultural operations (EVAO) is a measure of the value of production from farms and a measure.
of their business size, and is somewhat similar to turnover. Around 44 per cent of Tasmanian farms had an estimated EVAO of less than $50 000 and a further 25 per cent had a value between $50 000 and $150 000 (figure b). A high proportion of these smaller farms are livestock farms, particularly beef cattle farms. In comparison, 12 per cent of farms in the region had an EVAO of more than $500 000, and these farms accounted for an estimated 60 per cent of the total value of agricultural operations in 2007-08.

Forestry sector profile

In 2008-09, around 5.9 million cubic metres of logs were harvested from Tasmanian forests (excluding fuel wood), with an estimated gross value of production (measured at mill-door prices) of $367 million. Native forests remain the largest source of logs for the Tasmanian timber industry, with 3.7 million cubic metres harvested in 2008–09, valued at $231 million. Almost three-quarters of these logs are harvested from crown forests. Around 80 per cent of native forest logs are exported as woodchips, with the remainder used to produce sawnwood, veneer and paper products.

Tasmania has experienced significant investment in timber plantations in recent years. The plantation area has increased by 37 per cent in the past five years and 74 per cent in the past 10 years. In total, there are around 232 000 hectares of broadleaved (eucalyptus) plantations and 77 000 hectares of coniferous plantations in Tasmania (BRS 2010). The most recent estimate for total hardwood plantation log harvest was 1.2 million cubic metres in 2008-09, compared with 200 000 cubic metres 10 years ago.

Tasmania has significant infrastructure which is devoted to processing and transporting forest products. There are 72 broadleaved sawmills in the state, 64 per cent of which process less than 3000 cubic metres of logs each year (ABARE 2009). Most of these mills process native hardwood sawlogs, although several also process hardwood plantation sawlogs when available. There are also six coniferous sawmills in the state, based on both the plantation estate and native resources. The Forest Enterprises Australia’s (FEA) sawmill at Bell Bay has the capacity to process both hardwood and softwood plantation sawlogs. The latest available sawnwood production estimates show that these sawmills produced around 158 000 cubic metres of broadleaved sawnwood, and 220 000 cubic metres of coniferous sawnwood, in 2007–08 (ABARE 2009b).

There is also a panel mill and four veneer mills in Tasmania, including a second Ta Ann rotary veneer mill in Smithton, which commenced operations in late 2008. In addition there are five woodchip mills, a paper mill
operated by Norske Skog and several log export operations in the state. The total value of production in the Tasmanian wood manufacturing industry (including sawmilling, wood chipping and panel manufacture) was estimated to be $678 million in 2006–07 (ABS 2008).

A detailed study of forestry employment in Tasmania estimated around 6300 people were employed in some capacity in the Tasmanian forest industry in 2005–06, which represents 5870 full-time equivalents and accounted for about 3.08 per cent of the state’s total labour force in 2006. However, at a regional level, the economic contribution of the forestry sector is far more significant. For example, in the local government areas of the Derwent Valley and Dorset, 32 per cent and 23 per cent, respectively, of the local workforce was employed in forestry (Schirmer 2008).

Within the Tasmanian forestry industry in 2005-06 just less than 40 per cent of the workforce was employed in the processing sector, with 16 per cent employed as harvest and haulage contractors and a further 16 per cent employed as silviculture and roading contractors. This study also estimated that in 2006 approximately 68 per cent of the state’s forestry workers were employed in the native forest sector, 24 per cent were employed in the softwood plantation sector and 7.7 per cent were employed in the hardwood plantation sector (Schirmer 2008).

The forest industry in Tasmania has been affected by the recent global financial downturn and, in the domestic forest industry, issues arising from the collapse of some managed investment scheme (MIS) companies. For example, Great Southern Ltd, which was placed in liquidation in November 2009, had some of its forest assets in Tasmania. Also, FEA, which had substantial forest and infrastructure assets in Tasmania, including the plantation sawmill mentioned above, entered voluntary administration in April 2010.

In addition, Gunns Ltd announced in April 2010 that several of its woodchip export facilities would temporarily close or operate on short weeks because of low demand in Japan, particularly for native woodchips, which is the major market for Australia’s hardwood woodchips. Also in April 2010, Paperlinx announced it was closing its Burnie paper mill at a date to be determined. This follows the closure of its Wesley Vale pulp and paper mill in early 2010.

The effect of these events is reflected in forest harvesting and trade. For example, in 2008-09, the volume of logs harvested from native forests for woodchip export declined by 13 per cent to 2.9 million cubic metres, while the volume from hardwood plantations declined by about 12 per cent to 1.1 million cubic metres. The volume of coniferous logs harvested also declined to just less than 1 million cubic metres in 2008–09 (ABARE 2010).

