Commodity outlook and financial performance of key agricultural industries in the New South Wales Riverina

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This paper presents the current commodity outlook and the recent financial performance of some key agricultural industries in New South Wales and highlights the performance of broadacre cropping, sheep and beef farms. Financial performance of broadacre farms in the New South Wales Riverina region is also discussed.

The agricultural sector profile for the New South Wales Riverina region covered in the opening section of this paper is based on Australian Bureau of Statistics (ABS) data for an area that contains the major regional centres of Wagga Wagga, Cootamundra, Leeton and Griffith (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 south to the New South Wales–Victoria border (see map 2 on page 9).
Agricultural sector profile

In value terms, wine grapes were the most significant agricultural product produced in the New South Wales Riverina region, accounting for 13 per cent, or $164 million, of the $1.3 billion total value of agricultural production in the region in 2007-08. This is the most recent year for which Australian Bureau of Statistics data are available (figure a).

Hay accounted for a further 12 per cent ($156 million) of the total value of agricultural production in the region in 2007-08. Wheat and beef cattle both contributed around 11 per cent with $144 million and $139 million worth of agricultural production, respectively. Wool added a further 10 per cent ($127 million), while vegetables and oranges both accounted for around 8 per cent of the region’s total value of agricultural production.

Number of farms

Australian Bureau of Statistics data indicate that in 2007-08 there were 4205 farms in the New South Wales Riverina region 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. In the Riverina region, around 23 per cent of farms were mixed grain–livestock farms in 2007-08. Grains farms were the region’s second most common farm type, accounting for around 20 per cent of farms, followed by beef cattle and mixed sheep–beef farms. Grape growers accounted for around 10 per cent of farms in the Riverina region in 2007-08.

As in most parts of Australia, a large proportion of farms in the region are small in terms of business size. Estimated value of agricultural operations (EVAO) is a measure of the value of production from farms and a measure of business size, and is somewhat similar to turnover. Around 29 per cent of Riverina farms had an estimated EVAO of less than $50 000 and a further 34 per cent had a value between $50 000 and $150 000 (figure b). In comparison, 6 per cent of farms in the region had an EVAO of more than $500 000, and these farms accounted for an estimated 37 per cent of the total value of agricultural operations in 2007-08.
Employment profile

Australian Bureau of Statistics data for February 2010 indicate that around 130 000 people were employed in the Murray and Riverina regions of New South Wales. This is a larger area than that defined in map 1, but is the area most closely approximating the Riverina region for which quarterly employment data by industry are available from the ABS. The agriculture, forestry and fishing industries employed the largest number of people, with approximately 14 per cent (18 000 people) of the total labour force (figure c). This compares with around 3 per cent employed in these industries nationally. The manufacturing industry accounted for 12 per cent (15 600 people) of the labour force, while the healthcare and social assistance, accommodation and food services, and construction sectors each accounted for around 9 per cent.
Broadacre farm performance – Australia and New South Wales

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 growing 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 estimated 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 estimated average farm cash income for the 2009-10 financial year is the result of lower grain,
Financial performance, broadacre industries
average per farm

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<td>Equity ratio at 30 June bd</td>
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Note: Figures in parentheses are standard errors expressed as a percentage of the estimate provided.

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

\[
\text{Rate of return} = \frac{\text{profit at full equity}}{\text{total opening capital}} \times 100
\]
oilseed and beef cattle prices, combined with a reduction in beef cattle turn-off and lower wool production. These factors are expected to outweigh estimated increases in crop production and the reductions in expenditure on fodder, fertiliser and interest payments.

In New South Wales, lower farm cash incomes are estimated in 2009-10 for most grain growing areas, with the exception of parts of north-western New South Wales where relatively large increases in grain production are estimated to have increased farm receipts. Elsewhere in New South Wales, a reduction in the area cropped, poor spring rainfall and high temperatures resulted in reduced grain production and, in combination with lower grain prices, led to lower farm cash incomes.

Farm cash incomes for livestock farms in north-eastern New South Wales are estimated to have been maintained by increases in turn-off of beef cattle, sheep and lambs. However, in most other regions farm cash incomes for beef cattle and sheep farms are expected to have remained relatively low, constrained by reduced livestock numbers and low turn-off as some herd and flock rebuilding occurred because of improved seasonal conditions in 2009-10. The benefits of higher wool prices in 2009-10 have been limited by lower wool production, particularly in southern regions.

