Commodity outlook and financial performance of key agricultural industries in the Mallee region of Victoria

Therese Formosa, James Fell, Henry To, Peter Berry, Gwen Rees and David Barrett

This paper presents the current commodity outlook and the recent financial performance of some key agricultural industries in Victoria, and highlights the performance of broadacre grain, sheep, beef and dairy farms. The financial performance of broadacre farms in the Mallee region of Victoria is also discussed.

The agricultural sector profile for the Victorian Mallee region covered in the opening section of this paper is based on Australian Bureau of Statistics (ABS) data for an area that contains the regional centres of Mildura, Swan Hill, Kerang and Donald (map 1). The analysis of broadacre farm performance in the region, which is presented later in the paper, is drawn from an area that excludes the regional centres of Donald and Charlton but includes the centres of Lascelles, Hopetoun and Rosebery (see map 2 on page 5).

Agricultural sector profile

The gross value of agricultural production in the Mallee region in 2007–08, the most recent year for which ABS data are available, is estimated to have been $1.2 billion, a significant increase from the 2006–07 estimate of $927 million. In
dollar value terms, grapes were the most significant agricultural product in the Mallee region, accounting for 27 per cent or almost $322 million of the $1.2 billion total value of agricultural production (figure a). Around 64 per cent of the total value of grape production was accounted for by wine grapes, around 25 per cent by table grapes and a further 10 per cent by dried vine fruits, including sultanas, raisins and currants.

**Value of agricultural production, Mallee, 2007–08**

Wheat accounted for 19 per cent ($226 million) of the total value of agricultural production in the region in 2007–08, while milk contributed 12 per cent ($144 million). Barley and hay both contributed around 8 per cent with $103 million and $95 million worth of agricultural production, respectively. Vegetables and fruit (other than grapes and citrus) both accounted for around 5 per cent of the region’s total value of agricultural production.

**Number and type of farms**

ABS data indicate that in 2008–09 there were an estimated 3083 farms in the Mallee 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 value of production. In the Mallee region, around 23 per cent of farms were mainly dependent on grape growing, compared with 13 per cent at the state level. Grain farms (farms growing grains, oilseeds or grain legumes) were the second most common farm type in the Mallee region in 2008–09, accounting for around 20 per cent of farms, followed by mixed grain–livestock farms at around 16 per cent.

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 57 per cent of farms in the Mallee region had an EVAO of less than $150 000 (figure b). These farms accounted for an estimated 13 per cent of the total value of agricultural operations in 2008–09. In comparison, 6 per cent of farms in the region had an EVAO of more than $1 million, and these farms accounted for an estimated 34 per cent of the total value of agricultural operations in 2008–09.
1

Number of farms, by industry classification, 2008–09

<table>
<thead>
<tr>
<th>Industry Classification</th>
<th>Mallee</th>
<th>Victoria</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no.</td>
<td>%</td>
</tr>
<tr>
<td>Grapes</td>
<td>975</td>
<td>23</td>
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<tr>
<td>Grains</td>
<td>773</td>
<td>20</td>
</tr>
<tr>
<td>Mixed grain–livestock</td>
<td>414</td>
<td>16</td>
</tr>
<tr>
<td>Dairy</td>
<td>226</td>
<td>11</td>
</tr>
<tr>
<td>Beef (specialised)</td>
<td>179</td>
<td>10</td>
</tr>
<tr>
<td>Citrus fruits</td>
<td>103</td>
<td>8</td>
</tr>
<tr>
<td>Stone fruits</td>
<td>95</td>
<td>8</td>
</tr>
<tr>
<td>Sheep (specialised)</td>
<td>72</td>
<td>2</td>
</tr>
<tr>
<td>Vegetables (outdoors)</td>
<td>55</td>
<td>1</td>
</tr>
<tr>
<td>Other</td>
<td>245</td>
<td>3</td>
</tr>
<tr>
<td>All agricultural industries</td>
<td>3 083</td>
<td>100</td>
</tr>
</tbody>
</table>

