

## Briefing Notes

# Commodity outlook and financial performance of key agricultural industries in South Eastern New South Wales

120907

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## Introduction

This Briefing Note is a summary of the Australian Department of Agriculture, Fisheries and Forestry (ABARES) "Commodity outlook and financial performance of key agricultural industries in South Eastern New South Wales" report. It provides an overview of those sections that are relevant to irrigated agriculture in NSW.

This Briefing Note does not seek to independently verify the data contained within it. All data presented is reproduced from the ABARES publication. This Briefing Note does not in any way constitute advice, it is provided solely as a service.

The complete ABARES' report is available under;

[http://adl.brs.gov.au/data/warehouse/cofp\\_d9abcc006/cofp\\_d9abcc006seNSW/CP12.12\\_seNSW\\_v.1.0.0.pdf](http://adl.brs.gov.au/data/warehouse/cofp_d9abcc006/cofp_d9abcc006seNSW/CP12.12_seNSW_v.1.0.0.pdf)

## Contents

Introduction.....	2
Overview:.....	3
Sector profile - agriculture.....	4
Production.....	4
Number and types of farms.....	4
Financial Performance.....	5
Broadacre farms.....	5
Grain industry farms.....	6
Dairy industry.....	7
Commodity Outlook.....	8
Economy.....	8
Wheat.....	9
Coarse grains.....	10
Oilseeds.....	11
Dairy.....	12

## Overview:

ABARES report provides an overview of agricultural production in South Eastern New South Wales as well as recent performance indicators for broadacre crops and the dairy industry. Appended to this report is an outlook of some key commodities.

### The key results are as follows;

- In 2009-10 the total value of agricultural production in South Eastern NSW was \$601 million, about 7% of the total value of agricultural production in NSW .
- There were 4167 farms in South Eastern NSW and the region contains 11% of all farm businesses in NSW according to ABARES.
- Beef cattle farms were the most common in the South Eastern region accounting for 36% of all farms, followed by mixed-grain and livestock farms with 28% and sheep farms with 17%.
- Farm cash income:
  - Broadacre farms to average \$100 000 per farm (2011-12), similar to 2010-11.
  - Grains industry farms to average \$151 000 per farm (2011-12), lower than 2010-11.
  - Dairy farms to average \$137 000 per farm (2011-12), similar to 2010-11. However, average farm cash incomes for South Eastern region dairy farms were slightly higher than the average for NSW as a whole in both 2009-10 and 2010-11.

### Commodity Price Outlook 2012-13;

- Wheat prices are expected to be high.
- Coarse grain prices are expected to be high.
- Oilseed prices are expected to be high.
- Dairy product prices are expected to be lower.

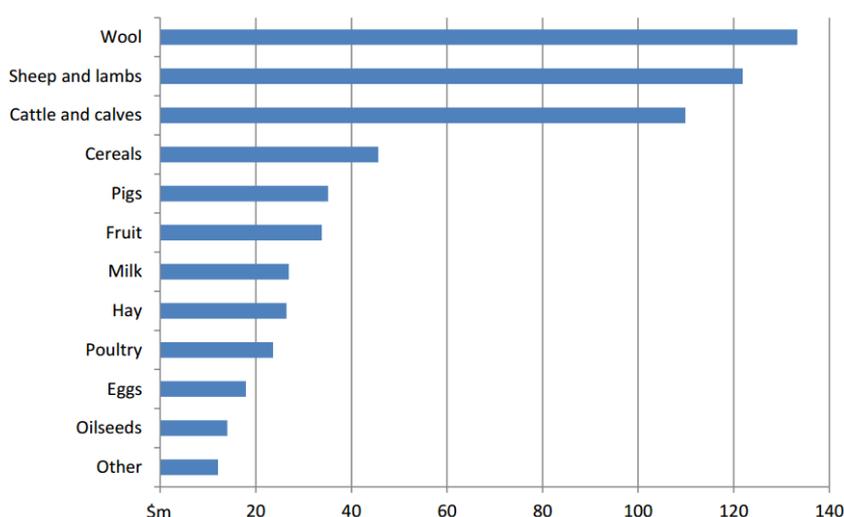
## Sector profile - agriculture

### Production

In 2009-10 the total value of agricultural production in South Eastern NSW was \$601 million which constituted 7% of the total value of agricultural production in NSW.

