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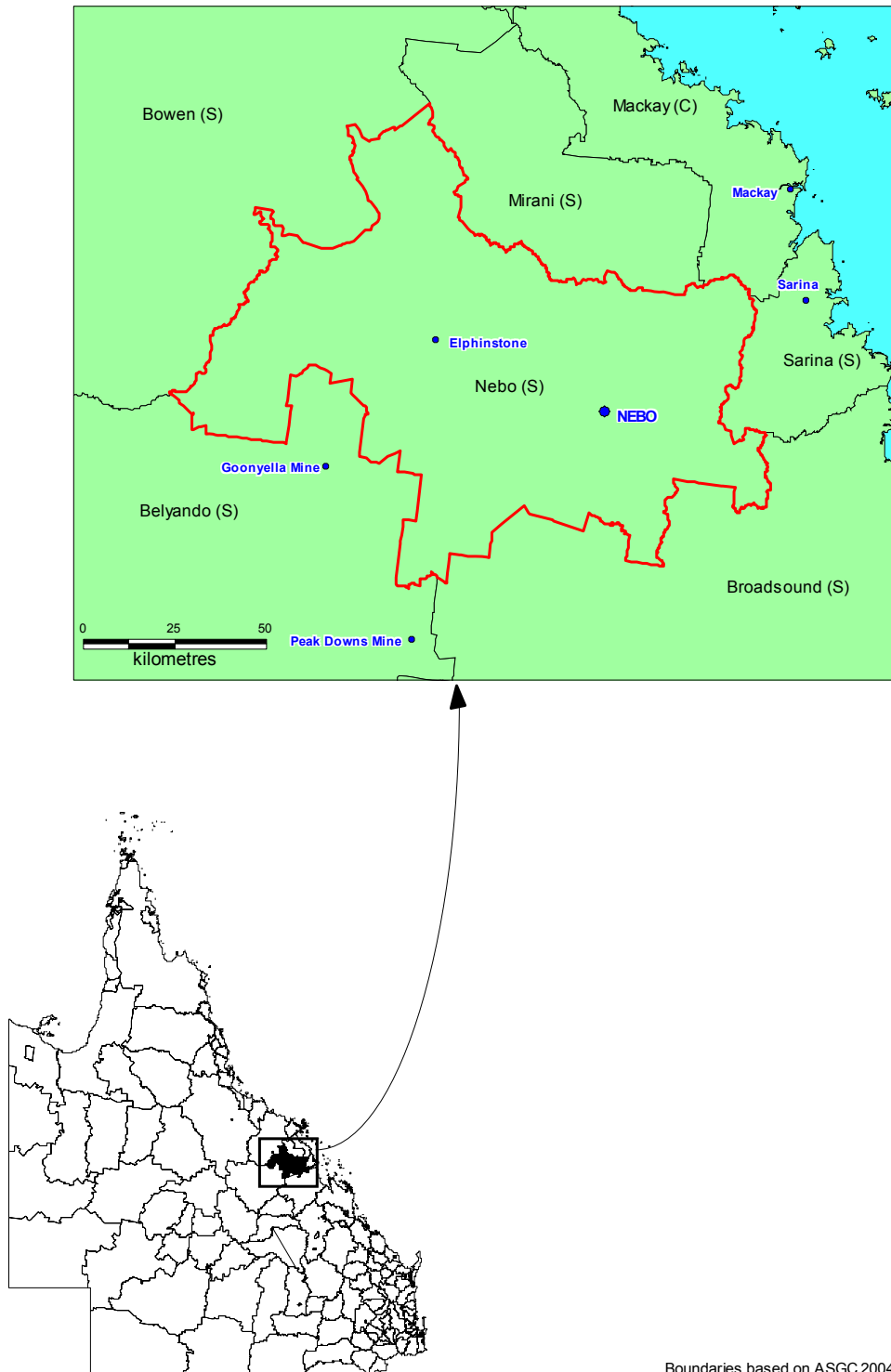
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1. INTRODUCTION

This report presents an assessment of economic and demographic information and trends for Nebo Shire, one of 158 local government areas in Queensland. Nebo Shire is located in the Mackay Statistical Division, and covers 10,035 km², or 0.58 per cent of the State. It is surrounded by Mackay City and the Shires of Sarina, Broadsound, Belyando, Bowen, and Mirani (Figure 1.1).