The global economic downturn reduced woodchip demand from Japan’s paper industry. As a consequence, in 2008–09 Tasmania’s exports of native, plantation hardwood and coniferous woodchips fell by 18 per cent to 2 million bone-dry tonnes, valued at $362 million. The downturn in woodchip exports has continued into 2009–10 with the volume exported in the first three quarters declining by a further 16 per cent compared with the same period in 2008–09 (ABS 2010). The value of veneer exports from Ta Ann’s new mills, increased to $32 million in 2008–09.

**Employment profile**

Australian Bureau of Statistics data for February 2010 indicate that around 233,500 people were employed in Tasmania. The health care and social assistance industry employed the largest number of people, with approximately 13 per cent (29,700 people) of the total labour force (figure c). The retail trade industry accounted for 11 per cent (26,600 people) of the labour force, while the manufacturing and construction sectors accounted for around 9 per cent (21,700 people) and 8 per cent (19,700 people), respectively. Agriculture, forestry and fishing was the seventh largest employing sector, accounting for 7 per cent (17,200 people) of the Tasmanian labour force in February 2010, which is more than twice the proportion of those employed in the sector nationally.
The broadacre sector of agriculture is defined to include five industry types: grains; mixed grain-livestock; sheep; beef; and sheep–beef. In simple terms, broadacre farms are those running mainly beef cattle or sheep, or grow grains, pulses or oilseeds or some combination of these activities.

Nationally, average farm cash income for broadacre farms increased from $64,750 in 2007-08 to $76,000 in 2008-09 but is projected to decline to $62,000 in 2009-10 (table 2). The average farm cash income projected for 2009-10 is around 19 per cent less than the average for the 10 years to 2008-09 of $77,000 in real terms (figure d). The fall in projected average farm cash income for the 2009-10 financial year is the result of lower grain, oilseed and beef cattle prices, combined with a reduction in beef cattle turn-off and lower wool production. These factors are expected to outweigh increases in crop production and the reductions in expenditure on fodder, fertiliser and interest payments.

In contrast to the national situation, Tasmanian broadacre farm cash incomes are projected to increase in 2009-10 because of improved seasonal conditions and higher wool prices. This follows several years in which dry seasonal conditions reduced sheep and cattle numbers and severely constrained crop and livestock production. Increases in sheep and lamb prices are expected to result in higher sheep and lamb receipts in 2009-10. However, reduced cattle turn-off, together with weaker prices, is expected to reduce receipts from beef cattle. A reduction in average total cash costs is also expected to contribute to increased farm cash income with lower expenditure on fodder and interest payments, although an increase is expected in livestock purchase expenditure.

Farm cash incomes for broadacre farms in Tasmania are projected to rise to average $60,000 a farm in 2009-10 (table 2), which is around 10 per cent more than the average farm cash income recorded for the 10 years to 2008-09.

The combined effect of the small increase in livestock numbers as farms rebuild flocks and herds, and higher grain and fodder stocks on farm, are projected to increase the value of on-farm inventories and build on higher...
Sheep farm performance – Australia and Tasmania

In 2008-09, a fall in wool prices together with a small reduction in the number of sheep and lambs sold resulted in a fall in Australian sheep industry farm cash income. This was despite support from relatively high sheep and lamb prices and reduced expenditure on fertiliser, fuel and interest payments (figure e).

In contrast to the fall in farm cash income nationally, Tasmanian sheep industry farm cash income is estimated to have increased in 2008-09 because of a slight reduction in total farm costs, higher sheep and lambs prices and a rise in total crop receipts which more than offset lower wool receipts.

In 2009-10, farm cash income for Australian sheep industry farms is projected to increase to average $57 000 a farm, which is around 30 per cent more than the average for the past 10 years (figure e). This increase is mainly because of increases in sheep receipts resulting from higher saleyard prices. Wool receipts are projected to fall, as higher wool prices will be more than offset by reductions in wool sold, as a result of dry seasonal conditions in many regions, and lower sheep numbers in 2008-09. Total cash costs are projected to be reduced by around

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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.
- **Rate of return**: return to all capital used $\frac{\text{profit at full equity}}{\text{total opening capital}} \times 100$
Hobart, TAS / Regional Outlook conference

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Financial performance, broadacre industries
average per farm