Livestock and livestock products are the major contributors to total value of agricultural production in South Eastern NSW. Almost 20% of NSW total value of wool production, sheep and lamb products is concentrated in this region. Other products that contribute to the gross value of agricultural production in the region include: cereals (\$46 million); milk (\$27 million); hay (\$26 million).

Figure 1 Value of agricultural production, South Eastern New South Wales, 2009–10



### Number and types of farms

In 2009-10, there were 4167 farms in South Eastern NSW with an estimated value of agricultural operations of more than \$5000 and the region contains 11% of all farm businesses in NSW.

Beef cattle farms were the most common in the South Eastern region accounting for 36% of all farms, followed by mixed-grain and livestock farms with 28% and sheep farms with 17%.

A large proportion of farms in the region are small in terms of their business size. Around 80% of farms in South Eastern NSW had an estimated value of agricultural operations (EVAO) of less than \$150 000. In comparison 7% of farms in the region had an EVAO of more than \$350 000.

**Table 1 Number of farms, by industry classification a, 2009–10**

	South Eastern New South Wales		New South Wales	
	no.	%	no.	%
Beef cattle	1 500	36	4 144	11
Mixed grain–livestock	1 173	28	14 324	37
Sheep	689	17	2 838	7
Grain growing	184	4	4 971	13
Sheep–beef	124	3	1 611	4
Fruit and nut growing	112	3	1 113	3
Dairy	109	3	831	2
Grape	101	2	3 190	8
Vegetable	88	2	1 425	4
Other	86	2	4 107	11
Total agriculture	4 167	100	38 554	100

a Where the estimated value of agricultural operations is more than \$5000. *Source:* Australian Bureau of Statistics

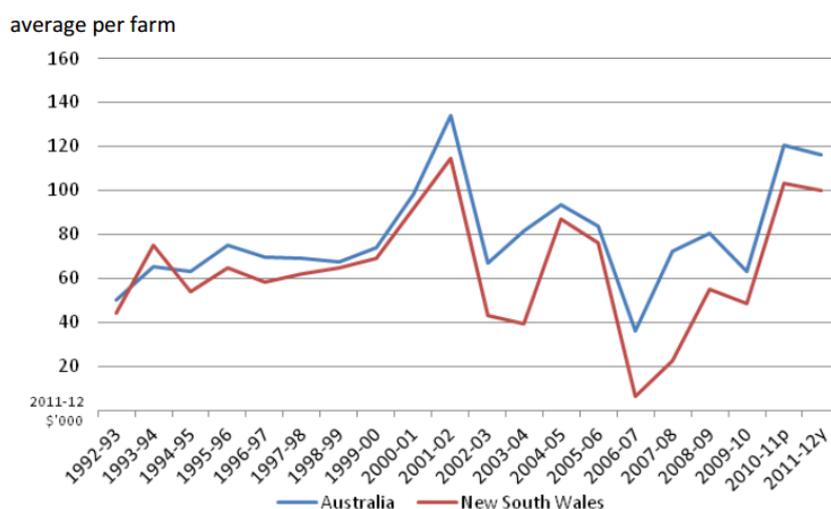
## Financial Performance

### Broadacre farms

Nationally, average farm cash income for broadacre farms increased from \$59 4000 in 2009-10 to \$117 300 in 2010-11. It is projected to decline to \$116 000 in 2011-12. In 2011-12, average to above average seasonal conditions for most Australian broadacre farms sustained high grain and livestock production which is reflected in average farm cash income.