Figure 1.1 Snapshot of Nebo Shire and surrounding local government areas.



Boundaries based on ASGC 2004

Nebo Shire is connected to the rest of Queensland and Australia by flows of goods, services and economic resources. Section 2 of the report therefore provides a discussion of the broad economic and demographic factors influencing the State and National economies. Section 3 of the report drills down to the key aspects of Nebo Shire's population, and reports Queensland Government population projections for the Shire out to 2026. Section 4 then provides a discussion of the key economic indicators for the Shire, including trends in taxpayer numbers and taxable incomes, the Shire's economic structure, and recent developments in the Shire's labour market. In the final section, the economic outlook for Nebo Shire is discussed, and this information is supplemented by an appendix on the prospects for the beef industry, one of the Shire's more traditional activities.

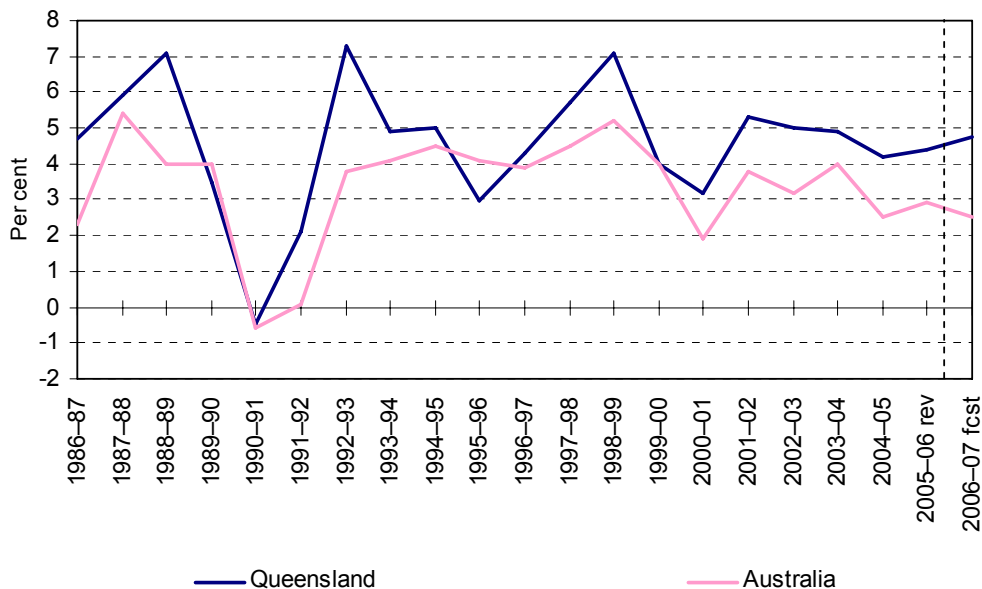
2. STATE AND NATIONAL SETTINGS

2.1 Economic Settings

The rate of economic growth is often used as a broad gauge of an area's economic, financial and employment opportunities and prospects. While data at the regional level are often unavailable or limited, economic growth rates at the national and state level are useful in providing information about broad economic trends.

The Queensland economy grew by 4.4 per cent in 2005-06, compared with 2.9 per cent for Australia, and this represents the tenth consecutive year that the State economy has outperformed the national economy (Chart 2.1). Similar results are expected in the future. Forecasts for 2006-07 indicate a strengthening of growth for Queensland (4¾ per cent), and a slight moderation for Australia (2½ per cent), the latter due largely to a drought-related fall in farm GDP.

