

Prospects update

June 2007



This June 2007 edition of *Prospects update* contains the Department of Primary Industries and Fisheries' (DPI&F) final, revised forecasts for Queensland's primary industry commodities for 2006–07.

The effects of the ongoing drought have been felt across many of Queensland's primary industries:

- Queensland's livestock producers have faced pressures of feed availability, higher feed prices and reduced quality of stock. Consequently, slaughter numbers have remained high during 2006–07.
- Lack of rainfall has resulted in a reduction in plantings and lower yields in the grains sector. Higher grain prices have not fully compensated for lower production.
- Lack of irrigation water in Queensland's cotton-growing regions has resulted in a significant fall in production, as many producers opted to plough out some of their crops to allow the remainder of the crop to flourish.
- The nursery, landscape, cut flowers and foliage, and turf sectors have all suffered because of a lack of water and the continuing roll-out of water restrictions.

As at 31 May 2007, there were 84 shires and two part shires drought declared under state processes—equivalent to 62.2% of the land area of Queensland. There were also seven Individually Droughted Properties (IDPs) in a further four shires.

At a glance

The gross value of production (GVP) of Queensland's primary industry commodities for 2006–07 is now forecast at \$10.485 billion.

This forecast is:

- less than 1% higher than DPI&F's initial forecast of \$10.43 billion for 2006–07
- 4% lower than DPI&F's final estimate of \$10.93 billion for 2005–06.

Forecasts for the commodities listed below are included in this edition of *Prospects update*, as they have changed from the forecasts published in the September 2006 edition of *Prospects for Queensland's primary industries 2006–07 (Prospects)* and/or the December 2006 and March 2007 editions of *Prospects update*.

Final, revised forecasts for 2006–07 included in this edition are:

- cattle and calves—\$3.625 billion
- sheep and lambs—\$45 million
- poultry—\$240 million
- wool—\$110 million
- tomatoes—\$200 million
- lifestyle horticulture—\$1.22 billion
- sugarcane—\$1.075 billion
- cotton—\$120 million
- peanuts—\$15 million
- sunflower seed—\$2 million
- barley—\$25 million
- grain sorghum—\$185 million
- fisheries—\$275 million.

The remaining industries are not discussed in this edition of *Prospects update*, as the forecasts have not changed from the most recent forecasts in the March 2007 *Prospects update*.

Forecasts for all commodities are listed in Table 1 on page 2.



Table 1. Gross values^a of major primary industry commodities produced in Queensland in 2004–05 and 2005–06, and forecast gross values for 2006–07

