Commodity outlook and financial performance of key agricultural industries in the South Eastern Victoria

Therese Thompson, Peter Martin, Surya Dharma and ABARES commodity analysts

This paper presents the current ABARES commodities outlook and the recent financial performance of a number of key agricultural industries in Victoria. In particular, farm survey results on the performance of broadacre beef, sheep, grain and dairy farms in Victoria are compared with the national performance. Financial performance of broadacre farms in South Eastern Victoria is also outlined.

The agricultural sector profile for South Eastern Victoria covered in the opening section of this paper is based on Australian Bureau of Statistics (ABS) data for the region that contains Melbourne and the regional centres of Warragul, Lakes Entrance, Bairnsdale, Sale, Traralgon, Moe and Wonthaggi (map 1). The analysis of regional employment, together with broadacre and dairy farm performance presented later in the paper, is drawn from the same area but excludes Greater Melbourne.
Value of agricultural production

The gross value of agricultural production in South Eastern Victoria was around $2.9 billion in 2008–09, accounting for 29 per cent of Victoria’s total value of agricultural production. This is the most recent year for which ABS data are available for the region.

South Eastern Victoria’s agricultural production was dominated by dairy production. Milk was the most important agricultural product, accounting for 33 per cent ($962 million) of the total value of agricultural production (figure 1). Vegetables accounted for 15 per cent ($438 million) of the total value of agricultural production, while poultry and beef cattle each contributed a further 14 per cent ($415 million and $394 million, respectively).

Number and type of farms

In 2008–09, there were 7297 farms in South Eastern Victoria with an estimated value of agricultural operations of more than $5000 according to ABS data (table 1). The region accounts for one-quarter of all farms in Victoria.

Farms are classified in table 1 according to the activities that generate the largest proportion of the value of production of the farm business. In South Eastern Victoria, the most common farm type in 2008–09 was beef cattle farms, which accounted for 45 per cent of farms, followed by dairy farms, which accounted for one-quarter of farms.
1 Number of farms, by industry classification a, 2008–09

<table>
<thead>
<tr>
<th>Industry Classification</th>
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</tr>
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<tbody>
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<td></td>
<td>no.</td>
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<td>Vegetable</td>
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<td>Sheep–beef</td>
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<td>Horse</td>
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<td>Poultry</td>
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<td>All agricultural industries</td>
<td>7 297</td>
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a Where the estimated value of agricultural operations is more than $5000.  
Source: ABS

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 59 per cent of farms in South Eastern Victoria had an EVAO of less than $150 000 (figure 2). These farms accounted for an estimated 10 per cent of the total value of agricultural operations in 2008–09. In comparison, 15 per cent of farms in the region had an EVAO of more than $500 000, and these farms accounted for an estimated 62 per cent of the total value of agricultural operations in 2008–09.

2 Distribution of farms by estimated value of agricultural operations, South Eastern Victoria, 2008–09

Source: ABS
Employment

ABS data for February 2011 indicate that around 146,000 people were employed in South Eastern Victoria (excluding Melbourne). The agriculture, forestry and fishing industry employed the largest number of people, with approximately 15 per cent (22,000 people) of the total labour force (figure 3). The retail trade industry and construction industry each accounted for 12 per cent (18,000 people) and the health care and social assistance industry accounted for 11 per cent of the total labour force (16,000 people).

3 Employment profile, South Eastern Victoria (excluding Melbourne), February 2011

Source: ABS

Farm financial performance – Australia and Victoria

Each year, ABARES interviews Australian broadacre and dairy producers as part of its annual survey program. Broadacre industries covered in this survey include the grains, grains–livestock, 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 the ABARES Australian agricultural and grazing industries survey (AAGIS) and Australian dairy industry survey (ADIS) to provide estimates of financial performance indicators (box 1) for farms in Australia, the state of Victoria and South Eastern Victoria. Financial performance is analysed for the main industries operating in South Eastern Victoria.
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.

**Profit at full equity**: farm business profit + rent + interest + finance lease payments – depreciation on leased items

**Rate of return**: return to all capital used

\[
\text{Rate of return} = \frac{\text{profit at full equity}}{\text{total opening capital}} \times 100
\]

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**Broadacre farm performance – Australia and Victoria**

Nationally, average farm cash income for broadacre farms declined from $75,980 in 2008–09 to $58,900 in 2009–10 and is projected to increase to $82,000 in 2010–11 (table 2), which is around 5 per cent above the average for the 10 years to 2009–10 of $79,000 (in real terms) (figure 4, table 2). Increased grain, oilseed and pulse production in the eastern states, combined with higher grain, livestock and wool prices, is projected to outweigh the effect of grain quality downgrades and increased farm costs to meet higher crop production expenses, repairs and interest payments.