Chart 2.1 Economic growth rates, Queensland and Australia

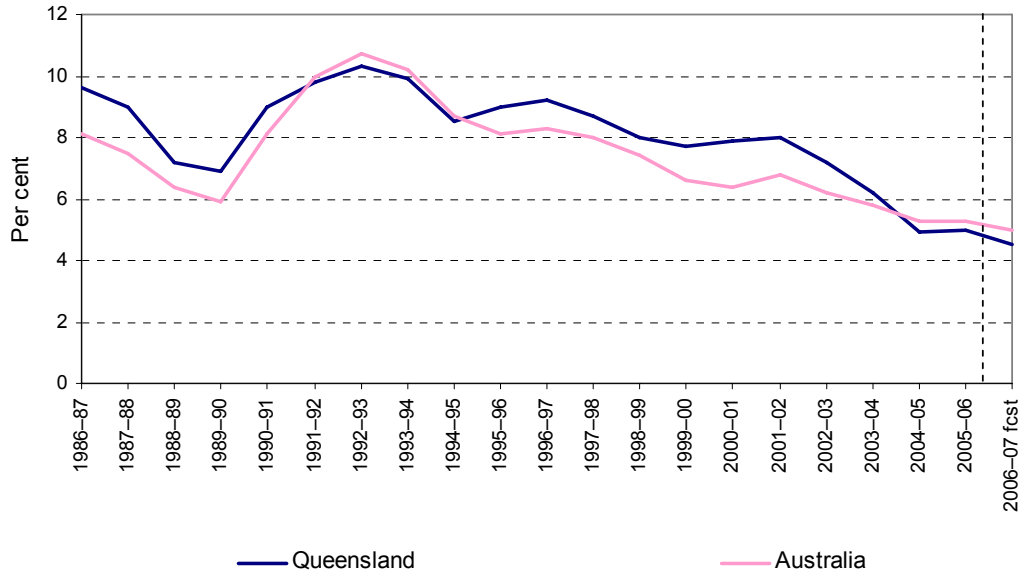


Source: Office of Economic and Statistical Research, *Queensland State Accounts*; Queensland Government, *Mid Year Fiscal and Economic Review 2006-07*; and Australian Government, *Mid Year Economic and Fiscal Outlook 2006-07*.

In 2005-06, Queensland's employment grew by 2.9 per cent, following the very strong 2004-05 outcome of 5.6 per cent. During 2005-06, an additional 57,000 jobs were created, of which 63 per cent were full time. High levels of public and private investment, as well as continued strong population growth, created significant employment gains in service industries such as construction, public administration, education, health and community services, and property and business services. Strong jobs growth also continued in the mining sector. In line with these positive outcomes, the State's year-average unemployment rate remained at a low of 5.0 per cent in 2005-06 (Chart 2.2).

In 2006-07, improving global economic growth is further boosting Queensland's trade sector which, together with continued strength in domestic investment, is expected to result in broad-based employment growth of 3½ per cent, with the unemployment rate declining further, to a year-average of 4½ per cent.