On average, farm cash income of broadacre farms in New South Wales is estimated to have fallen from $50 800 in 2008-09 to $23 000 a farm in 2009-10 (table 2), which in real terms is less than half the average farm cash income for the 10 years to 2008-09.

Grains farm performance – Australia and New South Wales

Average farm cash income for Australian grains industry farms—defined as farms in the grains and grains–livestock industries—improved slightly in 2008-09, but there were marked differences in performance across states. Overall, reduced grain and wool receipts, resulting from lower grain prices combined with reductions in both wool prices and production, were more than offset by reductions in cash costs, particularly expenditure on fertiliser, fuel and interest payments.

In New South Wales, average farm cash income of grains industry farms increased to around $65 300 in 2008-09, up significantly from the low incomes of the previous two years, but still below the average for the previous 10 years of $89 000 (figure e). This was mainly because of a reduction in expenditure on interest payments, as interest rates were lower, together with reduced expenditure on fertiliser, fuel and sprays as prices for these major crop inputs fell. On average, increased wheat, barley and canola production in 2008-09 was largely offset by lower prices for these crops and, together with reduced livestock turn-off, wool production and wool prices resulted in lower total cash receipts.

In 2009-10, average farm cash income for grains industry farms nationally is estimated to have declined from $115 400 in 2008-09 to around $90 000. Despite increased crop production in Victoria and South Australia, lower grain prices combined with reduced beef cattle receipts are estimated to have resulted in a 6 per cent fall in total cash receipts for Australian grains industry farms. Only a small reduction is estimated in total cash costs, with increased fuel costs more than offset by reduced fertiliser expenditure and interest payments.

Similarly, average farm cash income for New South Wales grains industry farms is estimated to have fallen in 2009-10. Grain farm cash income is estimated to have averaged to around $22 000 a farm. A sharp reduction in total cash receipts because of reduced crop production and lower grain prices, together with a fall in livestock turn-off, is estimated to have more than offset reductions in farm costs resulting from lower expenditure on fertilisers, sprays and interest payments.
Beef farm performance – Australia and New South Wales

In 2008-09, beef cattle turn-off 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. Although fodder expenditure increased as seasonal conditions remained dry, the increased costs only partly offset the increase in receipts. As a result, farm cash income for Australian beef industry farms increased to average $48 500 (figure f).

On average, total cash receipts for New South Wales beef industry farms were also higher in 2008-09. A rise in beef cattle turn-off in response to dry seasonal conditions in the southern parts of the state, combined with an increase in prices received for beef cattle, increased beef cattle receipts. Despite increased expenditure on livestock purchases, particularly in the northern parts of the state, and higher fodder costs, average farm cash income for New South Wales beef industry farms increased to around $33 500 a farm.

In 2009-10, improved seasonal conditions in eastern and northern states are estimated to have resulted in reduced turn-off of beef cattle on Australian beef farms. Combined with lower beef cattle prices, this is estimated to have resulted in average total cash receipts for beef industry farms falling by around 19 per cent. Total cash costs are also estimated to have been reduced, with significant reductions in fodder expenditure and interest payments. Farm cash income is estimated to have declined 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.

In New South Wales, improved seasonal conditions are expected to have enabled some beef industry farms to invest in rebuilding beef cattle numbers, largely through a reduction in beef cattle turn-off. Combined with lower average prices received for beef cattle in 2009-10, beef cattle receipts are estimated to have fallen by around 9 per cent. With total cash costs also estimated to have increased because of increased purchases of beef cattle, average farm cash income of New South Wales beef industry farms is estimated to have fallen to around -$2000 a farm.
Sheep farm performance – Australia and New South Wales

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 strong sheep and lamb prices and reduced expenditure on fertiliser, fuel and interest payments (figure g).

In contrast, average farm cash income for New South Wales sheep industry farms strengthened in 2008-09, with reduced expenditure on interest payments, fodder and livestock purchases combined with significantly higher crop receipts more than offsetting reduced sheep and lamb turn-off and lower wool production and wool prices.

