# Farm Machinery Industry Business News

**Issue 12 March 2010**
A monthly industry business summary prepared for members of the ***Tractor & Machinery Association of Australia***

## *Tractor Report* – Agriview February 2010

**Tractors**: The numbers for February continue to mask what is really happening in the market place, on the surface everything looks good but underlying is the fact that the numbers are still feeling the effects of last year's investment allowance. We estimate that at least 20% of February's sales were in fact business done last year, a situation which we believe will continue for at least another two or possibly three months.

New tractor sales traffic at dealer level slowed considerably in February with low levels of enquiry particularly for high horsepower tractors and combine harvesters. Tillage and seeding equipment enquiry is also lower than expected at this time of the year.

On a positive note tractor trades are moving which is providing welcome cash flow for dealers. Getting back to the numbers, February sales were 3% up on the same month last year and 6% up on January.

**Combine Harvesters:** Combine deliveries are well down on this time last year, but last year was the exception. Over the last 5 years average deliveries for February were 10 so we are operating at known levels. What is clear is that new sales enquiry is well down at this time.

**Balers**: Rectangular balers remain in positive territory at the expense of Rounds.

## Severe thunderstorms in Melbourne 6th March 2010

The following is a report from *www.bom.vic.gov.au* Melbourne:

"A developing low pressure system with an associated low pressure trough to the west of Victoria combined with low level moisture and upper level forcing to generate showers and thunderstorms in the west of the State during the morning which spread eastward and intensified during the early afternoon. Severe thunderstorms developed to the northwest of the Melbourne Metropolitan Area and moved through the city from early afternoon progressing to the eastern suburbs and then into West Gippsland later in the afternoon.
The severe thunderstorms were associated with large hail and heavy rain resulting in widespread flash flooding and water and hail damage to property. There were some isolated severe wind gusts with the thunderstorms.
Rainfall totals in a 15 minute to 30 minute period included:

- 46mm at Maribyrnong
- 45mm at Latrobe Valley Airport
- 40mm at Melton
- 25mm at Melbourne Airport.

Hail:

- 10cm 3.30pm Ferntree Gully
- 7cm 3.05pm Blackburn
- 5cm 3.00pm Glen Iris

Plenty of other reports of hail 2 – 4 cm from right across Melbourne.
Wind:

- 102km/hr at Melbourne Airport"

## Rain improves summer crop yield potential, but area down

Rain in January and February in Queensland and northern NSW has improved the yield potential for summer crops but overall area planted and production is forecast to be lower than last season, commented Paul Morris, ABARE's Deputy Executive Director on releasing the latest Australian Crop Report.

In the February issue of the report, Mr Morris noted that prior to Christmas 2009, the area planted to summer crops was considerably down on recent years. Although the rains came too late for any major additional plantings in southern Queensland and northern NSW, further sorghum plantings are likely to occur in central Queensland.

Despite higher than average yields and some additional plantings, summer crop production is forecast to fall to around 2.4 million tonnes, which is 36 per cent less than the previous season and will be the smallest summer crop since 2006-07. Overall, summer crop plantings are forecast to fall by 27 per cent to around 845,000 hectares in 2009-10.

The total area planted to grain sorghum is estimated to have fallen to 429,000 hectares, the smallest area since 1992-93. Grain sorghum production is forecast to be around 1.3 million tonnes, around 47 per cent of what was produced in 2008-09.

An increase in the allocation of irrigation water has resulted in the area planted to rice rising to around 19,000 hectares, more than double the 8000 planted in 2008-09. Rice production is also forecast to increase to around 175,000 tonnes as a result of higher average yields following ideal growing conditions to date.

Cotton plantings are estimated to have increased by 23 per cent to 202,000 hectares despite irrigation water remaining an issue for the industry. Production of cotton lint is forecast to be higher at around 371,000 tonnes as recent rains have also improved yield prospects.

Following completion of winter crop harvest, winter crop production is 2009-10 is estimated to have increased to 35.2 million tonnes, a 4 per cent increase over the 2008-09 crop", Mr Morris said.

Wheat production is estimated to have increased by 3 per cent to 21.7 million tonnes, barley by 5 per cent to 8 million tonnes and canola by 3 per cent to 1.9 million tonnes in 2009-10.