Chart 2.2 Unemployment rates, Queensland and Australia

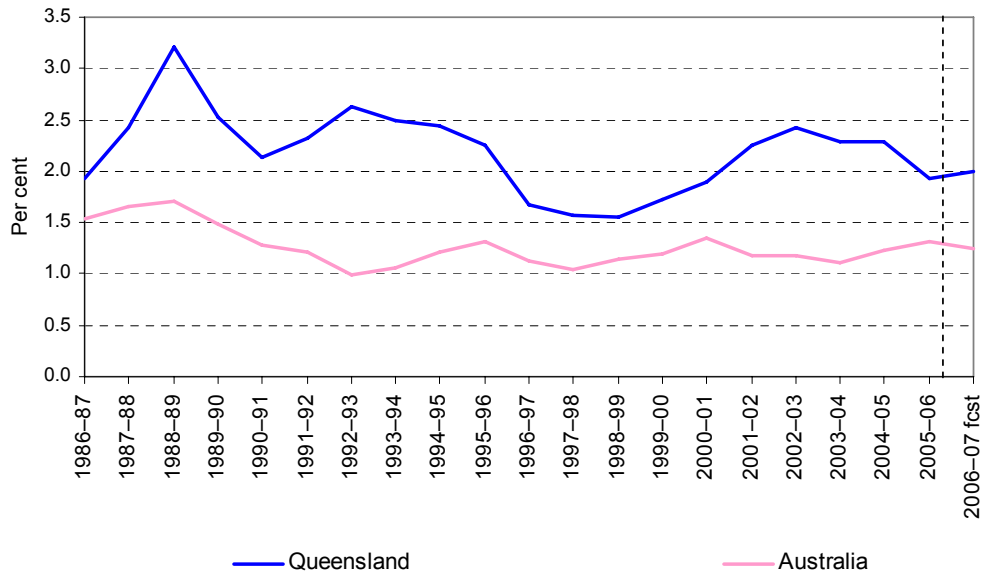


Source: ABS 6202.0; Queensland Government, *Mid Year Fiscal and Economic Review 2006-07*; and Australian Government, *Mid Year Economic and Fiscal Outlook 2006-07*.

2.2 Demographic Settings

During the twelve months to June quarter 2006, Queensland’s population increased by 76,392 persons (or 1.9 per cent) to reach 4,053,444 persons. Since the late 1980s, Queensland has been the fastest growing state in Australia.

Chart 2.3 Population growth, Queensland and Australia



Source: ABS 3218.0; and Queensland Government, *Mid Year Fiscal and Economic Review 2006-07* and *Budget Strategy and Outlook 2006-07*.

Queensland’s strong population growth is expected to continue for the foreseeable future, driven by high levels of net interstate and overseas migration. Queensland’s population is projected to increase to around 5.6 million people in 2026, reaching 7.1 million people in 2051¹.

¹ Queensland Government Population Projections (medium series), 2006.

An important issue confronting Queensland and Australia is population ageing. Population ageing is a global trend which is increasing the proportion of older people in the population. It is the result of three trends shared by developed countries – longer healthier lives, higher material living standards and increased participation of women in the labour force – which have combined to reduce fertility and mortality rates.

The changing age structure of the population is expected to have implications for the growth of the Queensland economy, as the pace of future economic growth depends partly on the rate at which the workforce grows. Overall, Queensland is comparatively well placed in this respect, with a relatively younger population than the rest of Australia, and with population growth projected to remain positive for decades to come. At the regional level, however, there is a high degree of demographic variation, such that some regional populations are expected to age much more quickly than the State average. This will present challenges for local government, as well as for the State and Commonwealth Governments.

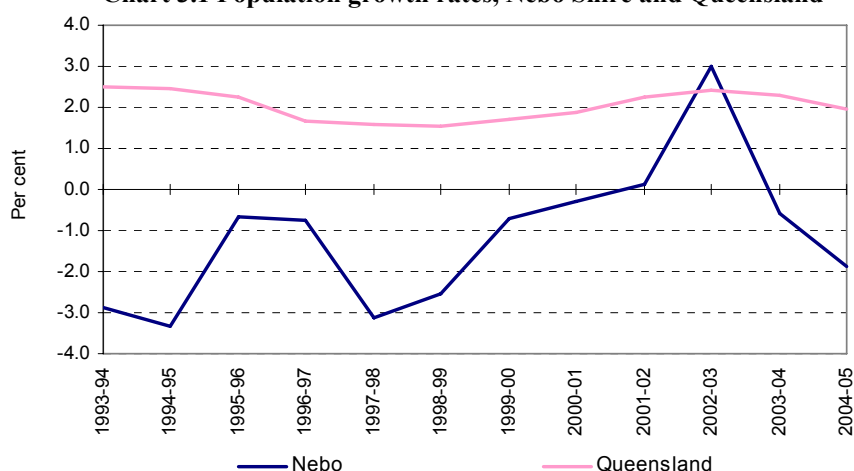
3. THE LOCAL POPULATION

3.1 Estimated Resident Population

Due to the prevalence of drive in, drive out mining employment in Nebo Shire, caution should be exercised when considering population statistics for the Shire. For example, recent research by the Department of Local Government, Planning, Sport and Recreation² found that mine workers who are classified as non-residents but still live in the Shire for significant periods give the Shire a service population more than 2.5 times its resident population. The analysis in this section addresses the characteristics of the resident population only.