Well above average rainfall resulted in record crop production and good pasture growth for NSW broadacre farms in 2010-11. Farm cash income averaged \$100 500 per farm, up from \$45 750 per farm in 2009-10. Farm cash income is expected to remain similar in 2011-12 and is projected to be around \$100 000 per farm. This slight decline is a consequence of lower grain and oilseed prices and reduced crop production from the record achieved in 2010-11 offsetting improved incomes for livestock producers.

**Figure 4 Real farm cash income, broadacre industries**



p Preliminary estimate. y Provisional estimate.

## Grain industry farms

Australian farm cash income for Australian grains industry farms improved significantly in 2010-11 compared to 2009-10. This improvement was because of large increases in grain and oilseed production in NSW, Queensland and South Australia, combined with higher grain and oilseed prices. At the same time there was only a relatively small rise in total cash costs resulting mainly from higher expenditure on fertiliser, fuel, crop chemicals, interest payments and costs associated with harvesting a larger crop than in 2009-10.

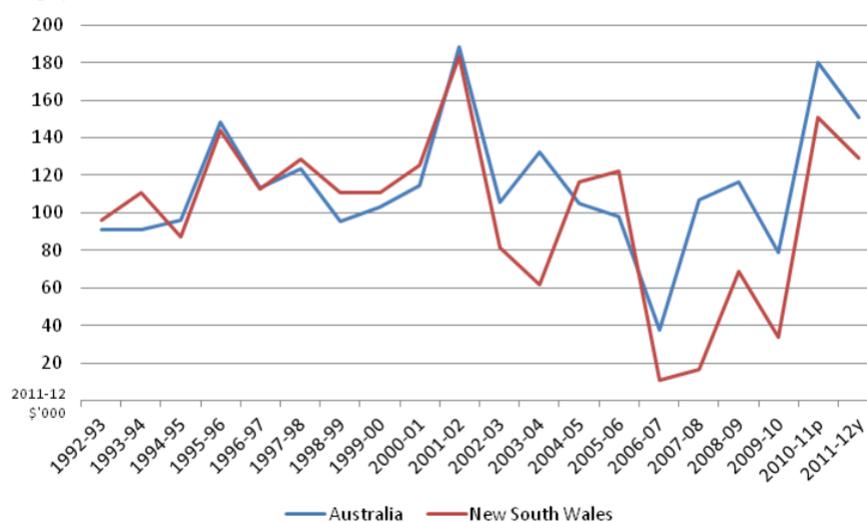
In 2010-11, improved seasonal conditions in NSW resulted in a doubling in winter grain and oilseed production compared with 2009-10. Grain prices received remained strong despite significant downgrading of crop quality as a result of wet conditions around harvest. Farm cash income increased from an average of \$33 820 per farm in 2009-10 to average \$151 200 per farm in 2010-11.

Although Australian grain and oilseed production is forecast to reach a record high in 2011-12, lower prices for most grains and oilseeds, together with an increase in farm cash costs are projected to result in a fall in overall average farm cash income for grains industry farms.

Farm cash income is projected to have declined in NSW to an average of \$129 000 per farm in 2011-12. Crop production declined from the record achieved in 2010-11 and in combination with lower prices for grain, is projected to have resulted in farm cash receipts declining by around \$49 000 per farm (offset by declining cash costs).

Figure 5 Real farm cash income, grains industry

average per farm



## Dairy industry

Nationally, average farm cash income for dairy industry farms increased from \$75 110 per farm in 2009-10 to \$141 000 per farm in 2010-11, the highest since 2007-08. The increase in average farm cash income was mainly because of higher prices paid for milk in regions producing manufacturing milk. Milk production remained similar to 2009-10 despite improved grazing conditions and increased availability of irrigation water.

In contrast, overall milk prices received were lower for NSW in 2010-11 resulting in average farm cash income for NSW dairy farms declining by 22%, from an average of \$137 330 per farm in 2009-10 to \$137 700 per farm in 2010-11.