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

Employment

ABS quarterly data for May 2010 indicate that around 123 000 people were employed in the Loddon and Mallee regions of Victoria (map 1). This is the area that most closely approximates the Mallee region for which quarterly employment data by industry are available from the ABS. The retail trade industry employed the largest number of people, with approximately 14 per cent (17 500 people) of the total labour force (figure c). The health care and social assistance industry accounted for 11 800 people (10 per cent). Agriculture, forestry and fishing was the third largest employing sector, accounting for 11 400 people (9 per cent) of the Loddon and Mallee region labour force, around three times the proportion of those employed in the sector nationally. The construction, accommodation and food services, and education and training industries were also significant employers in the region.

Source: ABS.
Farm financial performance – Australia and Victoria

Each year ABARE–BRS interviews Australian broadacre and dairy producers as part of its annual survey program. Broadacre industries covered in this survey include the wheat and other crops, mixed livestock–crops, sheep, beef and sheep–beef industries. The information collected provides a basis for analysing the current financial position of farmers in these industries and expected changes in the short term. This paper uses data from ABARE–BRS’s Australian Agriculture and Grazing Industries Survey (AAGIS) and Australian Dairy Industry Survey (ADIS) to provide estimates of financial performance indicators (box 1) for farms in Australia, Victoria and the Mallee region (map 2). Financial performance is analysed for the main industries operating in the Mallee region.

Broadacre farm performance – Australia and Victoria

Nationally, average farm cash income for broadacre farms increased from $64,750 in 2007–08 to $76,000 in 2008–09 but is estimated to have declined to $62,000 in 2009–10 (table 2). The average farm cash income 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). This fall 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 outweighed estimated increases in crop production and reductions in expenditure on fodder, fertiliser and interest payments.

In contrast to the national trend, average farm cash incomes for broadacre farms in Victoria are estimated to have risen to $79 000 a farm in 2009–10 (table 2), which is 25 per cent more than the average recorded for the 10 years to 2008–09.

Farm cash income for Victorian cropping farms is estimated to have increased in 2009–10 relative to 2008–09. Improved seasonal conditions resulted in a large increase in grain production, which more than offset the effect of lower grain and oilseed prices and increased crop receipts.

Receipts from sheep, lambs and wool are estimated to have increased because of higher prices and have underpinned farm cash incomes for many livestock producers. However, receipts from beef cattle farms are estimated to have reduced with lower turn-off, as better seasonal conditions particularly in the south-west encouraged farmers to retain stock.

**Box 1 Major financial performance indicators**

- **Total cash receipts:** total revenues received by the business during the financial year.
- **Total cash costs:** payments made by the business for materials and services and for permanent and casual hired labour (excluding owner manager, partner and family labour).
- **Farm cash income:** total cash receipts – total cash costs
- **Farm business profit:** farm cash income + changes in trading stocks – depreciation – imputed labour costs
- **Profit at full equity:** return produced by all the resources used in the business. 
  farm business profit + rent + interest + finance lease payments – depreciation on leased items
- **Rate of return:** return to all capital used
  \[
  \frac{\text{profit at full equity}}{\text{total opening capital}} \times 100
  \]

Historically, the average farm cash income for Victorian broadacre farms has been lower than the national average (figure d), partly because of the smaller average size of farms in Victoria. In 2009–10, average farm cash income of Victorian broadacre farms exceeded the national average for only the second time in more than 30 years. Areas planted to grains and yields of grain crop increased, leading to a large increase in grain receipts in Victoria. In addition, high sheep and lamb prices in recent years have provided significant support to Victorian broadacre farm incomes.
Performance of grains industry farms – Australia and Victoria

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 Victoria, average farm cash income of grains industry farms decreased to around $59 000 in 2008–09, down significantly from the high income of the previous year and the average for the previous 10 years of $99 000 (figure e). This was mainly because of a reduction in grain yields, as a result of drier seasonal conditions in 2008–09, and lower grain prices.
In 2009–10, average farm cash income for grains industry farms at the national level is estimated to have declined from $115 400 in 2008–09 to around $90 000 in 2009–10. 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.