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**Real farm cash income, broadacre industries**

average per farm

Vic. O. 2010–11 $'000

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<tr>
<td>2009–10</td>
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Victorian broadacre farm cash incomes are projected to increase to average $63,000 a farm in 2010–11 (table 2, figure 4), which is around 3 per cent above the average farm cash income recorded for the 10 years to 2009–10. The rise in farm cash income is driven mainly by a large increase in grain, oilseed and pulse receipts resulting from increased production, together with increases in sheep and lamb, beef cattle and wool receipts resulting mainly from higher prices.
Farm cash costs are projected to rise by around 10 per cent, reflecting the increased costs of harvesting and marketing the larger winter crop together with higher interest payments, increased expenditure on herbicides and pesticides, higher labour costs and increased expenditure on repairs and maintenance.
Performance of beef industry farms – Australia and Victoria

Farm cash incomes for Australian beef industry farms fell to an average of $35,700 a farm in 2009–10 (figure 5). Beef cattle turn-off slowed and herd numbers increased in central and northern Australian regions in 2009–10 in line with improved seasonal conditions in these regions. Lower beef cattle turn-off, in combination with a reduction in prices received for cattle sold, resulted in average total cash receipts for Australian beef industry farms falling by around 8 per cent. Although producers continued to purchase cattle, average total cash costs fell because of significant reductions in fodder expenditure and slightly lower interest payments.

Similar to the national situation, cash receipts for Victorian beef cattle farms declined despite improved seasonal conditions across most of Victoria in 2009–10. A reduction in the number of beef cattle sold as farmers commenced herd rebuilding, combined with a decline in prices received, resulted in a fall in receipts from the sale of beef. 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 reduction in farm costs did not offset the fall in cash receipts and resulted in average cash incomes for Victorian beef cattle farms declining slightly to an estimated $19,200 a farm in 2009–10 (figure 5).

In 2010–11, farm cash income for the beef industry nationally is forecast to be reduced further to average $33,000 a farm. This is around 45 per cent below the average farm cash income for the previous 10 years (figure 5). However, an increase in beef cattle numbers is projected to boost the value of on-farm inventories and result in a small improvement in farm business profit and rate of return in 2010–11.
Similarly, farm cash income for beef industry farms in Victoria is projected to decline to average $6000 a farm in 2010–11. Farm cash costs are expected to be higher as a result of increased expenditure on maintenance and repairs, interest payments and fertiliser, while farm cash receipts are projected to fall slightly. However, farm business profit is expected to improve modestly as reduced turn-off, increased cattle purchases and higher branding rates are projected to result in an increase in cattle numbers, raising the value of on-farm inventories.

Performance of sheep industry farms – Australia and Victoria

Average farm cash incomes for the Australian sheep industry in 2009–10 increased because of a substantial increase in lamb and sheep receipts resulting from higher saleyard prices, together with an increase in wool prices (figure 6).

The situation in Victoria in 2009–10 was similar. The above average rainfall received in late summer improved grazing conditions and encouraged many farmers to hold onto stock and to rebuild sheep flocks. Higher saleyard prices for sheep and lambs, as well as higher prices for wool, resulted in an increase in total cash receipts. Improved seasonal conditions resulted in reduced fodder expenditure and, together with lower interest payments, lowered total cash costs. Farm cash income for sheep industry farms in Victoria increased to an average of $50 500 a farm in 2009–10 (figure 6).

<table>
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Provisional estimate.

In 2010–11, farm cash income for Australian sheep industry farms is projected to increase further to average $80 000 a farm (figure 6), which is around 75 per cent above the average for the past 10 years. If achieved, this would be the highest farm cash income for the sheep industry (in real terms) since 1989–90.
This increase is mainly a result of improved cash receipts because of higher saleyard prices for lamb and sheep, together with higher wool prices. Total cash receipts are projected to increase by around 12 per cent, while total cash costs are projected to increase by only around 5 per cent, due mainly to higher interest, labour and repairs expenditure.

In Victoria, well above average rainfall in 2010–11 resulted in abundant pasture growth and has encouraged farmers to build flock numbers. Excess pasture has created strong demand for lamb and sheep from restockers and has led to high saleyard prices. A small increase in the number of sheep sold, together with higher saleyard prices, is expected to result in a rise in sheep and lamb receipts. In addition, for Victorian sheep industry farms, the increase in farm cash receipts is expected to be boosted by increased wool receipts. Overall, farm cash income is expected to rise to $61 000 a farm for Victorian sheep industry farms in 2010–11.