Commodity	2004–05 ^b	2005–06 ^c	2006–07 ^d forecasts			
	\$m	\$m	Sep 06 \$m	Dec 06 \$m	Mar 07 \$m	Jun 07 \$m
Livestock disposals						
Cattle and calves	3 631	3 675	3 175	3 175	3 525	3 625
Sheep and lambs	50 ^c	50	50	50	50	45
Pigs	235	220	220	210	210	210
Poultry	223	230	235	235	235	240
Other livestock	10 ^c	10	10	10	10	10
Total livestock disposals	4 149	4 185	3 690	3 680	4 030	4 130
Livestock products						
Wool	120	110	100	100	100	110
Milk (all purpose)	217	210	210	205	200	200
Eggs ^c	110	100	100	100	100	100
Total livestock products ^e	447	420	410	405	400	410
Total livestock	4 596	4 605	4 100	4 085	4 430	4 540
Horticulture						
Fruit and nuts						
Bananas	291	300	360	360	400	400
Strawberries	100 ^c	120	120	120	120	120
Mandarins	71	75	90	90	90	90
Mangoes	75 ^c	60	75	80	80	80
Avocados	52	45	75	75	75	75
Pineapples	33	40	40	40	40	40
Macadamias	55 ^c	55	40	40	40	40
Other fruit and nuts	100 ^c	90	125	130	130	130
Total fruit	777 ^c	785	925	935	975	975
Vegetables						
Potatoes	48	35	40	40	40	40
Tomatoes	155 ^c	165	165	165	165	200
Capsicums and chillies ^f	75 ^c	80	100	100	100	100
Other vegetables	435 ^c	460	470	470	470	470
Total vegetables	713 ^c	740	775	775	775	810
Total fruit and vegetables	1 490	1 525	1 700	1 710	1 750	1 785
Lifestyle horticulture^c	1 460	1 480	1 410	1 410	1 410	1 220
Total horticulture	2 950	3 005	3 110	3 120	3 160	3 005
Other crops						
Sugarcane ^g	917	1 000	920	970	1 095	1 075
Cotton (raw) ^h	419	395	250	175	125	120
Other crops	370	350	505	395	275	260
Total other crops	1 706	1 745	1 675	1 540	1 495	1 455
Cereal grains						
Wheat	232	275	210	240	240	240
Barley	27	45	25	25	20	25
Grain sorghum	165	140	240	335	215	185
Other cereal grains	50	50	50	60	40	40
Total cereal grains	474	510	525	660	515	490
Total crops	5 130	5 260	5 310	5 320	5 170	4 950
Total agriculture	9 726	9 865	9 410	9 405	9 600	9 490
Fisheries^c DPI&F estimates for harvest from all Queensland watersⁱ						
Trawl	155	160	135	135	135	120
Non-trawl	110	120	100	100	100	90
Aquaculture	70	65	65	65	65	65
Total fisheries	335	345	300	300	300	275
Forestry^c	725	720	720	720	720	720
Total primary industries	10 786	10 930	10 430	10 425	10 620	10 485

a The definition for gross value is provided in the Notes section.

b Australian Bureau of Statistics (ABS) final estimates unless otherwise stated.

c DPI&F estimates.

d DPI&F forecasts.

e Excludes minor commodities such as honey, beeswax, mohair etc.

f ABS estimate includes chillies.

g Gross value of sugarcane at mill door.

h Includes value of cottonseed and lint.

i Includes catches from Commonwealth-managed (including Torres Strait, Gulf of Carpentaria and east coast tuna fisheries) and state waters.

Note: Revised items shaded in green.

Winter/spring/summer 2007— A climate forecast

There has been a marginal improvement in the seasonal outlook throughout most of Queensland. Based on a near zero Southern Oscillation Index (SOI) phase at the end of May, there is a 50–70% chance of getting median rainfall during June to August.

However, this should not be interpreted as a start to drought-breaking rains, as most of the southern two-thirds of Queensland will require several years of good rainfall to fully recover.

As an example, rainfall in Bell on the northern Darling Downs from November 1999 to the end of April 2007 (90 months in total) was in the lowest 10% of recorded rainfall when compared to historical records (97 years). During that period, Bell accumulated a rainfall deficiency or shortfall of approximately 1175 mm, which is close to twice its long-term average of 650 mm.

Current SOI values combined with climate model outputs indicate the most likely outcome is a continuation of a neutral climate pattern. The positive news is that there is now a higher than normal chance of a La Niña climate pattern developing, and only a low risk of a return to El Niño conditions throughout 2007.

For there to be a sustained and significant improvement in seasonal conditions and a lift in rainfall probabilities, the development of consistently positive monthly SOI values—especially if coupled with a La Niña sea-surface temperature pattern—would help. The monthly value of the SOI for May was –2.8.

Cattle and calf disposals

The gross value of Queensland's cattle and calf disposals (cattle and calves sold for slaughter and net live exports) is forecast at \$3.625 billion.

This is:

- 14% higher than DPI&F's initial forecast of \$3.175 billion for 2006–07
- 1% lower than DPI&F's final estimate of \$3.675 billion for 2005–06.

Forecast

Cattle and calves sold for slaughter (not including net live exports)

The gross value of Queensland's cattle and calves sold for slaughter in 2006–07 is forecast at \$3.6 billion.