In contrast, average farm cash income for Victorian grains industry farms is estimated to have increased in 2009–10, to around $150 000 a farm. Yields in the major grains producing regions of Victoria were markedly higher than in 2008–09, reflecting above average rainfall through spring. Increased production more than offset the lower grain prices.

Performance of sheep industry farms – Australia and Victoria

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 f).

Similarly, average farm cash income of Victorian sheep industry farms decreased in 2008–09. Reduced sheep and lamb turn-off and lower wool production and wool prices, together with decreased crop and beef receipts, resulted in a fall in total cash receipts from $222 800 in 2007–08 to around $148 000 in 2008–09. On average, farm cash income for Victorian sheep industry farms decreased by 65 per cent to $27 000 in 2008–09.

In 2009–10, farm cash income for Australian sheep industry farms is estimated to have increased to average $57 000 a farm, around 30 per cent above the average for the past 10 years (figure f). 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 because of dry seasonal conditions in many regions and reductions in sheep numbers during 2008–09. Total cash costs are estimated to be 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 2009–10, farm cash income for sheep industry farms in Victoria is estimated to have increased to average $42 000 a farm. Despite a decrease in the average number of sheep and lambs sold, sheep and lamb receipts
increased as a result of higher saleyard prices. Improved seasonal conditions also resulted in a decrease in fodder expenditure and higher crop receipts, despite lower grain prices. Decreased interest payments also contributed to lowering the total cash costs of sheep industry farms in Victoria.

Performance of beef industry farms – Australia and Victoria

In 2008–09, turn-off of beef cattle by Australian beef industry farms increased markedly and average sale prices per head also increased, resulting in total cash receipts rising by around 10 per cent. Although fodder expenditure increased because of continued dry seasonal conditions, 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 g).

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\* Provisional estimate.
In contrast, average total cash receipts for Victorian beef industry farms decreased in 2008–09. Despite increased beef cattle prices, the number of cattle sold decreased as continued dry seasonal conditions led to reduced herd sizes. This resulted in a fall in receipts from beef cattle sales in 2008–09. In addition, reduced receipts from crops and wool in 2008–09 resulted in a fall in total cash receipts of around 14 per cent. Farm cash income decreased by around 27 per cent to average $20 000 a farm.

In 2009–10, improved seasonal conditions in the eastern and northern states are estimated to have resulted in reduced turn-off of beef cattle as farms commenced rebuilding herds. 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 fallen, with significant reductions in fodder expenditure and interest payments. Average farm cash income is estimated to have declined to $26 000 a farm for the beef industry in 2009–10, around 25 per cent less than the average farm cash income for the previous 10 years.

In 2009–10, despite improved seasonal conditions across most of Victoria, cash receipts for Victorian beef cattle farms were reduced by lower receipts from beef, crops, sheep and wool. Lower numbers of beef cattle sold, as farmers commenced herd rebuilding, combined with a decline in prices received resulted in a fall in beef cattle cash receipts. Total cash costs were also lower as a result of a decrease in spending on fodder because of improved seasonal conditions and decreased interest payments. However, the lower costs were unable to offset the fall in cash receipts and resulted in average cash incomes for Victorian beef cattle farms declining to an estimated $13 600 a farm in 2009–10.

Performance of dairy industry farms – Australia and Victoria

Average farm cash income for Australian dairy industry farms fell from $129 310 a farm in 2007–08 to $88 000 a farm in 2008–09 (figure h) as a result of lower manufacturing milk prices. Average milk prices received by dairy farms fell sharply in Victoria and Tasmania and in regions that produce mainly manufacturing milk, such as southern New South Wales. In contrast, average milk prices received were maintained or increased in northern and central 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.