In 2009-10, farm cash income for Australian sheep industry farms is estimated to have increased to average $57,000 a farm, which is around 30 per cent above the average for the past 10 years (figure g). This increase is mainly because of increases in sheep and lamb receipts resulting from higher saleyard prices. Wool receipts are projected to fall, as higher wool prices will be mostly offset by reductions in wool for sale as a result of...
dry seasonal conditions in many regions and reductions in sheep numbers during 2008-09. Total cash costs are estimated to have reduced by around 7 per cent, mainly because of lower interest payments and reduced fodder expenditure resulting from an improvement in seasonal conditions and lower fodder prices in 2009-10.

In New South Wales, increased sheep and lamb turn-off and higher average sheep and lamb prices are estimated to have been more than offset by reduced crop and wool receipts, leading to a 10 per cent fall in total cash receipts. Despite reduced expenditure on fodder and interest payments, average farm cash income for New South Wales sheep industry farms is estimated to have fallen to around $44 000 a farm in 2009-10. However, in real terms this is still estimated to be higher than the average of $31 900 for the previous 10 years.

Broadacre farm performance – New South Wales Riverina region

Throughout the 1990s and into the early 2000s, broadacre farms in the New South Wales Riverina region (map 2) recorded a steady increase in total cash receipts which was largely attributed to an increase in crop receipts as crop areas were expanded. However, since the early 2000s the region has experienced multiple years of drought and restricted irrigation water availability, which has substantially reduced the area planted to rice, led to increased production of fodder crops, lowered average grain yields (figure h) and reduced total crop receipts per farm (figure i), particularly in the four years to 2009-10. Consequently, average farm cash income for broadacre farms in the region has been both much lower and much more variable during the 2000s compared with the 1990s (figure j).

In 2008-09, seasonal conditions remained dry for most of the Riverina region and resulted in farms further reducing livestock numbers as beef cattle turn-off remained high and sheep turn-off increased (table 3). Small increases in the area planted to rice and in average grain yields (figure h) led to an increase in crop receipts despite a reduction in grain prices. Overall, total cash receipts increased by around 10 per cent and in combination with a small reduction in farm costs resulted in average farm cash income rising to $50 900 a farm in 2008-09. Nevertheless, farm cash income in 2008-09 remained well below the average for the previous 10 years, in real terms (figure j).

Improved seasonal conditions in 2010 have encouraged producers to begin rebuilding herd and flock numbers by reducing livestock turn-off and increasing livestock purchases. Higher sheep and lamb prices are estimated to have mostly offset the effect on sheep and lamb receipts of the reduction in sheep and lambs sold. However, reduced beef cattle turn-off combined with lower beef cattle prices are expected to result in beef cattle receipts declining by around 40 per cent in 2009-10. In addition, despite a small increase in rice production, slightly lower yields for wheat and other grains together with lower grain prices are estimated to have resulted in a reduction in crop receipts in 2009-10 compared with 2008-09. Overall, average total cash receipts per farm for the region are estimated to have fallen by 21 per cent in 2009-10.
Average wheat yield per hectare sown, Riverina broadacre farms

Total cash receipts, Riverina broadacre farms
average per farm

Farm cash income, broadacre farms
average per farm

s Provisional estimate.
In 2009-10, total farm costs are estimated to have declined only slightly compared with the previous year, with increased expenditure on livestock purchases and fuel mostly offset by a reduction in fodder and interest payments.

Overall, the effect of lower grain prices and livestock receipts, together with increased livestock purchases as farms invest in herd and flock rebuilding, is expected to result in estimated average farm cash income for Riverina broadacre farms falling to around $12 000 in 2009-10 (figure).
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 the New South Wales Riverina are based on information in the June 2010 issue of *Australian commodities*.

Crops

**Wheat**

In 2010-11, the world wheat indicator price is forecast to fall by 14 per cent to an average of $US180 a tonne. It is expected that world wheat production will exceed consumption for the third successive year in 2010-11, leading to a further build-up of world wheat stocks.

In 2010-11, wheat production in most major exporting and producing regions is forecast to fall as producers respond to lower world wheat prices. One exception is the European Union, where area sown is forecast to be similar to 2009-10 but higher yields than last season are expected to result in increased production. Overall, world wheat production is forecast to decline by 3 per cent to 658 million tonnes.