This is:

- 14% higher than DPI&F's initial forecast of \$3.15 billion for 2006–07
- 2% lower than DPI&F's final estimate of \$3.655 billion for 2005–06.

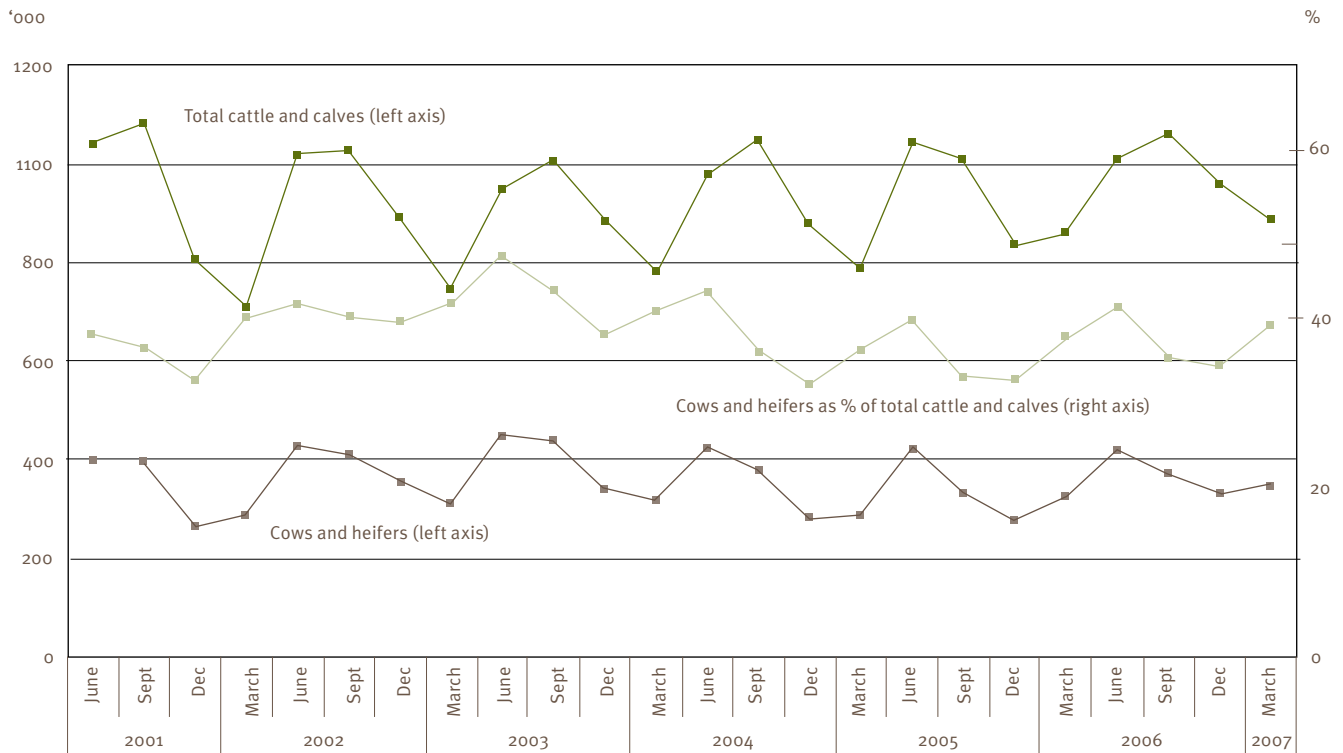
Discussion

Since the start of the 2006–07 financial year, total slaughter numbers of cattle and calves have been consistently higher than previous years. Seasonal conditions in 2006–07 were similar to those in 2002–03, when Queensland was in the grip of drought. However, unlike 2002–03, slaughter numbers have remained high during 2006–07 and are expected to be higher than slaughter numbers of the last five years (as illustrated in Figure 1).

DPI&F's initial forecast for 2006–07 was based on the assumption that there would be:

- moderate price falls as the United States (US) re-entered north-Asian markets
- reduced quality of cattle slaughtered due to ongoing drought conditions.