![Real farm cash income, dairy industry](image-url)
In 2009–10, the financial performance of Australian dairy farms is estimated to have declined further because of continued reductions in farm-gate prices for milk used in manufactured dairy products. In response to lower prices, milk production was reduced in all states except Queensland and New South Wales. The effect on farm receipts of lower milk prices and reduced production is estimated to have been partly offset by lower interest payments and reductions in other expenditure, particularly fodder and fertiliser, as farmers reduced production. Lower fodder prices in 2009–10 also assisted cost reductions but, overall, fodder expenditure remained high. Nationally, average farm cash income for dairy farms is estimated to have fallen to $50 000 in 2009–10, well below the average of $91 000 for the 10 years to 2008–09 (figure h).

In recent years, purchases of fodder have been particularly high in northern Victoria and southern New South Wales, where irrigation water allocations have been relatively low. However, in 2009–10 expenditure on fodder is estimated to have fallen in Victoria for a number of reasons, including reduced cow numbers and lower feeding intensity in response to lower milk prices. Further, seasonal conditions improved in many regions across the state, increasing on-farm feed production. Prices for fodder were also lower, reflecting increases in supplies of hay and feed grains.

In 2009–10, lower milk prices and continued relatively low allocations of irrigation water resulted in the number of cows expected to be milked for more than three months declining by 13 per cent in the northern Victoria and Riverina region. Overall, reduced expenditure on dairy cattle purchases, fodder, fertiliser and interest payments only partly offset the fall in receipts as a result of lower milk prices. Consequently, average farm cash income for Victorian dairy farms fell by around 69 per cent in 2009–10 to $18 000 a farm.

Performance of broadacre farms – Mallee region

Average farm cash incomes for broadacre farms in the Mallee region (map 2) have been above the Victorian average in most of the past 30 years, but have been highly variable (figure k). Grain farms dominate broadacre farm numbers in the Mallee region, which is evident from the cash receipts breakdown in figure j. The longer term trend in the region has been toward an increase in the area planted to grain crops each year and a reduction in sheep numbers.

In 2008–09, grain yields remained low because of continued dry seasonal conditions, which reduced overall crop production and, in combination with lower grain prices, led to a fall of around 40 per cent in grain receipts. Receipts from sheep, lambs and beef cattle were higher owing to stronger prices; however, they were unable to offset the lower crop and wool receipts. Despite an overall fall in cash costs, farm cash incomes fell, to average $57 300 a farm.

The Mallee region experienced improved seasonal conditions in 2009–10, resulting in increased wheat yields (figure i) and higher cash receipts for crops (figure j and table 3) despite lower prices. Despite higher sheep and lamb prices, cash receipts for sheep and lamb fell as a result of a decrease in the number of sheep and lambs sold, but receipts for wool increased because of higher wool prices. Overall, total cash receipts per farm in the Mallee region are estimated to have increased by around 11 per cent in 2009–10.

In 2009–10, total farm costs are estimated to have declined compared with 2008–09, mainly because of a reduction in expenditure on fodder as a result of better seasonal conditions.

Overall, the effect of higher cash receipts because of increased crop receipts and decreased fodder costs resulted in average farm cash income increasing to an estimated $96 000 a farm in the Mallee region in 2009–10.
Average wheat yield per hectare sown, Mallee broadacre farms

Total cash receipts, Mallee broadacre farms average per farm

s Provisional estimate.
Farm cash income, Mallee broadacre farms

average per farm

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<tbody>
<tr>
<td>Victoria</td>
<td>200</td>
<td>231</td>
<td>325</td>
</tr>
<tr>
<td>Mallee</td>
<td>400</td>
<td>280</td>
<td>245</td>
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Provisional estimate.