World wheat consumption is forecast to increase by 1 per cent to 652 million tonnes in 2010-11, but nevertheless remain below forecast world production. This increase is largely driven by higher food use. Wheat for human consumption is forecast to increase by 1 per cent, to around 457 million tonnes, in line with world population growth. Feed use is expected to remain largely unchanged at around 104 million tonnes, while the use of wheat in ethanol production is expected to increase.

Despite forecast lower global wheat production in 2010-11, world closing stocks of wheat are set to rise by 3 per cent to 652 million tonnes, which if realised would be the third consecutive year of increased stocks. The world stocks-to-use ratio is forecast to reach 31 per cent in 2010-11, one percentage point higher than in 2009-10. The stocks-to-use ratio is well below the peak reached in 1999-2000 when the ratio exceeded 35 per cent, but significantly above the 20 per cent observed in 2006-07 and 2007-08 when grain prices spiked.

The eastern states have had one of the best starts to a winter cropping season for many years. Widespread rainfall was recorded for Queensland, New South Wales, Victoria and South Australia between March and May 2010, which has led to a significant improvement in soil moisture in many cropping regions. In New South Wales, further rainfall in early June has been favourable for planting with the majority of crops planted into good soil moisture conditions at the optimal times.

Despite the positive start to the season, area sown to wheat in Australia in 2010-11 is forecast to decline by 2 per cent to 13.5 million hectares, mainly as a result of lower wheat prices. Under the assumption that yields will return to levels closer to the long-term (10-year) average, especially in major regions in New South Wales and Queensland, wheat production for Australia as a whole is forecast to increase by 2 per cent to 22.1 million tonnes in 2010-11.

The area planted to wheat in New South Wales is forecast to decline by 1 per cent to just less than 4 million hectares. Assuming yields increase to the 10-year average, production in New South Wales is forecast to increase by 31 per cent to 6.6 million tonnes, compared with the 5.1 million tonnes produced last season.

Favourable autumn seasonal conditions led to widespread Australian plague locust swarms, which destroyed some early sown crops. However, most of these crops have been replanted. In addition, according to the Australian Plague Locust Commission (APLC), there is a high probability that the extensive autumn egg laying will produce a high density nymphal generation in south-eastern Australia during spring.
The APLC also provides forecasts for the hatching, mid-instar and fledging stages of the Australian plague locust for next spring. In general, hatching and fledging occur earlier in regions located further north. In New South Wales, hatching is forecast to occur from late August through to late October and fledging is forecast to occur from early October to late November.

The actual effect of locusts on winter crop yields and production will depend on a number of factors including the effectiveness of spraying programs on hatched nymphs before they are capable of flight and the destination of any migrating swarms. Therefore, the effect locusts may have on winter crops cannot be assessed accurately until spring.

**Coarse grains**

High world coarse grain stocks are forecast to place downward pressure on world coarse grains prices in 2010-11. The world coarse grain indicator price (US corn, fob Gulf) is forecast to average 5 per cent lower at around US$153 a tonne in the 2010-11 marketing year (September to August). World coarse grain stocks are forecast to increase in 2010-11 as global production is once again forecast to be higher than global consumption.

The area planted to coarse grains globally is forecast to increase by 1 per cent in 2010-11 to around 311 million hectares. This increase is driven by a forecast 2 per cent rise in world corn area to 159 million hectares, which will more than offset expected lower barley plantings. World corn production is forecast to increase by 3 per cent to a new record of 830 million tonnes in 2010-11, while barley production is forecast to fall by 5 per cent to 141 million tonnes. Overall world coarse grains production in 2010-11 is forecast to increase by around 2 per cent to more than 1.12 billion tonnes, which would be a new record, if realised.

Global coarse grains consumption in 2010-11 is forecast to increase by 1.5 per cent to a new record of more than 1.12 billion tonnes. The forecast increase is driven by higher industrial demand in the United States. Feed demand in the United States and the European Union is forecast to decline slightly but this will be offset by increased demand in East Asia and Latin America.

Global coarse grains ending stocks for 2010-11 are forecast to increase slightly from last year to around 192 million tonnes. This is expected to be the fifth consecutive season of increasing stocks and would put world stocks at the highest level since 2001-02. Global corn ending stocks are forecast to increase.
by 2 per cent to 147 million tonnes in 2010-11. However, world barley stocks are forecast to decline to 30 million tonnes because of expected lower production. Despite this forecast fall, world barley stocks are still expected to be high relative to the lows of 2007-08 and the early 2000s.