The re-entry of US beef into north-Asian markets has been slowed because of the discovery of bone fragments in shipments after the ban was lifted in August 2006.



Source: Australian Bureau of Statistics

Figure 1. Queensland cattle slaughter numbers by quarter, June 2001 – March 2007

The high Australian dollar continues to have a negative influence on export prices. This, coupled with anticipation of the return of cheaper US beef to north-Asian markets, has placed pressure on Australia’s exports.

Despite these external factors, slaughter numbers have remained high and prices have not fallen as much as anticipated. Therefore, the gross value of cattle and calf production has been revised upwards from the previous forecasts.

Queensland’s cattle and calf industry is the biggest contributor to the agricultural economy. In 2006–07, the cattle and calf industry is expected to account for more than one-third (35%) of the total GVP of Queensland’s primary industry commodities.

Sheep and lambs

Forecast

The GVP of sheep and lambs sold for slaughter in 2006–07 is forecast at \$45 million.

This is:

- 10% lower than DPI&F’s initial forecast of \$50 million for 2006–07
- 10% lower than DPI&F’s final estimate of \$50 million for 2005–06.

Discussion

This reduction in GVP is partially explained by lower sheep and lamb prices due to higher turn-off and slaughter numbers during spring, summer and autumn—in both Queensland and the southern states. The higher slaughter numbers are likely to be due to insufficient feed for livestock leading into winter caused by the ongoing drought, thus resulting in increased turn-off of sheep and, to a lesser extent, lambs before winter by many producers. Prices have also been influenced by appreciation in the Australian dollar, which places price pressure on exporters and reduces their willingness to pay high prices for export-quality sheep and lambs.

Poultry

Forecast

The gross value of poultry production in 2006–07 is now forecast at \$240 million.

This is:

- 2% higher than DPI&F's initial forecast of \$235 million for 2006–07
- 4% higher than DPI&F's final estimate of \$230 million 2005–06.

Discussion

During the year there has been a general increase in production, based on normal population growth and expansion of the industry with the growth of the free-range market. A number of small farms have left the industry, leading to increased capacity in larger facilities. Despite normal growth, the industry continues to face the pressures of urban encroachment (increased environmental regulation) and the lack of access to water.

Wool

Forecast

The gross value of wool production in 2006–07 is forecast at \$110 million.

This is:

- 10% higher than DPI&F's original forecast of \$100 million for 2006–07
- the same as DPI&F's final estimate of \$110 million for 2005–06.

Discussion

Wool production is forecast to decrease in 2006–07 due to:

- ongoing effects of the drought on Queensland's sheep producers
- a reduction in sheep numbers due to limited feed.

However, greasy wool prices rose rapidly in early 2007 due to end-user concerns about the effect of the drought on Australia's longer term supply of quality wool. The higher prices have been largely maintained, resulting in a higher average greasy wool price. Thus, due to higher average prices, the forecast gross value of wool production has increased despite the lower volume of wool produced in Queensland.

Tomatoes

Forecast

The GVP of tomatoes in 2006–07 is forecast at \$200 million.

This is:

- 21% higher than DPI&F's initial forecast of \$165 million for 2006–07
- 21% higher than DPI&F's final estimate of \$165 million for 2005–06.

Discussion

Disease and persisting dry weather conditions have significantly reduced the volume of tomato production in southern states. Queensland producers have benefited from the reduced supply and the subsequent increase in price.

Lifestyle horticulture

Forecast

The gross value of the lifestyle horticulture sector for 2006–07 is now forecast at \$1.22 billion.

This is:

- 13% lower than DPI&F's initial forecast of \$1.41 billion for 2006–07
- 18% lower than DPI&F's final estimate of \$1.48 billion for 2005–06.