3 Financial performance, Victorian Mallee, broadacre industries

average per farm

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<thead>
<tr>
<th>Receipts</th>
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<tr>
<td>Crops</td>
<td>$325 240</td>
<td>$195 900</td>
<td>$231 000</td>
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<tr>
<td>Beef cattle sales</td>
<td>$8 110</td>
<td>$8 800</td>
<td>$9 000</td>
</tr>
<tr>
<td>Sheep and lambs</td>
<td>$30 450</td>
<td>$34 100</td>
<td>$28 000</td>
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<tr>
<td>Wool</td>
<td>$11 990</td>
<td>$5 300</td>
<td>$11 000</td>
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<td>Total cash receipts</td>
<td>$432 700</td>
<td>$281 900</td>
<td>$312 000</td>
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<td>Sheep and lamb purchases</td>
<td>$6 280</td>
<td>$8 500</td>
<td>$9 000</td>
</tr>
<tr>
<td>Beef cattle purchases</td>
<td>$500</td>
<td>$500</td>
<td>$3 000</td>
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<tr>
<td>Fodder</td>
<td>$1 600</td>
<td>$4 500</td>
<td>$2 000</td>
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<td>Fertiliser</td>
<td>$53 330</td>
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<td>$29 000</td>
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<td>Sprays</td>
<td>$47 140</td>
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<tr>
<td>Fuel, oil and lubricants</td>
<td>$35 980</td>
<td>$25 700</td>
<td>$26 000</td>
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<td>Repairs and maintenance</td>
<td>$22 450</td>
<td>$20 700</td>
<td>$17 000</td>
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<td>Interest payments</td>
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<td>$18 200</td>
<td>$18 000</td>
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<tr>
<td>Hired labour</td>
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<td>$3700</td>
<td>$4 000</td>
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<tr>
<td>Total cash costs</td>
<td>$280 850</td>
<td>$224 600</td>
<td>$216 000</td>
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Financial performance

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<th>2008–09 p</th>
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<tbody>
<tr>
<td>Farm cash income</td>
<td>$151 860</td>
<td>$57 300</td>
<td>$96 000</td>
</tr>
<tr>
<td>Farms with negative farm cash income</td>
<td>9%</td>
<td>18%</td>
<td>15%</td>
</tr>
<tr>
<td>Farm business profit</td>
<td>$45 590</td>
<td>$20 100</td>
<td>3,000</td>
</tr>
<tr>
<td>Farms with negative farm business profit</td>
<td>48%</td>
<td>69%</td>
<td>53%</td>
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Rate of return

- excluding capital appreciation
  - including capital appreciation

Farm capital, debt and equity

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<th>2007–08</th>
<th>2008–09 p</th>
<th>2009–10 s</th>
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<tbody>
<tr>
<td>Farm capital at 30 June a</td>
<td>$2 783 020</td>
<td>$2 457 000</td>
<td>$800 000</td>
</tr>
<tr>
<td>Farm debt at 30 June bc</td>
<td>$313 670</td>
<td>$260 300</td>
<td>$260 000</td>
</tr>
<tr>
<td>Change in debt - 1 July to 30 June b</td>
<td>3%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Equity ratio at 30 June bd</td>
<td>89%</td>
<td>89%</td>
<td>89%</td>
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</tbody>
</table>

Excludes leased plant and equipment. Average per responding farm. Harvest loans are not included in farm debt. Equity expressed as a percentage of farm capital. Preliminary estimates. Provisional estimates. Not available. Note: Figures in parentheses are standard errors expressed as a percentage of the estimate provided.
Outlook for selected commodities

ABARE–BRS’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 summaries presented here for a number of the commodities important for this region are primarily based on information in the June 2010 issue of *Australian commodities*. The next edition of *Australian commodities* is scheduled for release on 21 September 2010.

Crops

**Wheat**

In the first half of 2010, the combined effect of large world wheat stocks and an expected large winter harvest in the northern hemisphere placed considerable downward pressure on world wheat prices. The world wheat indicator price averaged around US$200 a tonne in the six months ended June 2010, compared with an average of US$209 a tonne for 2009–10 as a whole.

However, in July the world wheat indicator price rose by 19 per cent from its average in June, to around US$215 a tonne. This was in response to emerging drought conditions in parts of Kazakhstan, the Russian Federation and Ukraine that are expected to have an adverse impact on wheat production in these areas. Inclement weather in Canada that prevented many growers from fulfilling their planting intentions for spring wheat also supported the wheat price rise.