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Tasmania 2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>Australia 2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef cattle sales</td>
<td>$86 960</td>
<td>76 100</td>
<td>66 000</td>
<td>$83 540</td>
<td>86 600</td>
<td>79 000</td>
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<tr>
<td>Sheep and lambs</td>
<td>$33 960</td>
<td>40 500</td>
<td>52 000</td>
<td>$34 570</td>
<td>38 600</td>
<td>40 000</td>
</tr>
<tr>
<td>Wool</td>
<td>$50 100</td>
<td>36 700</td>
<td>40 000</td>
<td>$33 980</td>
<td>26 200</td>
<td>26 000</td>
</tr>
<tr>
<td>Crops</td>
<td>$31 850</td>
<td>38 900</td>
<td>57 000</td>
<td>$140 880</td>
<td>143 700</td>
<td>135 000</td>
</tr>
<tr>
<td>Total cash receipts</td>
<td>$233 160</td>
<td>226 200</td>
<td>240 000</td>
<td>$338 440</td>
<td>336 600</td>
<td>311 000</td>
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<table>
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<tr>
<th>Costs</th>
<th>Tunisia 2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>Australia 2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheep and lamb purchases</td>
<td>$4 010</td>
<td>4 800</td>
<td>3 000</td>
<td>$5 620</td>
<td>5 200</td>
<td>6 000</td>
</tr>
<tr>
<td>Beef cattle purchases</td>
<td>$7 970</td>
<td>9 100</td>
<td>11 000</td>
<td>$14 310</td>
<td>16 000</td>
<td>14 000</td>
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<td>Fodder</td>
<td>$9 080</td>
<td>4 000</td>
<td>1 000</td>
<td>$8 010</td>
<td>9 700</td>
<td>8 000</td>
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<tr>
<td>Fertiliser</td>
<td>$22 530</td>
<td>18 200</td>
<td>19 000</td>
<td>$33 120</td>
<td>28 100</td>
<td>26 000</td>
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<td>Sprays</td>
<td>$5 140</td>
<td>5 900</td>
<td>5 000</td>
<td>$20 230</td>
<td>19 100</td>
<td>18 000</td>
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<td>Fuel, oil and lubricants</td>
<td>$13 190</td>
<td>11 100</td>
<td>11 000</td>
<td>$23 320</td>
<td>21 100</td>
<td>23 000</td>
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<tr>
<td>Repairs and maintenance</td>
<td>$16 620</td>
<td>14 900</td>
<td>14 000</td>
<td>$22 750</td>
<td>22 600</td>
<td>22 000</td>
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<tr>
<td>Interest payments</td>
<td>$16 090</td>
<td>21 100</td>
<td>19 000</td>
<td>$33 180</td>
<td>31 900</td>
<td>29 000</td>
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<tr>
<td>Hired labour</td>
<td>$14 750</td>
<td>13 700</td>
<td>13 000</td>
<td>$9 930</td>
<td>9 700</td>
<td>9 000</td>
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<tr>
<td>Total cash costs</td>
<td>$195 720</td>
<td>186 800</td>
<td>180 000</td>
<td>$273 690</td>
<td>260 700</td>
<td>250 000</td>
</tr>
</tbody>
</table>

Financial performance

| Farm cash income              | $37 440         | 39 400  | 60 000  | $64 750           | 76 000  | 62 000  |
| Farms with negative farm cash income % | 36              | 27      | 37      | 33                | 29      | 29      |
| Farm business profit          | $49 030         | 26 400  | 5 000   | $10 780           | 1 500   | 18 000  |
| Farms with negative farm business profit % | 78              | 70      | 63      | 68                | 68      | 70      |

Rate of return

- excluding capital appreciation % $0.9 $0.1 0.8 0.8 1.0 0.5
- including capital appreciation 2.1 0.6 (150) na 2.2 1.1 (28) na

Farm capital, debt and equity

| Farm capital at 30 June a     | $3 258 180      | 3 352 600 | na      | $3 898 150       | 3 800 300 | na      |
| Farm debt at 30 June bc       | $212 590        | 272 500   | (14)    | $413 060         | 409 000   | (5) 418 000 |
| Change in debt - 1 July to 30 June b | 11 100 | (47) | 1 8 4 (40) 4 |
| Equity ratio at 30 June bd    | 93 92 (1)       | na       | 89 89 (1) | na               |

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

7 per cent, mainly because of lower interest payments and reduced fodder expenditure resulting from an improvement in seasonal conditions in early 2010 and lower fodder prices.

Tasmanian sheep industry farm cash income is projected to strengthen further in 2009-10 because of the increases in wool, sheep and lamb prices and a sharp increase in total crop receipts, which are projected to account for around 35 per cent of total cash receipts compared with an average of 18 per cent for the 10 years to 2008-09. Together with lower fodder and fertiliser expenditure, average farm cash income of Tasmanian sheep industry farms is projected to increase to around $103 000 in 2009-10.

Beef farm performance – Australia and Tasmania

In 2008-09, turn-off of beef cattle by Australian beef industry farms increased markedly and average sale prices per head also increased, which resulted in total cash receipts rising by around 10 per cent. Fodder expenditure
increased as seasonal conditions remained dry, partly offsetting the increase in receipts. Farm cash income for Australian beef industry farms increased to average $48 500, while overall, cattle numbers were slightly reduced (figure f).