At 30 June 2005, the estimated resident population of Nebo Shire was 2,107 persons. Over the five years to 2004-05, the average annual population growth in the Shire (0.1 per cent) was significantly lower than for Queensland as a whole (2.2 per cent) (Chart 3.1).

Chart 3.1 Population growth rates, Nebo Shire and Queensland



Source: ABS 3218.0

Over the year to 30 June 2005, Nebo Shire's resident population is estimated to have declined by 1.9 per cent. This saw the Shire ranked 95th for resident population growth among Queensland's local government areas (Table 3.1). The population growth rate in Nebo Shire was well below the averages for the Mackay Statistical Division (2.4 per cent), and the State (2.0 per cent).

Table 3.1 Population sizes and growth rates, Queensland local government areas

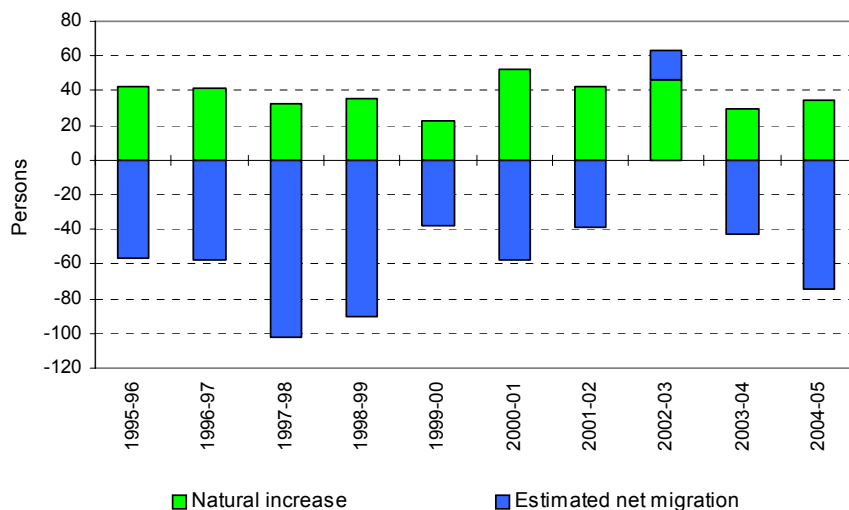
| Local Government Areas | Annual change, 12 months to June 2005 (per cent) | Population as at 30 June 2005 (persons) | Annual change, 12 months to June 2005 (persons) | Average annual change over previous 5 years (per cent) |
|------------------------|--|---|---|--|
| 1. Miriam Vale | 6.2 | 5,437 | 316 | 4.4 |
| 2. Laidley | 5.0 | 14,038 | 666 | 1.5 |
| 3. Hervey Bay | 4.8 | 51,818 | 2,370 | 4.1 |
| 4. Peak Downs | 4.7 | 3,309 | 150 | 1.3 |
| 5. Crow's Nest | 4.7 | 12,244 | 549 | 4.1 |
| 95. Nebo | -1.9 | 2,107 | -40 | 0.1 |
| Mackay SD | 2.4 | 147,374 | 3,451 | 1.6 |
| Queensland | 2.0 | 3,963,968 | 75,891 | 2.2 |

Source: ABS 3218.0

² A Sustainable Futures Framework for Queensland Mining Towns, July 2006.

Over 2004-05, Nebo Shire's resident population is estimated to have declined by 40 persons. Natural increase (births less deaths) over the year was 34 persons, and there was an estimated net migration outflow of 74 residents. Similar outcomes have been experienced in most years of the preceding decade, with natural increase averaging 38 per annum and net migration averaging a loss of 54 residents per annum (Chart 3.2).