Discussion

As outlined in the September 2006 edition of *Prospects*, the ongoing drought and the continuing roll-out of water restrictions in the major population centres of south-east Queensland have continued to stifle lifestyle horticulture industry activity throughout 2006–07. Consequently, expectations across the major sectors of the lifestyle horticulture industry have further deteriorated in June 2007.

Level 5 water restrictions were introduced across much of south-east Queensland in April 2007, further depressing local markets for lifestyle horticulture products and services, especially green life (ornamental plants and turf). Public concern about using drinkable water on gardens, albeit with buckets, continues to depress the demand for green-life products in the region.

Nursery sector activity is now forecast to decline by 17% in 2006–07. Nursery sector expectations have declined by 8% since the first 2006–07 forecast in September 2006.

Continued demand for seedlings and other planting stock by the horticulture, forestry and land rehabilitation industries is sustaining many production nurseries in south-east Queensland. However, the demand for ornamental plants—especially through retail nurseries—continues to decline as consumers postpone or abandon green-life purchases. The water restrictions have also had an impact on those production nurseries outside south-east Queensland (such as those in north Queensland) that supply the large Brisbane market.

The **turf production sector** is also experiencing very difficult trading conditions at present. Turf production activity is now forecast to decline by 30% in 2006–07, compared to 2005–06. Turf production GVP is now forecast at \$63 million for 2006–07, 21% below the September 2006 forecast of \$80 million. Turf production GVP has now almost halved since the forecast peak of \$125 million in 2003–04 and 2004–05.

The **cut flower sector** is now forecast to post a moderate decline in GVP of 10% in 2006–07. This latest decline is mostly due to the ongoing impacts of the drought, which have resulted in many native flower producers exiting the industry. In addition, an appreciating Australian dollar and rising freight costs are also currently squeezing profit margins in key export markets for native Australian flowers.

The commercial landscaping segment was previously expected to sustain overall **landscape sector** activity in 2006–07. However, landscape sector GVP is now forecast at \$448 million in 2006–07, 20% below DPI&F's initial forecast for 2006–07 and the final estimate for 2005–06.

Industry evidence indicates that some large commercial developers are now delaying or substituting the green-life landscaping components of major projects due to concerns about the significant water-related costs involved in establishing large areas of plants and turf.

The demand for domestic green life-related landscape installation and maintenance also continues to decline as consumers switch discretionary expenditure to other pursuits. Activity in this segment will continue to remain depressed until south-east Queensland experiences substantial rainfall. Some industry participants are also concerned that consumer spending patterns and habits have permanently changed and that demand will not fully recover to pre-drought and water-restriction levels once the region finally experiences substantial rainfall.

Table 2. Lifestyle horticulture forecasts 2006–07

Main industry sectors	Sep 06	June 07	2006–07 compared with 2005–06
	\$m	\$m	% change
Production sectors			
Nursery*	580	535	-17
Turf production	80	63	-30
Cut flowers and foliage	130	117	-10
Service sectors			
Landscape†	560	448	-20
Grounds and maintenance	290	285	0
Indoor plant hire	40	40	0
Total lifestyle horticulture	1410	1 218	-18

* Nursery sector includes production and retail segments.

† Green life-related activity only.

Note: Industry sectors derived from 2001 survey undertaken by DPI&F.

Sugarcane

Forecast

The gross value of the 2006 Queensland sugarcane crop is estimated at \$1.075 billion.

This is:

- 17% higher than DPI&F's initial forecast of \$920 million for 2006–07
- 8% higher than DPI&F's final estimate of \$1 billion for 2005–06.

Discussion

The overall size of the sugarcane crop is estimated to be around 33 million tonnes—just 3% lower than DPI&F's initial forecast of 34 million tonnes for the year, and slightly lower than the 33.6 million tonnes estimated in the March 2007 *Prospects update*.

The overall increase in the estimated GVP is based on better prices than initially forecast. However, as noted in the March 2007 *Prospects update*, crops in the Babinda and South Johnstone regions were affected by post-Cyclone Larry wind and rain resulting in lower commercial cane sugar (CCS) values and lower prices paid to producers in these regions.