Continued dry seasonal conditions in northern and eastern parts of Tasmania led to an average increase in beef cattle turn-off by Tasmanian beef industry farms in 2008-09, which resulted in higher beef cattle receipts. However, reduced receipts from crops, sheep and lambs resulted in a small reduction in total cash receipts. Despite an estimated fall in total farm costs because of reductions in fertiliser and fuel expenditure, a rise in livestock purchase expenditure resulted in average farm cash income of Tasmanian beef industry farms declining by around 5 per cent to $41 600 in 2008-09.

In 2009-10, improved seasonal conditions in eastern and northern states are expected to result in reduced beef cattle turn-off on Australian beef farms. Combined with lower beef cattle prices, this is expected to result in average total cash receipts for beef industry farms falling by around 19 per cent. Total cash costs are also expected to be reduced with significant reductions in fodder expenditure and interest payments. Farm cash
income is forecast to decline to average $26 000 a farm for the beef industry in 2009-10, which is around 25 per cent less than the average farm cash income for the previous 10 years.

Improved seasonal conditions in Tasmania in 2009-10 are projected to result in a reduction in beef cattle turn-off leading to lower farm receipts. Although total cash costs, particularly fodder costs, are expected to be reduced, average farm cash income for beef farms is still projected to fall to average around $13 000 per farm in 2008-09. This is similar to the average farm cash income recorded in 2006-07 (figure f).

Dairy farm performance – Australia and Tasmania

Average farm cash income for Australian dairy industry farms fell from $129 310 per farm in 2007-08 to $88 000 a farm in 2008-09 (table 3 and figure g) as a result of lower manufacturing milk prices. Average milk prices received by dairy farms fell sharply in Victoria and Tasmania and in regions which produce mainly manufacturing milk such as southern New South Wales. In contrast, average milk prices received were maintained or increased in other regions in New South Wales, Queensland, South Australia and Western Australia. Milk production increased in all states, but increases were small in Victoria and Tasmania and, in combination with lower milk prices, resulted in substantial reductions in average milk receipts per farm in these states. Milk receipts increased on average in the other states. In 2008-09, total cash costs increased in all states except Victoria as producers increased inputs to boost milk production.

In 2009-10, the financial performance of Australian dairy farms is projected to decline further because of continued reductions in farm-gate prices received for milk used in manufactured dairy products. In response to lower prices, milk production is expected to be reduced in all states except Queensland and New South Wales. The effect of lower milk prices and reduced production on farm receipts is expected to be partly offset by lower interest payments and by reductions in other expenditure, particularly fodder and fertiliser, as farmers reduce production. Lower fodder prices in 2009-10 are expected to assist cost reductions, but overall fodder expenditure is expected to remain high. Nationally, average farm cash income for dairy farms is projected to fall to $50 000 in 2009-10 (table 3) which is well below the average for the 10 years to 2008-09 of $91 000 (figure g).

The situation for the dairy industry in Tasmania is similar. Reductions in farm-gate prices received for milk and lower milk production is projected to result in average farm cash incomes for Tasmanian dairy farms declining to around $69 000 in 2009-10. In real terms, average farm cash income will be similar to that recorded from 2003-04 to 2005-06.
Although, expenditure on fodder is expected to be lower in 2009-10 because of reduced feeding, improved seasonal conditions and lower hay and grain prices, the decline in cash costs will only partly offset the effect of lower milk receipts.

## 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 crop and livestock commodities important to Tasmania are based on information in the March 2010 issue of *Australian commodities*.

## Economic overview

The global economy is in the early stages of recovery as a sharp contraction triggered by the global financial crisis comes to an end. In recent months, international stock markets have rebounded, risk premiums on business lending have fallen and global industrial production and trade have also recovered noticeably.

### Financial performance, dairy industry

**average per farm**

<table>
<thead>
<tr>
<th></th>
<th>Tasmania</th>
<th>Australia</th>
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<tbody>
<tr>
<td></td>
<td>2007-08</td>
<td>2008-09</td>
</tr>
<tr>
<td><strong>Receipts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Milk – net of freight</td>
<td>$690,240</td>
<td>697,500</td>
</tr>
<tr>
<td>Dairy cattle</td>
<td>$34,010</td>
<td>52,400</td>
</tr>
<tr>
<td>Total cash receipts</td>
<td>$822,080</td>
<td>869,300</td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td></td>
<td></td>
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<tr>
<td>Dairy cattle purchases</td>
<td>$24,720</td>
<td>32,900</td>
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<tr>
<td>Fodder</td>
<td>$159,320</td>
<td>179,600</td>
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<tr>
<td>Fertiliser</td>
<td>$83,230</td>
<td>98,700</td>
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<td>Fuel, oil and lubricants</td>
<td>$14,440</td>
<td>15,800</td>
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<tr>
<td>Repairs and maintenance</td>
<td>$40,580</td>
<td>52,800</td>
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<tr>
<td>Water charges</td>
<td>$24,690</td>
<td>32,600</td>
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<tr>
<td>Interest payments</td>
<td>$70,150</td>
<td>88,200</td>
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<tr>
<td>Hired labour</td>
<td>$42,760</td>
<td>57,800</td>
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<tr>
<td>Total cash costs</td>
<td>$635,350</td>
<td>751,100</td>
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### Financial performance