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—fell in 2009–10 compared with 2008–09 (figure 7). This decrease was the result of lower grain and oilseed prices, together with reduced crop production in New South Wales and Queensland and higher expenditure on labour, crop chemicals, repairs and interest payments.

In contrast, average farm cash income for Victorian grains industry farms is estimated to have increased slightly in 2009–10, to around $68 300 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 lower grain prices and resulted in higher crop receipts. Receipts for Victorian grain farms were also boosted by an increase in receipts from the sale of sheep and lambs because of higher saleyard prices. While farm cash costs rose, mainly as a result of increased expenditure on livestock purchases and chemicals, this was more than offset by an increase in farm cash receipts.

In 2010–11, farm cash income for grains industry farms at the national level is projected to average $121 000 a farm, which is around 15 per cent above the industry average for the previous 10 years, when many farms were affected by drought. Grains industry farms are projected to record the highest rates of return, on average, among the surveyed industries in 2009–10, although there is substantial variation across the states.

Similarly, average farm cash income for Victorian grain producing farms is forecast to increase to around $111 000 a farm in 2010–11 (figure 7). Large increases in grain and oilseed production in Victoria, combined with higher grain and oilseed prices, are projected to result in average farm cash receipts rising by 22 per cent. It is estimated that around 50 per cent of wheat and barley production in Victoria was downgraded to feed quality as a result of high rainfall in the lead-up to and during the harvest period. Some areas of crop were also lost because of flooding. Despite losses and downgrading of quality, receipts from damaged crops were better than expected because of both higher yields and higher grain prices.
Nationally, average farm cash income for dairy farms declined in 2009–10 to $77 300 a farm (table 3, figure 8). Farm cash incomes for dairy farms in southern dairying regions of Victoria, Tasmania, South Australia and southern New South Wales fell sharply in 2009–10 as milk prices were reduced in regions that produce mainly manufacturing milk. The effect of lower prices in these regions was compounded by increases in expenditure on purchased fodder, caused by drought and low allocations of irrigation water, particularly in the southern Murray–Darling Basin. Average milk prices received were maintained in northern New South Wales and Queensland, but declined slightly in Western Australia in 2009–10. Farm cash income averaged $77 300 in 2009–10, around 13 per cent lower than the average for the previous 10 years.

In Victoria, lower average milk prices received and lower production in 2009–10 resulted in a reduction in total cash receipts. Reductions in farm cash costs, particularly expenditure on fodder, dairy cattle purchases, and repairs and maintenance, were not sufficient to offset the lower receipts from milk. Farm cash income fell to average $51 400 a farm in 2009–10 (table 3, figure 8).

Nationally, average farm cash income for dairy farms is projected to increase to $100 000 a farm in 2010–11 (table 3, figure 8), which is around 9 per cent above the average for the 10 years to 2009–10 of $91 000. Higher prices paid for milk used for manufactured dairy products, combined with increased milk production and a reduction in expenditure on fodder resulting from improved pasture growth and increased availability of irrigation water, are expected to favourably affect dairy farm incomes in southern Australia. In contrast, in northern dairying regions in Queensland and northern New South Wales lower milk prices are expected to result in a reduction in average farm cash incomes in 2010–11.
Overall, the financial performance of Victorian dairy farms is projected to improve in 2010–11. Slightly higher milk prices and increased production are forecast to result in higher milk receipts. Total cash costs are forecast to be lower relative to 2009–10 as improved seasonal conditions are expected to reduce expenditure on purchased fodder and irrigation water, and offset increased interest expenditure (table 3). Farm cash income is projected to increase to average $92 000 a farm in 2010–11.
The high proportion of small beef cattle farms in South Eastern Victoria means that average farm cash income for broadacre farms in this region are generally much lower than for Victoria as a whole (figure 9). Over the past decade, receipts from the sale of beef cattle have accounted for around 70 per cent of the total cash receipts for broadacre farms in the region (figure 10).

In 2009–10, total cash receipts for South Eastern Victorian broadacre farms fell by almost a quarter from the previous year. After several years of extremely dry seasonal conditions, conditions eased slightly in 2009–10. Producers held onto stock to rebuild beef cattle herd and flock numbers. Although saleyard prices for beef cattle and sheep were high in 2009–10, lower turn-off of beef cattle and sheep sold resulted in a large fall in livestock receipts. Despite a reduction in farm cash costs, farm cash income decreased to $20 700 a farm. However, at the same time the increase in the number of sheep and beef cattle on farms led to a rise in the value of on-farm inventories and resulted in a reduction in average farm business loss (table 4).