World trade in coarse grains in 2010-11 is forecast to rise by 2 per cent to 113 million tonnes. World corn trade is forecast to rise by 3 per cent to 89 million tonnes in 2010-11, more than offsetting a 1 per cent decline to 16 million tonnes in barley trade.

The area planted to coarse grains in 2010-11 in Australia is forecast to decline by 5 per cent to around 6 million hectares. The forecast of lower coarse grains plantings is being driven by the effects of expected higher returns from canola, legumes and wheat on growers’ planting decisions.

The area sown to barley is forecast to decline by 9 per cent to around 4.1 million hectares in 2010-11, which is the smallest planted area since 2002-03. The largest fall is expected to occur in Western Australia where barley plantings are forecast to be down 20 per cent to 990 000 hectares. The area planted to barley in New South Wales is forecast to rise slightly to more than 1 million hectares, reflecting attractive malt barley prices and firm feed demand from livestock industries.

Coarse grains production in Australia is forecast to decline by 5 per cent in 2010-11 to around 10.9 million tonnes. This decline is mainly because of expected lower barley production, which is forecast to fall by 10 per cent to around 7.3 million tonnes, assuming 10-year average yields. Contrary to the national decline, barley production in New South Wales is forecast to increase by 27 per cent to 1.6 million tonnes in 2010-11 after last season’s drought affected crop, assuming a return to the 10-year average yields.

Grain sorghum production in 2009-10 is estimated to be around 1.2 million tonnes compared with 2.7 million tonnes in 2008-09, mainly because of adverse seasonal conditions during the planting window. Favourable conditions during the growing season resulted in above average yields and helped avoid a bigger fall in production. Yields reached 3.8 tonnes a hectare in northern New South Wales and 2.9 tonnes a hectare in southern Queensland.

**Rice**

The recently completed rice harvest of 2009-10 in southern New South Wales returned the highest yield on record at around 11 tonnes a hectare. Production for the 2009-10 season is estimated at around 205 000 tonnes, which is substantially higher than the 61 000 tonnes produced in 2008-09. The rise in production was a result of greater water availability in the Murray-Darling Basin, which led to larger plantings and highly favourable growing conditions. Further increase in planting is expected in 2010-11 if a greater amount of irrigation water is available.

According to the United States Department of Agriculture (USDA), world rice prices are forecast to continue to decline in 2010-11 from the highs of 2007-08 and 2008-09, which included a peak of US$949 a tonne recorded in May 2008. World rice prices are expected to average US$552 for the 2009-10 season. Despite lower world prices, these prices are relatively high in real terms compared with the period between the 1980s and the recent peak in prices.

The forecast fall in world prices in 2010-11 is because of increased production and stocks in major rice producing and exporting countries including China, India, Thailand and Vietnam.

**Oilseeds**

The world oilseed indicator price (soybeans, cif, Rotterdam) is forecast to average 13 per cent lower in the 2010-11 marketing year (October to September) at around US$352 a tonne. The forecast price decline mainly
reflects expected higher world supplies as a result of increased carryover stocks in Latin America and an
expected further build-up in world soybean stocks. In contrast, world canola prices are forecast to rise in
2010-11 as global canola consumption is expected to exceed production for the second consecutive year.

World oilseed production is forecast to rise to a record 439 million tonnes in 2010-11, up 1.3 million tonnes from
2009-10. Production of sunflower seed is forecast to rise by 11 per cent to 34 million tonnes and other oilseeds
by 7 per cent to 96 million tonnes. These increases will outweigh the effect of a forecast fall in soybean
production by around 3 per cent to 250 million tonnes and canola production by around 1 per cent to
59 million tonnes in 2010-11.

World oilseed consumption in 2010-11 is forecast to increase by around 5 per cent to 436 million tonnes, being
supported by a record oilseed crush. World oilseed crushings are forecast to rise to around 370 million tonnes as
strengthening vegetable oil prices provide support for crush margins.

