



FARM AGGREGATES – OUTLOOK FOR 2008-09

May 2008

- **Gross value of farm production forecast to rise by 13 per cent to \$45 billion**
- **Input cost pressures to restrict growth in farm incomes**
- **Farm incomes to rise by around 50 per cent to \$7.2 billion in 2008-09**

NAB’s latest forecast is for Australian farm production and income to increase, supported by strong global commodity prices and an upward revision of winter crop production estimates. Improved seasonal conditions in key dairy producing regions are expected to support a slight increase in milk production over the next 12 months. In contrast, lower opening cattle and sheep numbers in 2008-09 are forecast to result in a decline in lamb, beef and wool production. For irrigated agriculture, production of horticulture, grapes and rice are all expected to remain well below average due to low water availability particularly in the lower half of the Murray Darling Basin. The outlook for cotton is very positive with strong prices and improved water storages in northern New South Wales and Queensland expected to underpin a significant increase in cotton production in 2008-09.

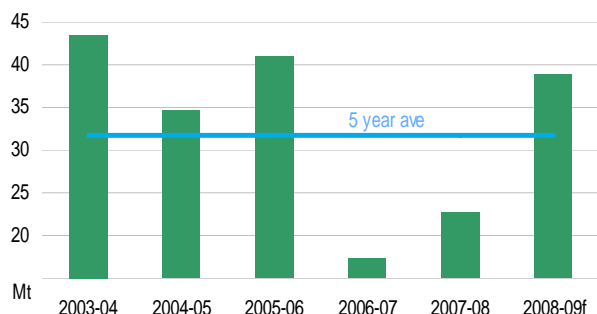
Winter crops forecast to drive recovery in farm production

Winter crop production is forecast to increase by 74 per cent in 2008-09 to 38.8 million tonnes, underpinned by an expected increase in the area planted as well as yields. With the steady improvement in seasonal conditions, and with grains prices anticipated to remain high, the area planted to wheat is forecast to increase by 10 per cent to 13.5 million hectares – the highest area planted to wheat on record. Reflecting this, and a forecast increase in yields in most areas, particularly Western Australia and northern New South Wales, wheat production is expected to increase by 92 per cent in 2008-09 to 25.1 million tonnes. Similarly, barley production is forecast to increase by 50 per cent to 8.8 million tonnes.

Although canola production is expected to increase by 49 per cent to 1.6 million tonnes, this forecast is highly reliant on receiving early autumn rainfall. Insufficient rainfall during this period is likely to result in a significant downward revision to the area planted to canola as farmers opt to plant crops with longer optimal planting windows such as wheat and barley.

The latest Bureau of Meteorology seasonal outlook for May through to July is for above average rain across much of Queensland and northern NSW. In most other areas there remains a 50 per cent chance of above average rainfall. While summer rainfall boosted soil moisture profiles in most states, very dry conditions in many areas throughout March and early April restricted any significant improvement in moisture profiles, particularly in western and north eastern Victoria and southern New South Wales.