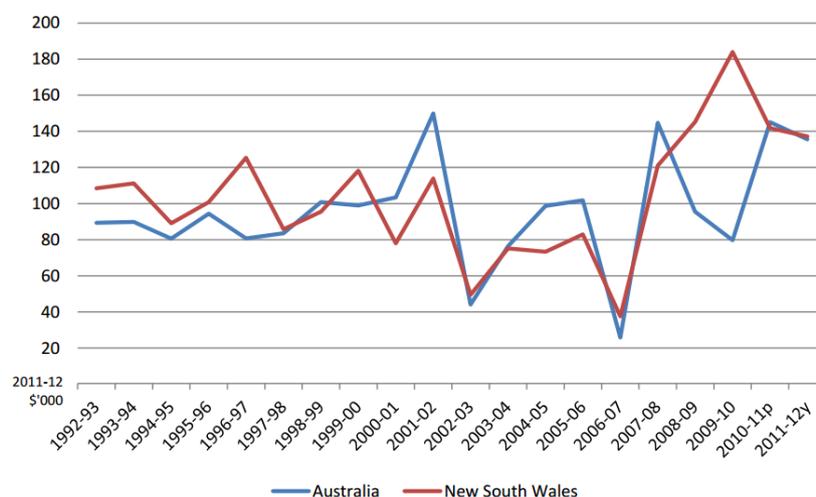
However, in southern dairy regions of NSW producing mainly milk for manufacturing, average prices received for milk increased and, in combination with a rise in milk production, resulted in higher average farm cash income in 2010-11.

In NSW, increased milk production is projected to have largely offset the effect of lower milk prices, resulting in only a small reduction in farm cash receipts in 2011-12. Total cash costs are projected to have decreased slightly as further reductions in expenditure on fodder purchases offset increases in other cash costs. Farm cash income for NSW dairy farms in 2011-12 is projected to average \$137 000 per farm, which is similar to that recorded in 2010-11.

The south Eastern region accounts for around 11% of dairy cattle in NSW and around 80% of these cattle are located in the Bega Valley Shire. Average farm cash incomes for South Eastern region dairy farms were slightly higher than the average for NSW as a whole in both 2009-10 and 2010-11. Higher milk prices increased milk receipts and improved seasonal conditions resulted in reduced expenditure on fodder and lower average total farm cash costs. In 2011-12, increases in milk production are projected to have resulted in a further small improvement in total cash receipts. However, increases in farm cash costs including increased expenditure on dairy cattle and fodder, fertiliser and electricity are projected to result in farm cash income falling slightly to an average of \$238 000 per farm.

Figure 8 Real farm cash income, dairy industry

average per farm

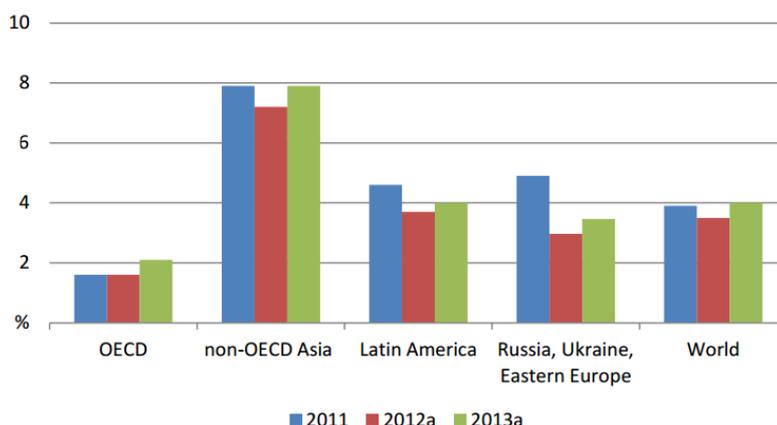


# Commodity Outlook

## Economy

The pace of global economic growth has weakened since the beginning of 2012. Although activity in emerging economies, partially in Asia, continue to underpin world economic growth, considerable uncertainty remains in the OECD, especially over the implementation and likely impact of austerity measures in the euro area.

Figure 14 Regional economic growth



Private sector demand across the OECD is assumed to remain weak in the short term. Continued weakness in regional housing and labour markets is expected to be a key constraint to any significant recovery in consumer spending. For emerging economies, particularly China and India, the short-term outlook remains positive, although an easing of economic growth is expected.