Together, the cattle and calf, fruit and vegetable, lifestyle horticulture, and sugarcane industries are expected to account for almost three-quarters (73%) of the state's total GVP for primary industries in 2006–07.

Cotton

Forecast

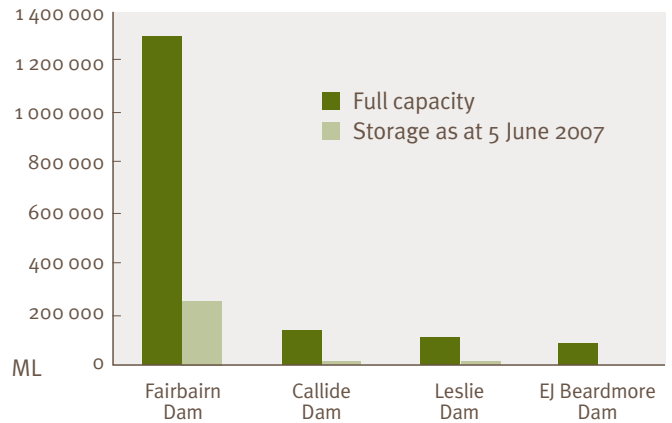
The GVP of cotton in 2006–07 is now forecast at \$120 million.

This is:

- less than half DPI&F's initial forecast of \$250 million for 2006–07
- 70% lower than DPI&F's final estimate of \$395 million for 2005–06.

Discussion

Other than the lack of water, the industry has experienced an almost perfect growing season with low insect numbers, plenty of sunshine and no temperature extremes. The ploughing out of much of the crop has allowed most of the remaining crop to flourish, with yields in St George–Dirribandi and the border regions exceeding expectations. However, the lack of water has led to moisture stress and lower yields in dryland cotton and some irrigated cotton areas. As illustrated in Figure 2, water storage levels in Queensland's cotton-growing regions are extremely low.



Source: Queensland Sunwater

Figure 2. Status of the major water storages in Queensland's cotton-growing regions, June 2007

The international price of cotton continues to trend lower as high cotton production in China and old surplus cotton in the US flood the market. The domestic price for lint has decreased slightly since March 2007. However, the cottonseed price remains high due to demand from livestock industries.

Other major field crops

Peanuts

Forecast

The gross value of peanut production in 2006–07 is forecast at \$15 million.

This is:

- 57% lower than DPI&F's initial forecast of \$35 million for 2006–07
- 50% lower than the most recent forecast of \$30 million published in the March 2007 *Prospects update*
- 25% lower than DPI&F's final estimate of \$20 million for 2005–06.

Discussion

The area planted was reduced from early expectations due to insufficient rainfall and irrigation water. In addition, yields were very poor for dryland peanuts, resulting in some crops baled for hay. Therefore, volume produced is forecast at 48% lower than previously expected.

Sunflower seed

Forecast

The gross value of sunflower seed production is forecast at \$2 million in 2006–07.

This is:

- 90% lower than DPI&F's initial forecast of \$20 million for 2006–07
- 33% higher than DPI&F's final estimate of \$1.5 million for 2005–06.

Discussion

Underlying this decrease is a significant reduction in the area planted to sunflower seed. The forecast area planted was reduced due to a combination of insufficient planting rain through both southern and central Queensland, and a high sorghum price that influenced some growers to plant sorghum instead. The price for sunflower seed has increased by 26% since the September 2006 edition of *Prospects* was published; however, the increased price has not compensated for the large reduction in volume produced.

Winter cereal grains

Barley

Forecast

The gross value of barley production in 2006–07 is forecast at \$25 million.

This is:

- the same as DPI&F's initial forecast for 2006–07
- 20% higher than the most recent forecast of \$20 million published in the March 2007 *Prospects update*
- 44% lower than DPI&F's final estimate of \$45 million for 2005–06.