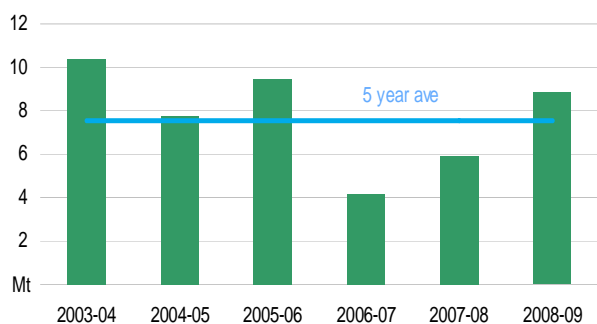
Australian Winter Crop Production



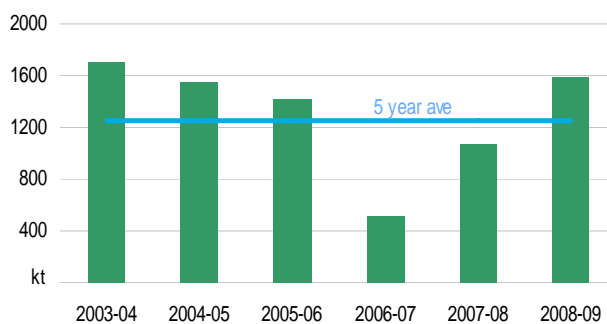
Australian Wheat Production



Australian Barley Production



Australian Canola Production



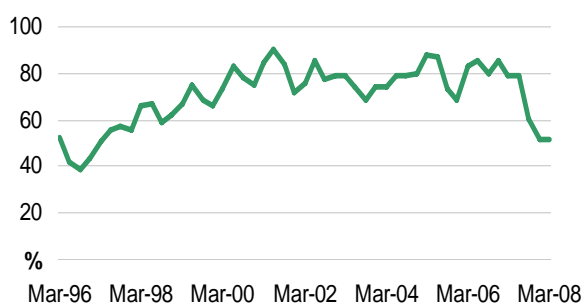
Livestock

After good summer rainfall boosted expectations of an increase in restocker activity in 2008-09, dry seasonal conditions in many areas throughout March and April have resulted in beef slaughterings remaining at a higher than expected rate. Reflecting this, and the ongoing high cost of feed, cattle slaughterings are expected to remain high in 2008-09, with beef production forecast to fall by only 3 per cent to 2.1 million tonnes. In line with the current high price of feed, trading conditions for lotfeeders is still tight with cattle numbers as a proportion of feedlot capacity remaining at 51 per cent in the March quarter, down from 77 per cent at the same time last year.

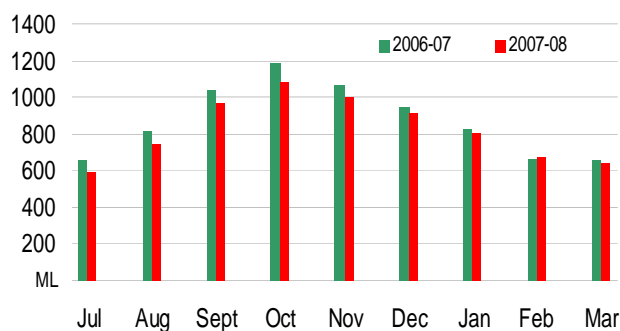
Lamb production is forecast to fall by 5 per cent in 2008-09 to 404 000 tonnes, as lower opening ewe numbers has led to a reduction in lambs marked. Wool production is also expected to fall slightly, as a decline in the number of sheep shorn offsets a forecast increase in fleece weights.

Australian milk production declined by 6 per cent year on year in the first 9 months 2007-08, as poor seasonal conditions resulted in a reduction in both cow numbers and milk yields. However, improved seasonal conditions in western and eastern Victoria in recent months have boosted expectations of an expansion of milk production in these areas in 2008-09. This, combined with forecast higher milk yields and a consolidation in cow numbers, is expected to result in milk production increasing by 1 per cent in 2008-09 to 9.3 billion litres.

Australian feedlot capacity utilisation



Australian milk production



Other Commodities

The outlook for irrigated production in the Murray Darling Basin in 2008-09 remains uncertain with water storage levels, particularly in the lower half of the basin, remaining low. According to the Murray Darling Basin Commission, autumn rainfall to date has been below average and Murray system inflows during March and April have remained extremely low — approaching the record levels seen in 2007. Consequently, the prospects for irrigation in 2008-09 remain dependant on