The Australian dollar has remained strong against the US dollar, trading around US105c in early August. The value of the Australian dollar is assumed to remain relatively high in the remainder of 2012-13. An assumed gradual strengthening in world economic growth will help support the Australian dollar as world demand for commodities improves. In addition, interest rate differentials, relative to the United States and other major OECD countries, will provide support for the Australian exchange rate.

Table 6 Key macroeconomic assumptions

World		2011	2012	a	2013
Economic growth					
OECD	%	1.6	1.6		2.1
Non-OECD Asia	%	7.8	7.2		7.9
Latin America	%	4.5	3.7		4.0
Russian Federation, Ukraine, Eastern Europe	%	4.9	3.0		3.5
World <b>b</b>	%	3.9	3.5		4.0
<b>Australia</b>					
		<b>2010-11</b>	<b>2011-12</b>	<b>a</b>	<b>2012-13</b>
Economic growth	%	1.9	3.0		3.25
Inflation	%	3.1	2.4		2.5
Interest rates <b>c</b>	%	6.6	6.2		5.6
Australian exchange rates					
US\$/A\$		0.99	1.03		1.00
TWI for A\$ <b>d</b>		74	76		74

**a** ABARES assumption. **b** Weighted using 2011 purchasing power parity (PPP) valuation of country gross domestic product by the International Monetary Fund. **c** Large business weighted average variable rate on credit outstanding. **d** Base: May 1970 = 100.

Sources: ABARES; Australian Bureau of Statistics; International Monetary Fund; Organisation for Economic Co-operation and Development; Reserve Bank of Australia

## Wheat

The world wheat indicator price is forecast to remain favourable in 2012-13. This forecast reflect the effects of the dry conditions presently being experienced in the United States, which have adversely affected US grain production and placed upward pressure on world prices.

Following record production in the previous season, world wheat production is forecast to fall by 2% in 2012-13 to around 678 million tonnes.

World wheat consumption is forecast to fall by 1% in 2012-13 to around 679 million tonnes. World food use is forecast to rise by 1% to around 464 million tonnes, reflecting population growth.

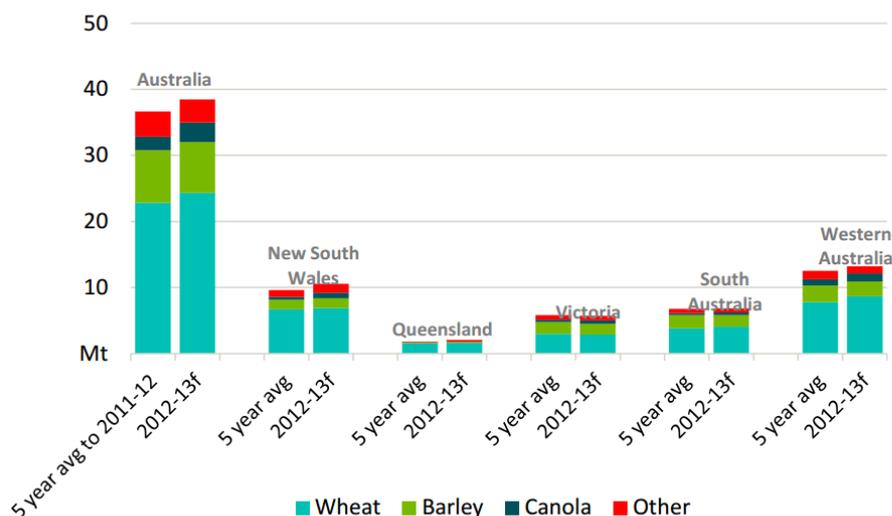
World trade in wheat is forecast to fall by 5% in 2012-13 to around 13 million tonnes; an anticipated increase in exports of milling wheat is expected to be more than offset by a fall in exports of feed wheat. Wheat exports from the Black Sea region and the European Union are forecast to fall as a result of forecast falls in production.