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<tbody>
<tr>
<td>Farm cash income</td>
<td>$186,730</td>
<td>118,200</td>
<td>69,000</td>
<td>$129,310</td>
<td>88,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Farms with negative farm cash income</td>
<td>% 11</td>
<td>16 (19)</td>
<td>34</td>
<td>% 11</td>
<td>26 (20)</td>
<td>44</td>
</tr>
<tr>
<td>Farm business profit</td>
<td>$135,640</td>
<td>79,200</td>
<td>38,000</td>
<td>$65,830</td>
<td>6,700</td>
<td>44,000</td>
</tr>
<tr>
<td>Farms with negative farm business profit</td>
<td>% 11</td>
<td>34 (39)</td>
<td>56</td>
<td>% 38</td>
<td>52 (10)</td>
<td>68</td>
</tr>
</tbody>
</table>

### Rate of return

- excluding capital appreciation
  - Tasmania: 5.3% (8) 6.0%
  - Australia: 3.7% (13) 1.8%
- including capital appreciation
  - Tasmania: 14.3% (73) 1.8%
  - Australia: 1.2% (74) 0.4%

### Farm capital, debt and equity

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</thead>
<tbody>
<tr>
<td>Farm capital at 30 June a</td>
<td>$4,966,820</td>
<td>5,279,800</td>
<td>na</td>
<td>$3,550,230</td>
<td>3,714,700</td>
<td>na</td>
</tr>
<tr>
<td>Farm debt at 30 June bc</td>
<td>$958,200</td>
<td>1,188,800</td>
<td>1,220,000</td>
<td>567,970</td>
<td>663,200</td>
<td>683,000</td>
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<tr>
<td>Equity ratio at 30 June bd</td>
<td>% 81</td>
<td>77 (4)</td>
<td>na</td>
<td>% 84</td>
<td>82 (1)</td>
<td>na</td>
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</table>

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.
s Preliminary estimates.
z Provisional estimates.
na Not available.

Note: Figures in parentheses are standard errors expressed as a percentage of the estimate provided.
The improvement in global economic activity has been underpinned by robust performance in the emerging Asian economies, particularly China, and stabilisation or resumption of activity in other major world economies. However, the pace of recovery across individual economies remains uneven. In major OECD economies, private consumption and business investment remain subdued. As a result, major OECD economies are not expected to provide strong support to world economic growth in 2010.

The recent appreciation of the Australian dollar appears to reflect a number of factors, including the improved outlook for global economic recovery, robust economic performance of Australia’s major trading partners in emerging Asia, particularly China, and stronger growth in the Australian economy relative to other major OECD economies.

In the short term, the value of the Australian dollar is assumed to remain relatively high. There are a number of reasons underpinning this assessment. First, the assumed global economic recovery in 2010 and 2011 is expected to provide strong support for mineral resources demand and, hence, Australia’s minerals and energy exports. Second, Australian interest rates have risen more rapidly than in other major world economies given Australia’s advanced stage of economic recovery. The Australian dollar is assumed to average around US 88c and TWI 69 in both 2009-10 and 2010-11.

Livestock

Dairy
Following a sharp decline in world dairy product prices in 2008-09, prices recovered strongly in the first half of 2009-10 before partially retreating in early 2010. The strong rise in prices reflects increased import demand for milk powders and lower than expected milk production in the European Union, Australia and New Zealand.

In 2010-11, world prices for most dairy products are forecast to rise, driven by increased demand for dairy products in developed and major dairy importing developing countries, as world economic recovery strengthens.
World prices for milk powders are forecast to average around to 6 per cent higher in 2010-11. In 2010-11, world prices for cheese are forecast to rise by around 3 per cent, while world butter prices are expected to be marginally lower.

South-East Asia is a significant importer of milk powders and a further strengthening in economic growth in the region is expected to underpin dairy demand in 2010-11. Furthermore, China emerged as a large global buyer of whole milk powder in 2009 as a result of the effect in 2008 of the melamine contamination on consumer demand for domestically produced dairy products. China’s import demand for milk powders is expected to remain relatively strong in the short term.

Although milk output in the European Union is forecast to rise marginally in 2010-11, as producers recover from the relatively low prices of 2009, production is expected to remain below quota. In contrast, US milk production is forecast to decline by around 0.5 per cent in 2010, which reflects an expected lower national cow herd because of the recent culling of dairy cows. New Zealand milk production is forecast to increase again in 2010-11 in line with longer term growth as producers respond to the improved profitability of dairying in that country.