Discussion

The area planted to barley was lower than originally forecast, influenced by the lack of moisture in southern Queensland and only small plantings in central Queensland. In addition, yields have been poorer than originally forecast due to the ongoing effects of drought, thus reducing the volume of barley produced. However, these drought effects have maintained high prices for all feed grains, which have offset the lower volume produced.

Summer cereal grains

Sorghum

Forecast

The gross value of sorghum production in 2006–07 is forecast at \$185 million.

This is:

- 23% lower than DPI&F's initial forecast of \$240 million for 2006–07
- 14% lower than the forecast of \$215 million published in the March 2007 *Prospects update*
- 32% higher than DPI&F's final estimate of \$140 million for 2005–06.

Discussion

This large reduction in the forecast GVP for 2006–07 is due to a much smaller planting than expected, as a result of insufficient rainfall across both southern and central Queensland. Yields have also been poorer than expected due to lack of moisture. This has resulted in a significant reduction in the forecast volume produced to around 690 000 tonnes. Continued high prices for all feed grains, due to demand for grain from the intensive livestock industries, has seen the sorghum price increase by around 45% for the 2006–07 year compared to the original price forecast in the September 2006 edition of *Prospects*. However, the increased sorghum price has not fully offset the greatly reduced volume of sorghum produced.

Fisheries

Trawl

Forecast

The GVP of trawl-caught species in 2006–07 is now forecast at \$120 million.

This is:

- 11% lower than DPI&F's initial forecast of \$135 million for 2006–07
- 25% lower than DPI&F's final estimate of \$160 million for 2005–06.

Discussion

Three elements have led to the reduction in the forecast GVP from the trawl sector. They are:

- a decline in the prices being offered to fishers for the product harvested, as a result of large quantities of prawns being imported into Australia at relatively low prices
- the effect of the strong Australian dollar on the achievable price for export-quality prawns
- the high price for fuel to operate trawlers.

These three elements have resulted in a reduction in trawl-fishing effort.

Non-trawl

Forecast

The GVP of non-trawl caught species in 2006–07 is now forecast at \$90 million.

This is:

- 10% lower than DPI&F's initial forecast of \$100 million for 2006–07
- 25% lower than DPI&F's final estimate of \$120 million for 2005–06.

Discussion

In the non-trawl sector, the contribution of the reef-line fishery and the spanner crab sector to the GVP remains consistent with previous years.

The major declines affecting the forecast gross values are the net harvest of finfish and the pot harvest of crabs. The main element affecting the price being offered to fishers for finfish is the increased importation of finfish flesh into Australia from low-cost countries, especially those involved in aquaculture production of the imported species. This has placed a very strong floor in the market, so that the price being offered to Queensland fishers for net-caught species in real terms has declined. As a consequence of this, fishers are not as active in the net sector. Although the high fuel prices are of concern to these fishers, it is not the main element in the reduced harvest.

Key assumptions

When calculating these forecasts, the department follows the convention used by all government agencies, namely that 'normal' seasonal conditions will occur across Queensland throughout the forecast year (2006–07), or that part of the financial year yet to be completed. The assumption of 'normality' sets the benchmark against which changes from 'normal' can be measured as the season unfolds.

The prices of all overseas-traded commodities are responsive to changes in the exchange rate of the Australian dollar relative to the currencies of our trading partners. Prices to primary producers, and therefore gross unit values, change depending on whether exchange rates increase or decrease.

Notes

In this publication, GVP relates to the output of primary industry commercial operations only. The GVP is the value of recorded production at wholesale prices realised in the market place (e.g. cattle sold at saleyards, sugarcane at the mill door, fruit and vegetables at the wholesale market), and is derived by multiplying the output from each primary industry by the average wholesale price paid to producers.

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Find out more

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The June 2007 *Prospects update* is also available on the DPI&F website at www.dpi.qld.gov.au/prospects

The Department of Primary Industries and Fisheries (DPI&F) seeks to maximise the economic potential of Queensland's primary industries on a sustainable basis.

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