World vegetable oil consumption is forecast to increase by 5 per cent to 144 million tonnes in 2010-11, led by
increased human consumption in China and India and continued support from the biodiesel sectors in several
countries. World use of vegetable oils for human consumption is forecast to rise to around 113 million tonnes in
2010-11, up from an estimated 109 million tonnes in 2009-10. Industrial use of vegetable oils (mainly biodiesel) is
forecast to increase by 6 per cent to a record 29 million tonnes in 2010-11, with mandated biodiesel use in Latin
America, North America and the European Union continuing to support consumption.

World protein meal consumption is forecast to increase by around 5 per cent in 2010-11 to 248 million tonnes.
This increase is driven by higher meal consumption in China, the United States and the European Union.

In 2010-11, world ending oilseed stocks are forecast to increase to 77 million tonnes with tightening supplies
of canola/rapeseed and cottonseed more than offset by a replenishment of soybean stocks, mostly in the
United States. End-of-season global oilseed stocks for 2009-10 are estimated to be 75 million tonnes, which is
significantly higher than previous forecasts.

Good autumn rainfall in the eastern states combined with a favourable price outlook for canola, relative to
wheat and barley, is expected to lead to a significant increase in canola plantings in 2010-11. The total area sown
to canola is forecast to increase on 2009-10 by 16 per cent to around 1.6 million hectares. Following an ideal
start to the season, New South Wales is estimated to have increased canola plantings by around 25 per cent
to 300 000 hectares. Production in New South Wales in 2010-11 is forecast to be 48 per cent higher than last
season’s drought affected crop at 360 000 tonnes, assuming average yields.

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 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 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 occurred 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.

The Riverina falls within the Geographical Indications (GI) zone of Big Rivers, which excludes the Murray Darling GI zone. The Big Rivers zone produces nearly 20 per cent of Australia’s wine grapes. Almost two-thirds of wine grape production in this GI zone is made up of three varieties: chardonnay (26 per cent), shiraz (21 per cent) and semillon (12 per cent).

Leading up to the 2010 vintage, water allocations in the Big Rivers zone were better than the previous year and the summer rains were favourable for production. However, the effect of the prolonged heatwave in November 2009 had a significant effect on grape development. ABARE’s forecast for wine grape production in the Big Rivers zone in 2010 is estimated to be 256 000 tonnes, down 12 per cent from the previous year. The decline is the result of two factors: the continuing decline of wine grape prices and the effect of the heatwave on yields, which were forecast to be 15 per cent lower than the long-term average. While yields of all varieties in the region were affected, cabernet sauvignon, chardonnay and colombard were among the most severely hit.

Assuming favourable seasonal conditions in 2010-11 and a return to long-term average yields, Australian 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 has continued to grow through 2009-10, although a greater proportion was in the lower price brackets. Between July 2009 and May 2010, approximately 90 per cent of wine exports 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 prices, which are expected to fall by 14 per cent from 2008-09, to average $3.15 a litre for reds and $2.20 a litre for whites.

In the short term, demand for Australian wines in the higher price brackets is expected to remain weak given 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 are expected to rise by 5 per cent in 2009-10, to 784 million litres. This growth was assisted by an increase of 36 per cent in bulk red wine exports and of 12 per cent in bulk white wine exports. Shipments of red and white bottled table wine are expected to fall by about 5 per cent in 2009-10. The value of Australian wine exports are expected to decline by about 10 per cent in 2009-10, to $2.18 billion, which is the lowest value since 2000-01 (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 $2.28 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.
Livestock

**Beef and veal**

The Australian weighted average saleyard price for beef is forecast to be 4 per cent higher in 2010-11 than the previous year at 299 cents a kilogram (dressed weight). This forecast price increase is mainly driven by improved seasonal conditions in northern and eastern Australia, which has resulted in strong domestic restocker demand as producers accelerate herd rebuilding.

Good rainfall throughout northern and eastern Australia in the first three months of 2010 improved water storages and the prospects for pasture growth and fodder production. As a result, producers have been encouraged to retain more female cattle for herd rebuilding. Accelerated herd rebuilding, particularly in southeastern Australia, has reduced cattle turn-off. In the March quarter 2010, total Australian cattle slaughter was 4 per cent lower year on year, as cattle slaughter in Queensland, New South Wales and Victoria declined by 1 per cent, 1 per cent and 15 per cent, respectively. In New South Wales, slaughter rates across the state were down (particularly in parts of the south where dry conditions had been particularly severe) while demand for restocker cattle was up, resulting in higher saleyard prices.