For Australia, wheat production is forecast to fall by 18% in 2012-13 to around 24 million tonnes. This reflects a forecast fall in planted area and an assumed return of yields to historical averages from the highs of last season. The area planted to wheat is estimated to have fall by 5% in 2012-13.

In NSW, the area planted to wheat is estimated to have decreased by around 5% in 2012-13 to just over 3.8 million hectares. A decline in wheat prices around the time of sowing contributed to this estimated decline. Assuming average seasonal conditions, total wheat production is forecast to fall by 13% to around 6.9 million tonnes.

Australian wheat export are forecast to be largely unchanged in 2012-13 at around 21 million tonnes. This reflects a forecast drawdown in existing stocks and a large harvest of 2011-12 which will contribute to export shipments in the first six months of the July to June this year.

Figure 15 Australian winter crop production



## Coarse grains

World coarse grain prices are forecast to be relatively high in 2012-13. This follows the world indicator price averaging \$281 a tonne in 2011-12. This assessment reflects mainly the effect of current dry conditions in the United States, which are expected to lead to lower US corn production.

Given the effect of adverse seasonal conditions in the United States, world coarse grain production is unlikely to increase markedly in 2012-13, largely as a result of an expected fall in US corn production. World barley production is forecast to increase in 2012-13 reflecting an expected increase in harvested area in major producing nations and replanting of failed 2012-13 winter crops with spring barley in the European Union. However, adverse conditions in the Ukraine and the Russian Federation present a downside risk to this forecast.

In Australia, the area planted to barley in 2012-13 is estimated to have fallen by 4% to around 3.9 million hectares. Total barley production is forecast to fall by 15% to around 7.3 million tonnes. The total volume of barley export in 2012-13 is forecast to fall by 27% to 4.7 million tonnes.

In NSW, the area planted to barley is estimated to have decreased by around 5% in 2012-13. Lower barley prices at the time of sowing are estimated to have resulted in growers favouring production alternatives. Assuming average seasonal conditions, barley production is forecast to fall by 12% to around 1.5 million tonnes.

Total grain sorghum production in Australia is estimated to have risen by 13% in 2011-12 to around 2.3 million tonnes. This production increase mainly reflects an increase in yields as a result of favourable seasonal conditions.

However, in NSW grain sorghum production is estimated to have decreased by 17% in 2011-12, mainly reflecting a 13% fall in planted area. Seasonal conditions were generally favourable and yields are estimated to have been above average in most regions, particularly for early sown crops.

## Oilseeds

The world oilseed indicator price is forecast to remain relatively high in 2012-13. This forecast reflects adverse seasonal condition in the United States, which has led to a decline in the condition for the soybean crop. However, soybean production is forecast to increase in the other two main producing countries, Brazil and Argentina.

World oilseed production is forecast to increase by 9% in 2012-13 to a record 473 million tonnes. This forecast increase is driven by a forecast rise in production of all major oilseeds in 2012-13, with the most significant increases being forecast for soybeans and canola.

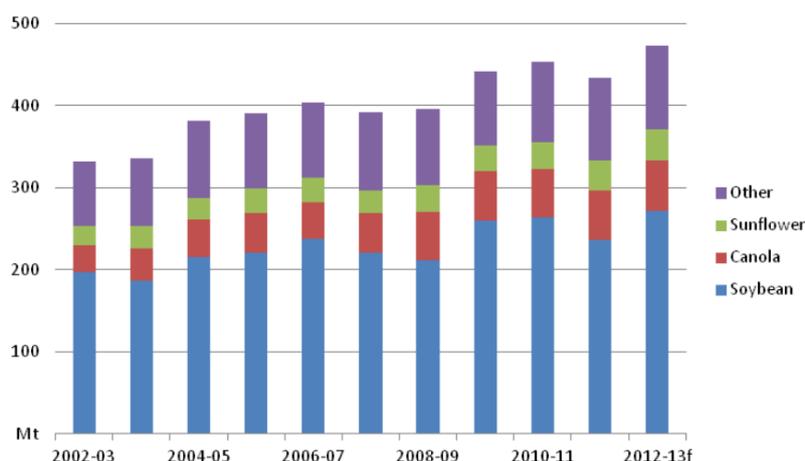
World oilseed consumption is forecast to rise by 3% in 2012-13 to around 466 million tonnes, with world vegetable oil consumption forecast to increase by 3% to 157 million tonnes. The forecast increase in world oilseed consumption mainly reflects the effect of consumption growth in developing countries and continued strong demand for biodiesel.