In 2010–11, total cash receipts for the region are projected to decrease by around 8 per cent. An increase in receipts from the sale of sheep and lambs is projected as a result of higher saleyard prices and a larger number of sheep sold. Wool receipts are also projected to increase in line with higher expected production and an increase in prices received. However, a reduction in the number of beef cattle sold as producers continue to build herd numbers is expected to result in lower receipts from the sale of beef cattle, and to offset the effect of the increase in sheep, lamb and wool receipts.
Total cash costs are projected to increase by 11 per cent in 2010–11 compared with 2009–10. Despite an expected reduction in expenditure on fodder and beef cattle purchases, higher repairs and maintenance costs, together with increased interest payments, are expected to result in a rise in total cash costs (table 4).

Overall, for South Eastern Victorian broadacre farms, increases in average farm cash costs, combined with decreases in average farm cash receipts, are expected to result in farm cash incomes declining to $5000 a farm in 2010–11 (figure 9).
Historically, average farm cash income for dairy farms in South Eastern Victoria has been below the average for Victoria as a whole (figure 11). However, for each of the past four years it has exceeded the Victorian average. In part, this is because during this period severe drought and reduced availability of irrigation water in northern Victorian dairying regions reduced average farm cash income for dairy farms in Victoria as a whole.
In 2009–10, average farm cash income remained relatively unchanged in South Eastern Victoria compared with 2008–09 (figure 11, table 5). Seasonal conditions improved in 2009–10 with increased rainfall, but milk prices were lower than in 2008–09. Dairy farmers in South Eastern Victoria responded to the lower prices by slightly reducing the number of cows milked. Lower milk receipts were, however, mostly offset by reduced expenditure on fodder, repairs and maintenance and interest payments, resulting in little change in average farm cash income.

In 2010–11, average farm cash income for dairy farms is projected to rise in South Eastern Victoria in response to higher prices received for manufacturing milk. Milk production is expected to increase, while improved pasture growth is expected to contain farm cash costs (figure 11, table 5).

11 Real farm cash income, dairy industry
average per farm

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<tr>
<th>Year</th>
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<tr>
<td>2010–11</td>
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</table>

z Provisional estimate.
Outlook for selected commodities

**Wheat**

Following a rise of 52 per cent to US$318 a tonne in 2010–11, the world wheat indicator price (US hard red winter, fob Gulf) is forecast to average around US$310 a tonne in 2011–12, reflecting an expected increase in world export supplies. The forecast increase in wheat exports is expected to come primarily from the Black Sea region. World wheat prices are expected to remain at relatively high levels in the short term because of lower stocks of coarse grains (a close substitute in feed) and reduced supplies of milling wheat following quality downgrades to the 2010–11 production in Canada and Australia.

World production is forecast to increase by 3 per cent in 2011–12 to around 669 million tonnes on the assumption of improved seasonal conditions in the Black Sea region more than offsetting dry conditions in parts of the United States and European Union. The total world wheat area to be harvested is forecast to increase by 2 per cent to 224 million hectares.
World wheat consumption is forecast to increase by 1 per cent in 2011–12 to around 668 million tonnes. World food use is forecast to increase marginally in 2011–12 to around 458 million tonnes, driven by population growth. World feed use is forecast to increase by 4 per cent in 2011–12 to around 121 million tonnes, with a higher corn-to-wheat price ratio encouraging the substitution of wheat for corn.

World closing stocks of wheat are forecast to increase by 1 per cent to around 187 million tonnes and the stocks-to-use ratio for wheat is forecast to remain almost unchanged in 2011–12 at around 28 per cent. Stocks in the major exporting countries are forecast to rise by around 2 per cent. In particular, closing stocks are forecast to increase in the Black Sea region, following the forecast rebound in wheat production.

Australian wheat production is forecast to fall by 1 per cent in 2011–12 to around 26.2 million tonnes, following a significant rise of 21 per cent to 26.3 million tonnes in 2010–11. In Victoria, the area planted to wheat is forecast to increase by 12 per cent to around 1.7 million hectares. However, wheat production is forecast to decline by 25 per cent to 3.1 million tonnes in 2011-12, after last season's record yields. High mouse populations have been observed in many parts of the state but the full extent of any damage to plantings will not be known until all crops have emerged from the soil.