While world dairy product prices in 2010-11 are forecast to remain close to the average prices of the previous year, the assumed relatively high Australian dollar is likely to continue to temper the returns to Australian dairy exporters. Overall, the Australian farm-gate price for milk is forecast to average 35.5 cents a litre in 2010-11, which is only slightly higher than in the current year. In Tasmania, farm-gate prices for milk are forecast to increase slightly in 2010-11 compared with 2009-10.

Australian milk production is forecast to decline by around 5 per cent to 8930 million litres in 2009-10. Assuming favourable seasonal conditions, Australian milk production is forecast to increase slightly in 2010-11 to 9030 million litres, but remain below that of recent years. Importantly, seasonal conditions, water allocations for irrigation and the cost of supplementary feed will influence milk production in 2010-11.

**Beef and veal**

The Australian weighted average saleyard price for beef is forecast to be around 272 cents a kilogram (dressed weight) in 2010-11, which is down 3 per cent from the estimated 2009-10 average. There are several factors that could significantly affect this price outlook. Herd rebuilding has the potential to lead to higher average saleyard prices than forecast, particularly as a result of recent significant rainfall in regions of northern Australia. Also, higher than forecast demand in Australia’s major export markets, namely Japan, the Republic of Korea, Chinese Taipei and Indonesia, could also put upward pressure on prices. This could occur if economic growth in these markets proves to be stronger than currently expected.

Heavy rainfall across much of northern Australia in late 2009 and early 2010 has led to sharply reduced turn-off in this region as transport became difficult in some areas and graziers withheld cattle in anticipation of improved pasture growth. Total slaughter is forecast to decrease in 2009-10, to around 8.5 million head, before rising by 2 per cent in 2010-11. The national cattle herd is forecast to be around 25 million head by 30 June 2011.

In the three months to March 2010, Tasmania received above average rainfall in the northern half of the state and below average rainfall in the south. With much of Tasmania’s herd in the northern parts of the state, slaughter for the three months to March 2010 was down 13 per cent year-on-year. This suggests graziers started to rebuild herds due to improved pasture availability after the very dry conditions encountered in recent years.

In Japan, Australia’s largest beef export market, beef imports are forecast to increase in 2010-11 in response to improved income growth. However, much of the forecast increase in Japanese beef imports is expected to be filled by supplies of US beef. In the short term, rising imports of US beef are expected to increasingly displace Australian beef. As a result, Australian beef exports to Japan are forecast to increase by only 3 per cent to 350 000 tonnes (shipped weight) in 2010-11.
Increased competition from US beef has also occurred in the Korean market. Demand for imported beef in the Republic of Korea has been recovering as domestic consumer demand strengthens in response to improving economic growth. However, most of the increase in imports has come from the United States. For 2010-11, Australian beef exports to the Republic of Korea are forecast to fall by 6 per cent to 110 000 tonnes as US beef captures increased market share.

In the United States, the domestic beef cattle herd has been declining as a result of poor profitability relative to alternative enterprises. Also, the income effect of the economic slowdown resulted in a switch in US beef consumption toward cheaper cuts of meat and an increasing demand for manufacturing beef. These factors boosted US imports of Australian beef in 2008-09.

However, in 2009-10, US demand for manufacturing beef has been dampened by a shift in US consumer demand toward higher quality meat, while a major cull of US dairy cows has increased domestic supplies of manufacturing beef. Also, a significant appreciation of the Australian dollar has weakened the price competitiveness of Australian beef in the US market. Australian beef exports to the United States are forecast to fall in 2009-10.

In 2010-11, US imports of beef are forecast to grow moderately, with manufacturing beef continuing to make up the bulk of imports, despite continued competition from South American exports.

**Sheep meat**

In recent years, the Australian sheep industry has increasingly shifted its focus to meat production as the national sheep flock continues to decline. Production of sheep meat, particularly lamb, has been maintained as a result of strong demand. In the short term, sheep producers are forecast to continue to focus on meat production, as sheep meat returns are expected to remain favourable relative to alternatives.

The Australian weighted saleyard price of lambs is forecast to increase by 3 per cent in 2010-11, to average 450 cents a kilogram. Reduced lamb production combined with increased demand is forecast to result in higher prices in 2010-11. The Australian weighted saleyard price of sheep is forecast to rise by 41 per cent in 2009-10 and by a further 7 per cent in 2010-11. In Tasmania, lamb and ewe prices continue to be higher in the current year to date compared to 2008-09, reflecting the decline in slaughter and strong restocker demand.