The world wheat indicator price has risen further since early August, averaging more than US$265 a tonne in the first two weeks of August. In response to the worsening outlook for domestic wheat production, the Russian Federation has officially placed a ban on the export of grain and grain products, effective from 15 August 2010 until the end of 2010. The Russian Federation is an important exporter in the world grains market as outlined in box 2.

In June, ABARE forecast world wheat production to decline by 3 per cent to 658 million tonnes in 2010–11. World closing stocks of wheat were forecast to rise by 3 per cent to 202 million tonnes and the world stocks-to-use ratio to reach 31 per cent in 2010–11, 1 percentage point higher than in 2009–10. However, recent adverse weather events in the northern hemisphere are expected to cause these forecasts to be revised down in the September edition of *Australian commodities*.

World wheat consumption is forecast to increase by 1 per cent to 652 million tonnes in 2010–11. 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. In general, consumption of wheat tends to be less responsive to movements in world prices.

Turning to Australia, 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, leading to a significant improvement in soil moisture in many cropping regions. Rainfall for Victoria in July was below average but soil moisture remains adequate. The drier conditions allowed the completion of planting programs in the state.

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 in 2009–10. Under the assumption that yields will return to 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 Victoria is forecast to decline by 5 per cent to just under 1.5 million hectares. Assuming yields return to the 10-year average, production in Victoria is forecast to decline by 21 per cent to 2.5 million tonnes, compared with the 3.2 million tonnes produced last season.

The favourable autumn seasonal conditions have created conditions conducive to a significant locust problem in 2010. Swarms in autumn destroyed some early sown crops. Although most of these crops were replanted, there is a high probability that extensive autumn egg laying will produce a high-density nymphal generation in south-eastern Australia during spring.

The Australian Plague Locust Commission (APLC) provides forecasts for the hatching, mid-instar and fledging stages of the Australian plague locust for next spring (www.daff.gov.au/animal-plant-health/locusts). In general, hatching and fledging occur earlier in regions located further north. In their latest update (August 2010), the APLC forecasts hatchings in Victoria to occur from late September to late October and fledging to occur from late October to late November.

Locusts present a significant downside risk to the production forecasts. 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.

Coarse grains
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). Global corn ending stocks are forecast to increase by 2 per cent to 147 million tonnes in 2010–11.

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.

Since the onset of drought conditions in the Russian Federation, the French feed barley price (Rouen) has increased substantially. The French feed barley price averaged US$132 a tonne in June, before rising in July to an average of US$168 a tonne for the month. In early August, the feed barley price was around US$260 a tonne.

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.

In Australia the area planted to coarse grains in 2010–11 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 area planted to barley in Victoria is forecast to follow the national trend and decline by 9 per cent to 853 000 hectares, reflecting the lower relative returns to barley.

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. Following this trend, barley production in Victoria is forecast to decline by 23 per cent to 1.5 million tonnes, reflecting a return to 10-year average yields and the lower planted area.
box 2  Russian wheat and barley exports

Wheat
Over the past several years, the Russian Federation has increased its share of world wheat trade from an average of 6 per cent between 2000–01 and 2004–05 to a recent high of 18 per cent in 2008–09.
In 2009–10, the Russian Federation was the world’s fourth largest wheat exporter behind the United States, the European Union, and Canada. Australia was ranked fifth. Exports from the Russian Federation in 2009–10 were around 18 million tonnes and accounted for 17 per cent of world trade (figure i).

Barley
Similar to wheat, the Russian Federation’s share of world barley trade has risen over the past few years. Between 2004–05 and 2006–07, the Russian Federation accounted for around 9 per cent of world barley trade. This increased to around 18 per cent between 2008–09 and 2009–10.
The Russian Federation was the third largest exporter of barley in 2009–10, behind Ukraine and Australia. Export volumes last season were around 2.6 million tonnes, accounting for around 16 per cent of world trade (figure m).
Most of the barley exported from the Russian Federation is feed grade, rather than malting quality. Australia, Canada and the European Union remain the major exporters of malting barley.
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 forecast falls in soybean and canola production of around 3 per cent and 1 per cent to 250 million tonnes and 59 million tonnes, respectively, in 2010–11.