Australian wheat exports are forecast to rise by 9 per cent in 2011–12 to 19.8 million tonnes, reflecting forecast large opening stocks and high production.

### World wheat, corn and soybean indicator prices

![Graph of world wheat, corn and soybean indicator prices](image)

Coarse grains

The world coarse grains indicator price (US corn, fob Gulf ports) is forecast to average US$251 a tonne in 2011–12, 7 per cent lower than in 2010–11. The world barley indicator price (French Rouen feed barley) is also forecast to average 7 per cent lower in 2011–12, at US$260
a tonne. A forecast recovery in global coarse grains supplies and the expected resumption of
exports from the Black Sea region are the main factors underpinning the forecast price decline.

World coarse grains production is forecast to increase by 5 per cent in 2011–12 to 1.1 billion tonnes. Barley production is forecast to recover modestly after a significant decline in 2010–11, while corn production is forecast to reach a new record.

World consumption of coarse grains is forecast to rise by 1 per cent in 2011–12 to 1.1 billion tonnes. Relatively high prices are expected to moderate growth in the use of coarse grains for feed and industrial purposes.

In Australia, the area planted to barley is forecast to rise marginally by 1 per cent in 2011–12 to 4.1 million hectares. Yields in the eastern states are forecast to be above average in 2011–12 but lower than the record yields achieved in 2010–11. In Western Australia, yields are forecast to be above those achieved in the very dry 2010–11 season, assuming climatic conditions return to more favourable patterns. Australian barley production is forecast to decrease by 13 per cent in 2011–12 to 8.1 million tonnes.

Barley plantings in Victoria are forecast to remain largely unchanged in 2011–12 at around 850 000 hectares. Assuming yields are above average but below last year’s record, barley production in Victoria is forecast to be 1.8 million tonnes, 28 per cent lower than in 2010–11.

In line with forecast lower world prices, Australian barley prices are expected to average lower in 2011–12, with the feed barley price forecast to fall by 15 per cent to $185 a tonne and the malting barley price forecast to fall by 5 per cent to $245 a tonne.

**Oilseeds**

The world oilseeds indicator price (soybeans, cif Rotterdam) is forecast to average around US$560 a tonne in 2011–12, slightly higher than the estimated average for 2010–11 (US$549 a tonne). In contrast to soybeans, the world canola indicator price (cif Hamburg) is forecast to decline by 3 per cent in 2011–12 to US$632 a tonne, reflecting the effect of a forecast increase in exports from Canada.

World oilseed production is forecast to increase by 4 per cent in 2011–12 to a record 465 million tonnes, with the most significant increase (in absolute volume terms) forecast for canola, followed by sunflower and soybean.

World oilseed consumption is forecast to rise by 2 per cent in 2011–12 to around 461 million tonnes. Higher vegetable oil prices have supported crush margins, with world oilseed crush in 2011–12 forecast to increase by 2 per cent to around 393 million tonnes. Higher oilseed crush margins have encouraged investment in new crushing infrastructure, especially in China and Latin America.

World vegetable oil consumption is forecast to increase by 1 per cent in 2011–12 to a record 151 million tonnes. Human consumption of vegetable oil is forecast to increase by 2 per cent to 17 kilograms a person, driven by income growth and diversifying diets, especially in Asia and
Latin America. Industrial use of vegetable oil is forecast to rise by 1 million tonnes to around 34 million tonnes. World protein meal consumption is forecast to increase by 2 per cent in 2011–12 to around 263 million tonnes.

The total area sown to canola in Australia is forecast to increase by 4 per cent in 2011–12 to around 1.7 million hectares. The forecast increase reflects current favourable canola prices and improved soil moisture profiles in most cropping regions in the eastern states. Assuming yields will be slightly above average; Australian canola production is forecast to increase by 6 per cent to around 2.3 million tonnes.

In Victoria, the area planted to canola is forecast to increase by 34 per cent to a record 350 000 hectares in 2011–12. High mouse populations have been observed in many parts of the state and canola seeds are more susceptible than other grains to mouse-related losses because of their earlier and shallower sowing. Some land initially sown to canola has had to be resown to other crops because of mice damage. Canola production is forecast to fall by 2 per cent to 500 000 tonnes, reflecting a lower assumed yield compared with last season’s record yield.

**Horticulture (excluding wine grapes)**

The gross value of the Australian horticulture industry (excluding wine grapes) is forecast to increase by 6 per cent in 2011–12 to $9.34 billion. This growth largely reflects improved availability of irrigation water and an assumed return to more favourable seasonal conditions following the heavy rains, cyclones and floods during 2010–11.