The shift away from sheep enterprises to alternatives such as cropping that has been occurring since the early 1990s is expected to slow. Unfavourable cropping seasons in some regions of Australia over recent years could encourage some mixed livestock-cropping producers to shift their enterprise mix more toward sheep. With the sheep industry expected to remain focused on increasing meat production in the short term, producers are likely to increase their breeding stock with little expansion in non-breeding adult sheep (wethers) numbers.

Adult sheep slaughter is forecast to fall to 10 million head in 2009-10, and by a further 13 per cent in 2010-11 to 8.8 million head. Mutton production is also forecast to fall in the short term, following the decline in slaughter. A decline of 10 per cent year on year is forecast for 2010-11, to around 187 000 tonnes carcass weight. Slaughter weights could increase if seasonal conditions are better than expected.

Lamb slaughter is forecast to fall by around 6 per cent to around 20 million head in 2010-11. Opening lamb numbers for 2010-11 are expected to be lower than for 2009-10 because of continued high lamb slaughter during the year in response to high lamb prices. However, expectation of ongoing high prices also increases incentives to rebuild flocks. Producers are therefore expected to retain a greater proportion of female lambs in 2010-11, which will reduce overall lamb slaughter rates. Production is forecast to fall by 5 per cent in 2010-11 to 405 000 tonnes. Slaughter weights are expected to increase because of assumed favourable seasonal conditions. Tasmanian lamb slaughter fell 12 per cent year-on-year in the first three quarters of 2009-10, compared with a fall of 4 per cent for Australia as a whole.
Total exports of Australian sheep meat are forecast to fall by 5 per cent to 286,000 tonnes shipped weight in 2009-10, with an expected reduction in mutton export volumes more than offsetting increased exports of lamb. In the first three quarters of 2009-10, mutton exports fell year on year by 19 per cent, while lamb exports grew by 1 per cent. In 2010-11, total sheep meat exports are forecast to fall by a further 13 per cent.

Lamb exports to the United States, Australia’s largest export market, are forecast to fall in 2010-11, following the expected fall in lamb production. Export volumes to the United States for the first three quarters of 2009-10 were 12 per cent less than that for the same period a year earlier. US domestic demand for lamb is expected to increase gradually in the short term as economic conditions in the United States begin to improve. According to the US Department of Agriculture, domestic lamb production is expected to continue its downward trend in the short term. Given this lower domestic production, the expected recovery of US demand for lamb and mutton provides an opportunity for increased Australian sheep meat exports to that market.

Over the past three years, Australia has exported around 4 million sheep a year. In 2009-10, live exports are forecast to fall to 3.7 million head, reflecting a lower number of suitable adult sheep and competition from the slaughter lamb industry. These trends are expected to continue in 2010-11, with live sheep exports falling to 3.4 million head. Demand from the Middle East, the principal importer of live sheep from Australia, is expected to remain strong.

Wool

The Australian Eastern Market Indicator (EMI) price for wool is forecast to average 920 cents a kilogram clean in 2010-11, which is an increase of 6 per cent relative to 2009-10. The ongoing decline of the Australian sheep flock and the increased demand for woollen textiles as world economic growth improves are the principal drivers of the forecast rise in wool prices.

The ongoing decline of the sheep flock has been a feature of the Australian sheep industry for several years and is expected to continue in the short term. The number of sheep shorn is forecast to fall by 3 per cent in 2010-11 to 75 million head. Although favourable returns from sheep meat production and improved seasonal conditions are expected to encourage producers to retain breeding stock in 2009-10 and 2010-11, it is unlikely that producers will reduce slaughter rates sufficiently to turn flock numbers around in this period.

While the Australian sheep flock fell by more than 5 per cent in 2008-09, the Tasmanian sheep flock fell by around 2 per cent, to around 2 million head. The Tasmanian flock remains around 3 per cent of the national flock, with a significant proportion of the state’s sheep enterprises focusing on superfine wool production. Micron profile data from the AWI Wool Production Forecasting Committee estimates that in 2009-10 around 63 per cent of the Tasmanian wool clip will be 19 microns or finer, compared with an estimated 39 per cent for Australia as a whole.

Assuming favourable seasonal conditions, wool cut per head is projected to rise in 2010-11. Sheep producers are expected to retain a strong focus on sheep meat production, which is likely to result in a high proportion of lambs and a low proportion of non-breeding adult sheep (wethers) in the sheep flock, as well as a lower cut per head reflecting the increased proportion of meat breeds in the flock. Based on the projections for sheep shorn and cut per head, shorn wool production in 2010-11 is forecast to fall by 3 per cent relative to 2009-10, to 320,000 tonnes greasy equivalent.