***(The above sourced from www.abare.gov.au – February 2010)***

# Commodity Updates

**Global Growth Outlook**
Normally, severe economic downturns are followed by strong rebounds but NAB expects to see only trend growth of around 3.5 per cent in 2010 and 4 per cent in the following two years. China and India are the strongest performers with growth of around 9 and 7 per cent respectively in the next two years. Western Europe has probably the worst growth outlook among the big developed economies with growth running around 1 per cent or less in both the UK and Euro-zone in 2010. The US outlook looks brighter and despite several important downside risks, massive economic policy stimulus and the lower USD should see growth of 2.5 per cent this year and 3 per cent in 2011.

**Australian Growth Outlook**
NAB's domestic activity and labour market forecasts are unchanged from last month. While the economy grew strongly in the December quarter 2009, the February survey points to activity being softer in the March quarter of 2010. There has been some withdrawal of stimulus measures and interest rates were raised again in March. However there still appears to be considerable momentum in the domestic economy, with forward orders increasing and high levels of business confidence. NAB's GDP forecasts remain at 3 per cent for 2010, accelerating to around 3.75 per cent in 2011. Applying NAB's growth numbers suggests that unemployment will fall to around 4.75 per cent by end 2010 and 4.25 per cent by end 2011.

**Interest Rate Outlook**
NAB viewed the RBA's decision to increase rates by 0.25 per cent as merely a deferral of a decision that could just as easily have been taken in February. The RBA has flagged the need for further rises in the official cash rate and NAB expects it to be around 4.75 per cent by end 2010. NAB now has rate rises pencilled in for May, August and November. That said every meeting in 2010 is probably live and a decision will very much be data dependent. Nevertheless, both fiscal and monetary policy will need to become restrictive during the course of 2011 and so NAB has maintained its view of a peak in rates of 5.5 per cent by late 2011.

**Wheat Futures Prices**
Wheat prices have been flat to weaker over the last month, with excellent rains on the east coast providing moisture for a new crop plant and reducing the risk of a drought event pushing up domestic prices. Add to this large on-farm stocks, excellent moisture for sorghum and a relatively poor east coast shipping program, and the market has struggled to move higher. With a large amount of grain still unpriced by growers, any price rise will likely be strongly sold into. However given the high cost of production producers are reluctant to sell at current prices. A spike may come from international values, although to date crops are progressing well. WA has had little rain though, and while this is not yet an issue, the situation will become more critical into April/May.

**Australian Lamb Prices**
The heavy lamb indicator price increased by 3 per cent in Feruary 2010 to average 488c/kg, as a result of limited lamb supplies and sustained domestic and international demand. Indicative of tight lamb supplies, the February lamb slaughter declined by 17 per cent year on year. Looking ahead, above average rainfall across much of the eastern states is likely to result in some producers retaining greater volumes of ewes and ewe lambs for breeding, maintaining upward pressure on restocker lamb prices. However the size of this trend remains unclear given that many producers will be looking to maintain alaughter levels in the short term in order to maintain incomes that were negatively affected by below average returns from the 2009-10 witner crop season.

**World Dairy Prices**
World dairy prices have flattened over recent months after hitting a second peak in December 2009 at just over US$4500 per tonne on a product weighted basis. The market appears to be coming more into balance as the rapid price gains through 2009 brighten the supply outlook. For example, US milk production in 2010 is now forecast to be almost the same as 2009, when only a few months ago a drop of close to 1 per cent was expected. The results of the February and March Fonterra online auctions also point to a better balance in the market.

**Eastern Market Indicator Price**
The Eastern market indicator price for wool declined by 1 per cent in February 2010 to average 919c/kg, as mixed economic conditions in Europe and to a lesser extent the US, resulted in a downward adjustment in mill buyer confidence. In recent months the rate of improvement in consumer and business confidence in these countries has eased, as the stimulatory influence of government spending measures has dissipated. Thus while a further improvement in wool prices is anticipated in the short term (backed by tight supplies and the global recovery), the rate of improvement is likely to be much slower than was experienced in the second half of 2009.

***(The above sourced from www.nab.com.au – Agribusiness, March 2010)***

## Exchange Rates

*(Information sourced from www.rba.gov.au)*
*Rates are from March 1st – March 29th 2010*

| | USD | Euro | Yen | Pound | NZD | CAD |
|---|---|---|---|---|---|---|
| **Average** | 0.9118 | 0.6711 | 82.44 | 0.6057 | 1.2954 | 0.9342 |
| **High** | 0.9220 | 0.6826 | 84.83 | 0.6123 | 1.3014 | 0.9444 |
| **Low** | 0.8975 | 0.6594 | 79.80 | 0.5916 | 1.2840 | 0.9286 |