The Australian horticulture industry has been steadily growing over the past 20 years, with the gross value of Australian vegetable production (in constant 2010–11 dollar terms) increasing at an average annual rate of 2.6 per cent since 1990–91. At the same time, the gross value of fruit and nut production has risen by an annual average of 2.2 per cent. These rates compare favourably with the average annual growth rate of 0.6 per cent for the non-horticulture part of the Australian farm sector.

The south-eastern region of Victoria is a major producer of a range of vegetables, particularly mushrooms and potatoes, and of apples, berry fruit and cherries, accounting for more than 10 per cent of the total value of Australian horticulture (excluding wine grapes) in 2008–09. There is also a major nursery, cut flower and cultivated turf industry in the region, with a 17 per cent share of the gross value of Australian production of these products in 2008–09.

Fruit and vegetable prices were relatively high in Australia in early 2011, mainly reflecting heavy rain and flood damage in eastern Australia, northern Tasmania and the Gascoyne region of Western Australia. Production is expected to increase in 2011–12 as a result of an assumed return to more favourable seasonal conditions and improved availability of irrigation water.
Wine grapes

The Australian wine industry is expected to continue to face strong competition in domestic and export markets. Consequently, wine grape prices are expected to remain subdued.

In 2009–10, prices once again reflected strong export competition and weak global demand for wine. Data from Wine Australia indicate that the average price of wine grapes fell by 12 per cent to $464 a tonne.

Australian wine grape production is estimated to be slightly lower in 2010–11 than in 2009–10, at 1.5 million tonnes. While many regions experienced favourable growing conditions, leading to larger berry size, damp humid conditions resulted in increased outbreaks of disease (such as downy and powdery mildew) in both the warm and cool regions. Some regions also reported the presence of botrytis, which resulted in further losses during harvest.

In Victoria, wine grape production is estimated to have fallen by 15 per cent in 2010–11 to around 240 000 tonnes, reflecting a deterioration in seasonal conditions compared with the previous year. Many areas, particularly in the north of the state, faced significant disease pressure as a result of the damp conditions.

Australian wine grape production is forecast to increase by 10 per cent in 2011–12 to 1.65 million tonnes. This forecast primarily reflects assumes reduced disease pressure, a return to average yields and a slight increase in the bearing area. An expected increase in the bearing area is due to vines planted over the past three years coming into full bearing. The average yield of wine grapes is forecast to be 10.7 tonnes a hectare in 2011–12, and the bearing area of vines is forecast to be 154 300 hectares.
The production of white grapes is expected to increase more quickly than that of red grapes in 2011–12, reflecting a recovery from the significant decline in 2010–11 attributed to the adverse seasonal conditions, particularly in the warm climate regions. Chardonnay production is expected to increase by 15 per cent between 2010–11 and 2011–12.

In Victoria, wine grape production is forecast to increase by around 22 per cent in 2011–12 to 294 000 tonnes, reflecting the assumption of more favourable seasonal conditions.

**Wool**

Since late September 2010, wool prices have risen by around 60 per cent, with the Australian Eastern Market Indicator (EMI) price reaching a high of 1398 cents a kilogram clean in early June 2011. This significant price increase has been in response to increased Chinese buying of raw wool as a result of stronger domestic consumption of wool products in China as well as increased demand for exports to the Organisation for Economic Co-operation and Development (OECD) region. This significant price increase has occurred despite a sizeable appreciation of the Australian exchange rate over the same period.

In the short term, wool prices are forecast to ease from current highs as more wool becomes available in the spring shearing season. However prices are expected to be supported at relatively favourable levels. For 2011–12 as a whole, the EMI price for wool is forecast to average around 1130 cents a kilogram clean. This compares with the estimated average of 1120 cents a kilogram clean in 2010–11.

Australian shorn wool production is forecast to rise by around 2 per cent in 2011–12 to 355 000 tonnes. Sheep numbers in Australia are forecast to rise by around 2 per cent, leading to the number of sheep shorn increasing by 1 per cent to around 80.6 million head. Additionally, the average wool cut per head is expected to rise from 4.37 kilograms in 2010–11 to around 4.41 kilograms in 2011–12, reflecting the improved seasonal conditions in eastern Australia.