Demand for Australian wool has risen in the first half of 2009-10, with China being the dominant buyer. China’s retail sales of textiles, clothing and footwear grew by 19 per cent in 2009. Apart from falling slightly in December 2009 and January 2010, Australian wool exports to China have been increasing steadily since August 2009, in both volume and value terms. Domestic demand for wool apparel in China is expected to remain buoyant over the short term as incomes increase. Chinese demand for Australian wool used in textiles destined for export is expected to recover only gradually in the short term. Consumer demand for textiles, including woollen products, in apparel-importing countries is yet to fully recover from the effects of the global economic downturn.
Unemployment rates in the European Union and the United States remain relatively high and consumer confidence, while improving, remains relatively low. Once economic conditions improve in these economies, demand for wool is expected to increase.

Total wool exports, including greasy and semi-processed wool and wool on skins, are forecast to fall by 4 per cent to 385,000 tonnes in greasy equivalent in 2010-11. China, which imported more than 70 per cent of Australian wool exports in 2008-09, is expected to remain the principal destination for Australian wool. The importance of Italy as an export market for Australia is expected to continue to decline, as Italian top-making capacity is relocated to Asia. India, which in 2008-09 became Australia’s second largest wool export destination by volume, is expected to take an increased proportion of total Australian wool exports in 2010-11.

Wine and wine grapes

Australian wine grape prices are projected to average around $517 a tonne in 2010-11, which is about 1 per cent lower than the estimated price for 2009-10. The global financial crisis dampened international demand for wine and placed significant downward pressure on all wine grape prices. With the assumed world economic recovery, demand for wine is expected to strengthen gradually. However, the abundance of wine on the world market and the increasing proportion of bulk wine shipments globally will maintain downward pressure on international wine prices and, by extension, wine grape prices.

Despite the downward trend in wine grape prices over the past decade, Australia’s bearing area for the top 10 commercial wine grape varieties, as collected by the 2009 ABS Vineyards Estimates, has increased. Since 2004-05, the bearing area of these varieties has risen by almost 13 per cent to 139,000 hectares. This has occurred despite industry reports of increasing financial difficulties among grape growers and a growing incidence of vineyard abandonment.

In 2008-09, total Australian wine grape production is estimated at just less than 1.7 million tonnes. The abundant supply of wine grapes relative to the demand for wine led some wine companies to offer lower prices for fruit. Many growers were also informed that their contracts for wine grapes would not be renewed. Growers without a contract must either find new buyers or sell their fruit on the spot market where prices are more variable.

In 2009-10, Australian wine grape production is forecast to be around 1.6 million tonnes, which is a fall of about 4 per cent from 2008-09. The majority of this decline is expected to occur in warm climate regions as a result of a prolonged heatwave in November 2009 which affected the flowering and early fruit setting of later bearing
varieties, particularly cabernet sauvignon, merlot and chardonnay. While the heatwave covered most of south eastern Australia, favourable seasonal conditions over the summer months resulted in better yields in many of the cool climate regions.

In Tasmania the 2009-10 growing season was very favourable, especially compared with the previous year. Yields in general are close to the long term average with an expected 2010 vintage of 8200 tonnes, a 30 per cent increase over the 2009 vintage. The 2009 vintage yields were adversely affected by unpredictably cool and windy weather, although the quality of 2009 vintage was reported as good.

Assuming favourable seasonal conditions in 2010-11 with no adverse weather events as experienced in each of the past three years, and a return to long-term average yields, wine grape production is forecast to increase to 1.8 million tonnes. This increase is expected to mainly occur in the warm climate regions as yields rebound.

The total volume of Australian wine exports continued to grow in 2008-09, although a greater proportion of that wine fell in the lower price brackets. Approximately 85 per cent of wine exports in 2008-09 were categorised into the two lowest price ranges: ‘basic’ (up to $2.49 a litre) and ‘popular premium’ (between $2.50 and $4.99 a litre). The high proportion of wines in these two categories is reflected in the continued decline of the average unit export price, which fell by 17 per cent relative to 2007-08, to average $3.61 a litre for reds and $2.57 a litre for whites.

In the short term, demand for Australian wines in the higher price brackets is expected to remain weak given only the modest economic recovery forecast for the United States and Western Europe, which are Australia’s two most important export markets.

Shipments of Australian wine rose by 6 per cent in 2008-09, to 750 million litres. This growth was assisted by an increase of 35 per cent in bulk red wine exports and of 113 per cent in bulk white wine exports. Shipments of red and white bottled table wine fell by 11 per cent in 2008-09. The value of Australian wine exports declined by more than 9 per cent in 2008-09, to $2.43 billion, which was the lowest value since 2001-02 (in 2009-10 dollars), largely as a result of the growth in demand for lower value wines.

Shipments of wine are expected to increase in 2010-11, with total export earnings forecast to increase by 4.5 per cent year on year to $2.39 billion. This increase reflects the forecast increase in production, as well as improved demand for wine internationally as incomes in key wine importing countries gradually recover following the global financial crisis.

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