Assuming favourable seasonal conditions, reduced turn-off is expected to continue, resulting in Australian slaughter falling by around 2 per cent to 8.4 million head in 2010-11. Total beef production is forecast to fall by around 1 per cent to 2.1 million tonnes in 2010-11, after remaining relatively unchanged in 2009-10. Reflecting the improved prospects for pasture growth, the effect of lower slaughter on production is likely to be offset somewhat by higher carcass weights.

Continued herd rebuilding is forecast to reduce Australian beef exports by around 1 per cent to 910 kilotonnes in 2010-11. Although exports to Australia’s key destinations, including the United States, Japan and the Republic of Korea, are forecast to increase, these increases will be more than offset by forecast declines to other markets including Indonesia and other ASEAN countries, the Russian Federation and the Middle East.

Beef imports by Australia’s largest beef export market, Japan, are expected to continue to increase in 2010-11, driven by improved economic activity. Despite competition from US beef, Australian beef exports to Japan are forecast to rise by 2 per cent to 360 kilotonnes. US beef exports to Japan are forecast to grow more modestly in the short term because of constrained US export supplies. The recent outbreak of foot-and-mouth disease

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**Australian cattle slaughter and real prices**

![Graph showing Australian cattle slaughter and real prices from 1994 to 2011](image-url)
in Japan appears to be largely under control at the time of writing, and there is little indication that beef consumption has been adversely affected.

Increased competition from US beef has also occurred in the Korean market. In 2010-11, assumed economic recovery is forecast to lead to a continued increase in Korean beef import demand. While this is positive for the outlook for Australian beef exports to the Republic of Korea, stronger competition from US beef could limit the scope of a further increase in Australian exports to that market. For 2010-11 as a whole, Australian beef exports to the Republic of Korea are forecast to increase by a modest 3 per cent to 124 kilotonnes.

In the United States, continued economic recovery in 2010-11 is expected to lead to increased consumer demand for both manufacturing and high quality marbled beef. However, with the US beef herd at its lowest level since 1949, the capacity of the US industry to increase domestic beef production will be constrained. Beef prices in the United States are forecast to remain high, which will lead to an increase in beef imports to meet growth in domestic demand. Against this backdrop, Australian beef exports to the United States are forecast to recover, rising by 15 per cent to 230 kilotonnes in 2010-11 after declining by 31 per cent year on year in the first nine months of 2009-10.

Live cattle exports from Australia are forecast to decline by 6 per cent to around 850 000 head in 2010-11, being driven by a reduction in live cattle numbers exported to Indonesia (Australia’s largest live cattle market). This is because of a maximum weight limit on feed cattle imports being applied by Indonesian authorities.

Wool

The Australian eastern market indicator (EMI) price for wool is forecast to increase by 4 per cent in 2010-11 to 900 cents a kilogram clean. This forecast reflects an expected gradual improvement in demand for wool products in China and the United States, which will lead to increased demand for raw wool. Shorn wool production in Australia is expected to be largely unchanged in 2010-11 and to remain at a low level in historical terms.

A major downside risk to the price forecast in 2010-11 is a weakening in the outlook for European textile demand into the northern hemisphere winter. Given recent instability in European financial markets and austerity measures likely to be adopted by various governments, there is a strong possibility that retail demand for wool products could weaken markedly, leading to weaker than currently forecast demand for Australian wool.

Another factor that could place considerable downward pressure on Australian wool prices is movements in the Australian dollar, especially against the US dollar. Despite the recent significant depreciation of the Australian dollar from US93c in mid-April to US83c in early June, there remains a distinct possibility that the Australian dollar will appreciate during the course of 2010-11 once financial market confidence in the world economic outlook improves, especially in relation to the outlook for economic growth in Europe.

Shorn wool production is forecast to remain largely unchanged in 2010-11 at around 340 kilotonnes. The Australian sheep flock is estimated to be around 69.3 million head at 30 June 2010, and in 2010-11 the Australian sheep flock is expected to continue its decline, although at a slower rate as producers retain breeding flocks for higher lamb production. The number of sheep shorn is forecast to decline by less than 1 per cent but this is expected to be offset by a forecast increase in average cut per head, assuming favourable seasonal conditions prevail.