Although Australian shorn wool production is forecast to increase in 2011–12, the total supply of wool (production and stocks) is expected to remain largely unchanged because wool stocks have been run down during the past year in response to favourable prices.
Although the improved seasonal conditions are welcome, in some wool growing regions, such as north-central Victoria, increased contamination of fleeces with vegetable matter and material deposited by floodwaters may lead to lower volumes of higher quality fleeces shorn in the 2010–11 season. The number of sheep losses owing to floods from late December 2010 to February 2011 appears to have been relatively small (in thousands) from a national perspective.

Growth in wool demand is expected to moderate in 2011–12 in response to slower economic growth in key apparel importing countries in the OECD and increased competition from alternative natural fibres, such as cotton. However, continued strong economic growth in non-OECD Asia, especially in China, is expected to provide support for wool demand.

Wool exports are forecast to decline by 2.1 per cent in 2011–12 to around 440 000 tonnes greasy equivalent, despite a forecast increase in wool production. The forecast decline in exports mainly reflects low stock levels that are unlikely to be drawn down significantly for export.

The total value of wool exports is forecast to remain largely unchanged in 2011–12 at around $3 billion. Although wool export prices are forecast to average slightly higher for all categories of wool, the volume of export shipments is forecast to decline.

Sheep meat

The Australian weighted average saleyard price of lambs is forecast to increase by 1 per cent in 2011–12, to 555 cents a kilogram. This follows an estimated price rise of around 19 per cent in 2010–11. The forecast further price increase in 2011–12 is expected to be driven by strong demand for lambs for domestic consumption, exports and restocking.

The weighted average saleyard sheep price is forecast to increase by 2.4 per cent in 2011–12 to a record 425 cents a kilogram, after rising by an estimated 29 per cent to 415 cents a kilogram in 2010–11. Although the availability of sheep for slaughter is expected to increase in 2011–12,
continued strong demand from processors, live exporters and restockers is forecast to drive prices higher in year average terms.

Lamb slaughter is forecast to increase by around 4 per cent to 19.2 million head in 2011–12. In 2010–11, lamb slaughter is estimated to fall by around 5 per cent, with producers holding more lambs for restocking in response to the positive price outlook. In Victoria, for example, lamb slaughter for the first three quarters of 2010–11 has decreased by 8 per cent year-on-year to around 5.7 million head. Additionally, lamb marking rates are expected to be high because of favourable seasonal conditions. These factors will increase the number of lambs on-farm, allowing higher turn-off and flock rebuilding.

Sheep slaughter is forecast to increase by 10.5 per cent in 2011–12 to 6.3 million head, mainly in response to the favourable price outlook, after an estimated decline of 21 per cent in 2010–11. In Victoria, New South Wales and South Australia, the decrease in sheep slaughter was well above the national average. In Victoria, for example, sheep slaughter in the first three quarters of 2010–11 has declined by 26 per cent year-on-year to 1.6 million head. The effects of high prices for sheep and wool, combined with improved seasonal conditions, have provided strong incentives for producers to restock in these states. In contrast, sheep slaughter in Western Australia in 2010–11 is expected to be similar to 2009–10 because unfavourable seasonal conditions have encouraged destocking.

Lamb production is forecast to increase by 4 per cent in 2011–12 to around 415 000 tonnes. Slaughter weights are assumed to remain almost unchanged in 2011–12 and average around 21.6 kilograms. In addition to improved pasture growth and fodder production, this also reflects a continuing trend of rising slaughter weights as more sheep producers have become specialists in lamb production.

Mutton production is forecast to increase by 10 per cent in 2011–12 to 145 000 tonnes. Sheep slaughter weights are expected to decline slightly in 2011–12, reflecting a declining share of wethers in the adult sheep flock.

Total Australian sheep meat exports are forecast to grow by 8 per cent in 2011–12, with lamb exports rising by 5 per cent to 162 000 tonnes and mutton exports by 12 per cent to 98 000 tonnes. The assumed appreciation of the Australian dollar is not expected to dampen export demand and year average export prices for both lamb and mutton are forecast to remain around the current high levels. Lamb shipments to the important US market are forecast to increase by 6 per cent to 35 000 tonnes.

The total value of Australian sheep meat exports is forecast to increase by 10 per cent in 2011–12 to almost $1.6 billion. This follows an estimated rise of 6 per cent to $1.4 billion in 2010–11.
Beef and veal

The Australian weighted average saleyard price for beef is forecast to fall by 7 per cent in 2011–12 to 300 cents a kilogram (dressed weight), reflecting several short-term influences on Australian cattle prices. Continued restocker demand in south-eastern Australia is expected to place upward pressure on young cattle prices. However, an assumed appreciation of the Australian exchange rate is likely to adversely affect export prices, which will place downward pressure on saleyard prices, especially for older cattle.