In Canada, recent unfavourable seasonal conditions that affected wheat and coarse grains plantings are likely to adversely affect canola production and exports. Canada is the world’s largest exporter of canola. According to Statistics Canada, around 20 per cent of intended canola area in Canada was not planted because of the substantially wet conditions.

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 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.

End of season world oilseed stocks are forecast to increase to 77 million tonnes in 2010–11. Tightening supplies of canola/rapeseed and cottonseed are expected to be 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.

The area sown to canola in Australia is forecast to increase by 16 per cent to around 1.6 million hectares in 2010–11. This is driven by good autumn rainfall in the eastern states combined with a favourable price outlook for canola relative to wheat and barley.

Following a favourable start to the season, Victoria is estimated to have increased canola plantings by around 12 per cent to 262 000 hectares. Production in Victoria is forecast to be 21 per cent lower than last season, at 317 000 tonnes, assuming 10-year average yields.

Wine and wine grapes

Australian wine grape prices averaged $464 a tonne in 2009–10, 12 per cent lower than 2008–09. 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 and is expected to lead to a slight increase in Australian wine grape prices next year. However, the
continuing 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.

Australian wine grape production is forecast to be around 1.6 million tonnes in 2009–10, 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. This 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.

Swan Hill falls within the Geographical Indications (GI) zone of Murray–Darling – Swan Hill, which covers an area that extends broadly along the western range of the New South Wales – Victoria border. The Murray–Darling – Swan Hill GI zone produces nearly one-quarter of Australia’s wine grapes. Almost two-thirds of wine grape production in this GI zone is made up of three varieties: chardonnay (33 per cent), shiraz (16 per cent) and cabernet sauvignon (12 per cent).

Leading up to the 2010 vintage, summer rains in the Murray–Darling – Swan Hill GI zone 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 Murray–Darling – Swan Hill zone in 2010 is estimated to be 332 000 tonnes, down 18 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 nearly 20 per cent lower than the long-term average. While yields of all varieties in the region were affected, chardonnay, colombard, merlot and cabernet sauvignon 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. In 2009–10, around 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 reflects the forecast increase in production and 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 2009–10, 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. In the March quarter of 2010, total Australian cattle slaughter was 4 per cent lower year on year, with cattle slaughter in Queensland and New South Wales both down by 1 per cent, and Victoria by 15 per cent. The sharp fall in slaughter rates in Victoria reflects the change from the very dry conditions that drove destocking between 2005–06 and 2008–09.

Assuming continued favourable seasonal conditions, reduced turn-off, particularly in Victoria and southern New South Wales, is expected to drive a 2 per cent fall in Australian slaughter to 8.4 million head in 2010–11. National 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 beef production is likely to be offset somewhat by higher carcass weights.

The decline in Australian beef production 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 of 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.

Australian beef exports to 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 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. Assumed economic recovery in 2010–11 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. 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 28 per cent year on year in the 11 months to May 2010.
Live cattle exports from Australia are forecast to decline by 6 per cent to around 850,000 head in 2010–11, driven by a reduction in live cattle numbers exported to Indonesia, Australia’s largest live cattle market. This is a result of the Indonesian authorities applying a maximum weight limit on imports of feeder cattle. Since these forecasts were prepared in June, Indonesia has further restricted cattle imports, which may present an additional downside risk to these forecasts.

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 low 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. The Australian dollar depreciated significantly from US93c in mid-April to US83c in early June, but by late July, had appreciated again to US90c. There is a distinct possibility that the Australian dollar will remain strong during 2010–11 as financial market confidence in the world economic outlook improves, especially in relation to 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 expected to remain roughly constant in 2010–11, while average wool cut per head is forecast to increase, assuming favourable seasonal conditions prevail.