The volume of world oilseeds trade is forecast to rise by 8% in 2012-13 to around 113 million tonnes, driven by increased production of all major oilseeds. World trade in soybeans is forecast to rise by 9% to a record 96 million tonnes in 2012-13, supported by higher Chinese imports as a result of lower domestic production. World canola trade is forecast to rise by 2% to almost 12 million tonnes, reflecting increased European imports. World trade in sunflower seeds is forecast to rise by 5% in 2012-13 to 2.3 million tonnes.

World closing oilseed stocks are forecast to rise by 9% in 2012-13 to around 72 million tonnes as a result of expected higher world production. Soybean and sunflower seed closing stocks in 2012-13 are forecast to increase by 10% and 6% to 59 million tonnes and 2.1 million tonnes, respectively. Conversely, canola closing stocks are forecast to decline by 20% to 4.5 million tonnes, reflecting continued high demand for canola in 2012-13.

The area planted to canola in NSW is estimated to have risen by 39% in 2012-13. Timely rainfall and favourable prices at the time of sowing made canola production more attractive than production alternatives. Assuming sufficient and timely rainfall over the growing season, canola production is forecast to rise by 15% in NSW to 825 000 tonnes.

Figure 16 World oilseeds production



f ABARES forecast.

## Dairy

World prices of dairy products are forecast to fall in 2012-13. The combined effects of higher milk production in major producing and exporting countries and an assumed economic slowdown in the European Union are expected to place downward pressure on world prices.

Milk production in most major producing and exporting countries is forecast to increase in 2012-13, albeit at a slower rate than the previous year, leading to an increase in world supplies of dairy products. After rising by 2.3% in 2011-12, milk production in the European Union is expected to grow more moderately in 2012-13 in response to lower farmgate prices. In 2013 US milk production is forecast to rise by only 0.4%, with expected higher milk yields marginally offsetting the effect on milk production of a projected fall in the dairy herd. Assuming average seasonal conditions, milk production in NZ is forecast to rise between 1 and 2% in 2012-13 with a forecast 9% fall in farmgate milk prices to constraint production growth.

World trade in dairy products is expected to continue to increase in 2012-13, underpinned by rising demand in Asia, the Middle East and North Africa. China, the Russian Federation and Japan are expected to remain significant importers of dairy products in 2012-13.

The Australian farmgate price for milk is forecast to fall by 10% in 2012-13 to average around 37 cents a litre. Assuming favourable seasonal conditions in the main dairying regions, national milk production is forecast to increase by 1.5% in 2012-13 to 9.6 billion litres, following an estimated 4% rise in 2011-12. Such an outcome would be the highest production since 2005-06. The forecast increase in production is expected to follow from the significant improvement in availability of irrigation water in southern NSW.

Milk production in NSW, which accounts for around 12% of national production is estimated to have increased by 5% in 2011-12. Production in southern NSW is estimated to have risen by around 8%, compared with an estimated 3% increase in the north coast. Southern NSW accounts for around 52% of the state's production, while the north coast region accounts for 30%. Milk production is estimated to have remained largely unchanged in the central region of NSW, which represents 18% of NSW production.

The total value of Australian dairy exports is forecast to decline by 4% in 2012-13 to \$2.2 billion, reflecting lower average world dairy product prices. However, the volume of cheese exports is forecast to increase by 3% to 274 000 tonnes and account for around 35% of the value of Australian dairy exports. Japan is expected to remain Australia's largest market, accounting for around half of Australia's cheese export.

Figure 20 Australian milk production and price