High rainfall throughout eastern and northern Australia in late 2010 and early 2011 improved pasture growth and fodder production, and replenished water supplies. Producers responded to the improved conditions by retaining greater numbers of female cattle for herd rebuilding. For example, during the March quarter 2011, total Australian female cattle slaughter was 6 per cent lower year-on-year. The national cattle herd is estimated to increase by 3 per cent in 2010–11 to 27.4 million head and is forecast to increase by a further 2 per cent in 2011–12 to around 28 million head.

Beef production in Australia is forecast to increase by 3 per cent in 2011–12 to around 2.2 million tonnes, mainly reflecting an increase in slaughter. Beef cattle slaughter is forecast to increase by 6 per cent in 2011–12 to 8.6 million head, largely the result of an expected increase in the slaughter of calves and male adults. However, the higher slaughter of calves is expected to lower the average carcass weight by around 3 per cent. To a lesser extent, an increase in the supply of cattle from northern Australia because of the suspension of live exports to Indonesia is also expected to contribute to the higher slaughter.

In 2010–11, beef production in Australia is estimated to increase by 1 per cent to 2.1 million tonnes, driven primarily by higher carcass weights. However, beef production in Victoria has declined by 2 per cent year-on-year over the first 10 months of 2010–11 to 289,000 tonnes. During this time, male slaughter rose 7 per cent but female slaughter declined by 16 per cent, indicating that producers have been taking advantage of better seasonal
conditions by selling male cattle in a more finished condition and keeping back females for herd rebuilding. Additionally, heavy rainfall and flooding during late 2010 and early 2011 resulted in considerable disruptions to the cattle industry across Victoria.

Australian beef exports are forecast to rise by around 3 per cent in 2011–12, to 975 000 tonnes. Exports to the United States, the Republic of Korea, and emerging markets such as the Russian Federation, China and the Middle East are forecast to rise, but exports to Japan are forecast to decline. In the Asian markets, particularly Japan and the Republic of Korea, the continued weakness of the US dollar is likely to facilitate growth in market share for US beef at the expense of Australian beef.

### Dairy

World prices for most dairy products are forecast to remain relatively high in 2011–12, after rising in 2010–11 on year average terms. World prices for cheese and milk powders are forecast to rise by around 1 per cent in 2011–12. In contrast, world butter prices are forecast to average around 10 per cent lower in 2011–12, following a significant price rise of 35 per cent in 2010–11.

Australian farmgate milk prices are forecast to remain largely unchanged in 2011–12 at around 42 cents a litre. An assumed higher Australian exchange rate is expected to moderate the effects on export earnings and domestic farmgate milk prices of higher forecast world prices for most dairy products.

World trade in dairy products is expected to expand in 2011–12, underpinned by increased imports by China and the Russian Federation. China’s imports of whole milk powder are forecast to rise by 25 per cent in 2011 to around 400 000 tonnes, reflecting strong demand and lower domestic production. Import demand by the Russian Federation for cheese and
Milk powders is expected to remain relatively strong through 2011–12, with domestic milk production forecast to decline in the short term. This is expected to result from the flow-on effects of the severe drought and cull of the dairy cow herd in 2010.

Global milk production is forecast increase by around 2 per cent in 2011–12 in response to higher prices for most world dairy products. Milk production in the European Union is forecast to increase by 1.5 per cent in 2011–12 but to remain well within the production quota, which is being expanded by 1 per cent. In the United States, milk production is forecast to rise by 1.5 per cent to 89.4 million tonnes in 2011–12, with growth in milk yields expected to more than offset a forecast decline in dairy cow numbers. New Zealand’s milk production is forecast to increase by around 4 per cent in 2011–12 to around 17.6 million litres, reflecting an expected increase in the dairy cow herd in response to favourable dairy prices and assumed favourable seasonal conditions.

Australian milk production is forecast to increase by 2.4 per cent in 2011–12 to 9.3 billion litres, reflecting the combined effects of relatively firm farmgate milk prices, an expected increase in the national dairy herd and further gains in milk yields. Additionally, the increased availability of water in the main irrigation dams is expected to support higher milk production, particularly in northern Victoria.

Milk production is eastern Victoria accounted for around 35 per cent of Victorian milk output and 23 per cent of national production in 2009–10. In 2010–11, milk production in eastern Victoria is estimated to increase by 6 per cent to 2164 million litres, while production in northern and western Victoria is estimated to remain relatively unchanged.

### World dairy prices

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