Growth in the consumption of wool apparel 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 June 2010, while domestic consumption of garments and footwear increased by around 24 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. This 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 for the period July to May in 2009–10. Despite this, exports to China increased year on year by 5 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 $2.3 billion, 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.

Despite a year on year decline of 4.7 per cent in lamb slaughter for the period July 2009 to May 2010, relatively high slaughter rates are expected to have resulted 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. For the first 11 months of 2009–10, lamb slaughter in New South Wales increased by 2 per cent year on year, while in Victoria slaughter decreased year on year by 6 per cent. This compares with a fall of 5 per cent across Australia as a whole for this period.

Sheep slaughter is forecast to fall by 1 per cent in 2010–11 to less than 8.6 million head, after having fallen an estimated 23 per cent in 2009–10. These declines reflect the relatively high returns to lamb production as well as the improved seasonal conditions in south-eastern Australia in 2009–10 and assumed continued favourable conditions in 2010–11. These factors are expected to encourage producers to increase breeding stock and reduce sheep slaughter to maintain or increase future lamb production.

Export volumes of sheep meat are forecast to be lower in 2010–11, but are expected to be offset by high export prices. The total volume of Australian sheep meat exports is forecast to fall by around 8 per cent to 250 kilotonnes, but export prices are expected to increase as demand for Australian sheep meat continues to grow. The total value of sheep meat exports is forecast to fall only slightly, 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 around 34 kilotonnes. The United States is expected to continue to be the destination for around 24 per cent of Australian lamb exports. According to the United States Department of Agriculture (USDA), the production of US domestic sheep meat and imports are expected to decrease in 2010–11. 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.

Dairy

World prices for most dairy products are forecast to average slightly higher in 2010–11 compared with 2009–10. Although global demand is forecast to rise in response to world economic recovery, especially in the United States and emerging Asian economies, the effect on prices is likely to be largely offset by increased supplies.
in the major producing and exporting countries. However, any unexpected changes in either the supply of, or demand for, dairy products on world markets could result in significant price volatility during 2010–11.

World prices for milk powders and cheese are forecast to increase by around 4 per cent and 3 per cent, respectively, in 2010–11. Butter prices are forecast to be marginally lower.

Despite a relatively slow start to the 2010–11 milk marketing year because of cool spring conditions, milk output in the European Union is forecast to increase slightly. US milk production is forecast to increase by around 1.5 per cent in 2011, as a result of higher expected milk yields. In New Zealand, a return to average seasonal conditions, together with further herd rebuilding, is expected to lead to milk production increasing in 2010–11.

World trade in milk powders is expected to be sustained by further demand from ASEAN, North Africa and China. While ASEAN imports of milk powders declined slightly in 2009, continued income growth in the region is expected to lead to increased demand for dairy products. Algeria is forecast to increase its imports of milk powders in the short term in response to growing demand, despite an expected increase in domestic milk supplies.

Reflecting a continued recovery in demand for dairy exports, the Australian farm-gate price for milk is forecast to rise by more than 4 per cent to around 37.5 cents a litre in 2010–11. Opening milk prices are estimated to average 34.3 cents a litre for the 2010–11 season in Victoria, representing a 27 per cent increase on the opening milk price for 2009–10.

The prospects for Australian milk production in 2010–11 have improved in response to the presence of more favourable seasonal conditions in most dairying regions, improved water allocations in the main irrigation areas and lowered fodder costs. Overall, Australian milk production is forecast to increase by around 1.5 per cent to 9150 million litres.

Since the early 2000s, milk production in northern Victoria has declined significantly. This reflects the reduced availability of irrigation water that has resulted from below average seasonal conditions. Milk production is northern Victoria, which accounts for just under 30 per cent of the state’s production, is estimated to be 1674 million litres in 2009–10. The prospect of increased water allocations is expected to lead to higher milk production in northern Victoria in 2010–11.
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