Growth in wool apparel consumption in China is expected to be the major source of growth in demand for raw wool in 2010-11. Textile production in China grew by around 12 per cent year on year for the period January to April 2010, while domestic consumption of garments and footwear increased by more than 23 per cent. This strong growth in domestic Chinese textile consumption is expected to continue in the short term.
Demand for wool textiles in the United States is expected to increase slowly, assuming economic growth improves gradually in 2010-11. A weaker economic outlook for the European Union could result in a weakening in demand for wool and wool products in the second half of 2010, before a recovery during 2011 as economic growth and consumer sentiment improve gradually, which is expected to have little upward effect on wool prices in Australia.

The volume of Australian wool exports declined year on year by 4 per cent in the first three quarters of 2009-10. Despite this, exports to China increased year on year by 6 per cent reflecting the ongoing strength in Chinese demand for wool textiles. China accounted for 78 per cent of Australian wool exports over this period.

The total volume of wool exports is forecast to be around 412 kilotonnes in 2010-11, equal to the volume exported last season. The value of wool exports is forecast to be around $2.33 billion, which is 3 per cent higher than in 2009-10.

**Sheep meat**

The Australian weighted average saleyard price of lambs is forecast to increase by 1.5 per cent in 2010-11, to 470 cents a kilogram. An assumed improvement in seasonal conditions and favourable returns to lamb production are expected to result in slightly lower lamb slaughter in 2010-11 as producers rebuild flocks to secure future lamb availability.

The weighted saleyard price of sheep is forecast to increase by 5 per cent to an average of 325 cents a kilogram in 2010-11. The availability of sheep for slaughter is expected to decrease as breeding stock is retained for lamb production and the number of non-breeding animals in the adult sheep flock continues to fall. Additionally, the demand for mutton is expected to remain strong, particularly in key export markets such as the Middle East.

For the first 10 months of 2009-10, New South Wales lamb slaughter increased by 3 per cent year on year compared with a fall of 5 per cent for Australia as a whole. Despite this decline nationally, relatively high slaughter rates in 2009-10 are expected to result in a decline in lamb numbers at the end of 2009-10 and reduced lamb availability in 2010-11.

Lamb slaughter is forecast to be 0.5 per cent lower in 2010-11, at around 20.1 million head, reflecting the lower lamb availability and producers retaining more female lambs to rebuild breeding flocks. This is expected to occur despite relatively favourable prices in response to the ongoing strong demand for lamb in domestic and international markets.
Sheep slaughter is forecast to fall by 23 per cent in 2009-10 and by a further 1 per cent in 2010-11 to around 8.6 million head. These forecast declines reflect the assumption of an improvement in seasonal conditions in south-eastern Australia and favourable returns to lamb production, both of which will encourage producers to increase breeding stock and reduce sheep slaughter in order to maintain or increase future lamb production.

For the first 10 months of 2009-10, the volume of Australian sheep meat exports fell year on year by 11 per cent, following lower domestic production. In 2010-11, forecast lower sheep meat export volumes are expected to be offset by forecast high export prices. The total volume of Australian sheep meat exports is forecast to fall by more than 8 per cent to 250 kilotonnes, but export prices are expected to increase by around 7 per cent as demand for Australian sheep meat continues to grow. The total value of sheep meat exports is forecast to fall modestly, to around $1.3 billion.

The volume of lamb exported to the United States, the key destination for Australian lamb, is forecast to remain roughly constant in 2010-11 at 34 kilotonnes. Despite this forecast decline, the United States will continue to be a destination for around 24 per cent of total Australian lamb exports. According to the United States Department of Agriculture (USDA), US domestic sheep meat production is expected to decrease in 2010-11, while imports are expected to increase. US consumers are increasing their restaurant consumption, which fell significantly during the global financial crisis, and this is expected to increase demand for high-value lamb cuts from Australia. Despite this expected increase, Australian lamb export to that market will be constrained by lower Australian lamb production.

Australian live sheep exports are expected to remain largely unchanged at around 3.2 million head in 2010-11. Live sheep export prices are forecast to rise because of strong demand from the Middle East and increased competition between processors, live exporters and restockers. The value of live sheep exports is forecast to rise by 3 per cent in 2010-11 to $320 million.