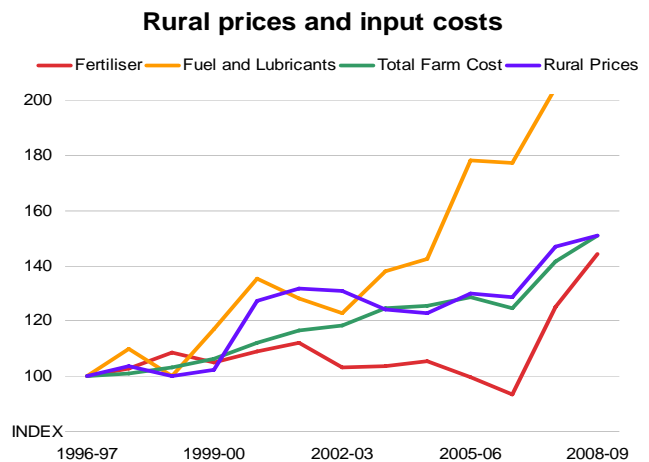
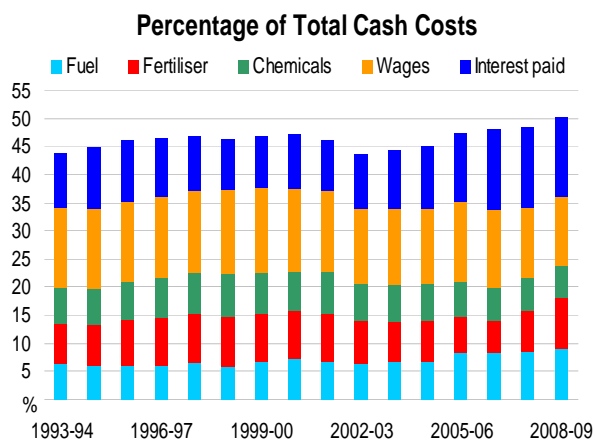
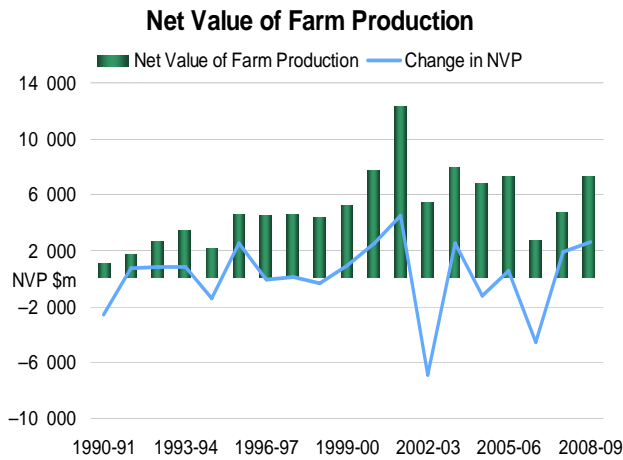
rainfall over winter and spring, which is the critical period for runoff in the high yielding catchments of the upper Murray, Mitta Mitta, Kiewa and Ovens Rivers.

At this stage opening allocations for Murray irrigators for the 2008-09 season are again expected to be very low and consequently production of horticulture, grapes and rice is expected to remain below long term averages. In contrast, production of cotton in Northern New South Wales and Queensland is expected to increase in 2008-09 after above average summer rainfall boosted water storage levels in those regions.

Farm production, costs and incomes

The gross value of farm production (at the farmgate) is forecast to increase by 13 per cent in 2008-09 to around \$45 billion, underpinned by strong commodity prices and a forecast increase in cereal grain production. Rising input cost pressures are expected to restrict growth in farm incomes with total farm costs set to increase by 8 per cent to around \$37 billion. Fuel, fertiliser, chemicals, labour and interest related costs will be particularly affected. NAB currently forecasts world oil prices to average at \$A126 per barrel in 2008-09, and with winter cropping plantings expected to expand, total fuel costs are forecast to increase by 15 per cent to around \$2.9 billion. As a result, net farm income (after farm costs have been deducted) is forecast to rise by \$2.5 billion (51 per cent) in 2008-09 to around \$7.2 billion.

From an economy wide perspective, the recovery in farm production is expected to add about half a per cent to overall real GDP in 2008-09, partially offsetting the economic slowdown forecast for non farm activity.



USEFUL LINKS

National Australia Bank agribusiness reports

www.nab.com.au/agrireports

Including Around the Paddocks, AgriDirection and Quarterly Agribusiness Survey

Bureau of Meteorology seasonal outlook

http://www.bom.gov.au/climate/ahead/rain_ahead.shtml

Murray Darling Basin Commission

<http://www.mdbc.gov.au>

Queensland Water Storage Information

<http://www.sunwater.com.au/water.htm#>

New South Water Storage Information

<http://waterinfo.nsw.gov.au/copyright.shtml>

Australian Lotfeeders Association quarterly feedlot survey

<http://www.feedlots.com.au/pubs/survey/MRMar08.pdf>

Australian Bureau of Agricultural and Resource Economics latest outlook statistics

http://www.abareconomics.com/interactive/08ac_march/excel/StatisticsTables.xls

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