Chart 3.2 Components of population change, Nebo Shire



Source: Planning Information and Forecasting Unit, Department of Local Government, Planning, Sport and Recreation

Table 3.2 Recent migrants¹ as a percentage of population, Queensland local government areas, 2001

| Local Government Area | Migrants (per cent of resident population) | | | | | |
|-----------------------|--|-------------------|-----|------|--------------|---------------------|
| | Total | Other LGAs in Qld | NSW | Vic. | Other States | Others ² |
| 1. Gold Coast | 46.9 | 27.9 | 7.2 | 2.5 | 2.3 | 6.9 |
| 2. Townsville | 46.7 | 34.7 | 3.2 | 2.0 | 3.4 | 3.4 |
| 3. Nebo | 43.8 | 35.2 | 3.4 | 0.7 | 2.8 | 1.8 |
| 4. Brisbane | 43.2 | 30.9 | 3.0 | 1.2 | 1.7 | 6.5 |
| 5. Thuringowa | 42.8 | 32.6 | 3.5 | 1.6 | 3.2 | 1.9 |
| Mackay SD | 26.1 | 18.4 | 2.5 | 1.1 | 1.9 | 2.1 |
| Queensland | 36.9 | 26.0 | 3.5 | 1.4 | 1.8 | 4.2 |

1: For persons aged 5 years and over, based on place of residence compared with 5 years earlier.

2: Includes 'Overseas' and persons who did not state whether they were usually resident at a different address 5 years ago.

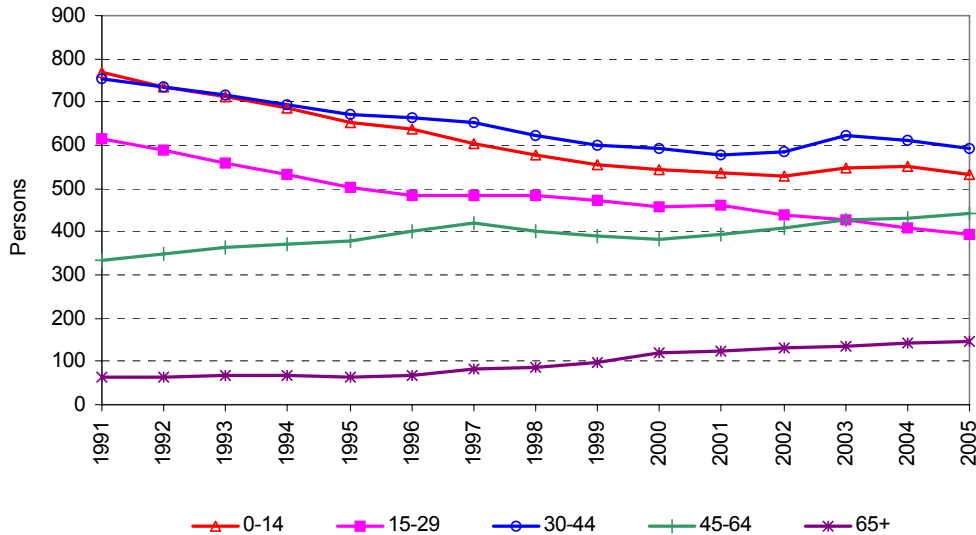
Source: ABS 2003.0

Looking further into the Shire's migration patterns, data from the 2001 Census for persons aged 5 years and over show that 43.8 per cent of Nebo Shire's population were persons who had migrated into the Shire over the previous 5 years. Among Queensland's local government areas, Nebo Shire ranked 3rd on this measure (Table 3.2). The proportion of recent migrants in the Shire's population was much higher than the averages for the Mackay Statistical Division (26.1 per cent) and the State (36.9 per cent).

Of the 43.8 per cent of the Shire's residents who arrived in the five years to 2001, 35.2 per cent came from other Queensland local government areas and 3.4 per cent came from New South Wales. The remainder came from other states and territories, and overseas or 'not stated'.

Over the period 1991 to 2005, the decline in Nebo Shire’s estimated population was manifested mainly in the younger age groups, although recent years have seen a slight recovery in numbers of 0 to 14 year olds and 30 to 44 year olds. The number of people aged 45 and over trended fairly steadily upward over the entire period.

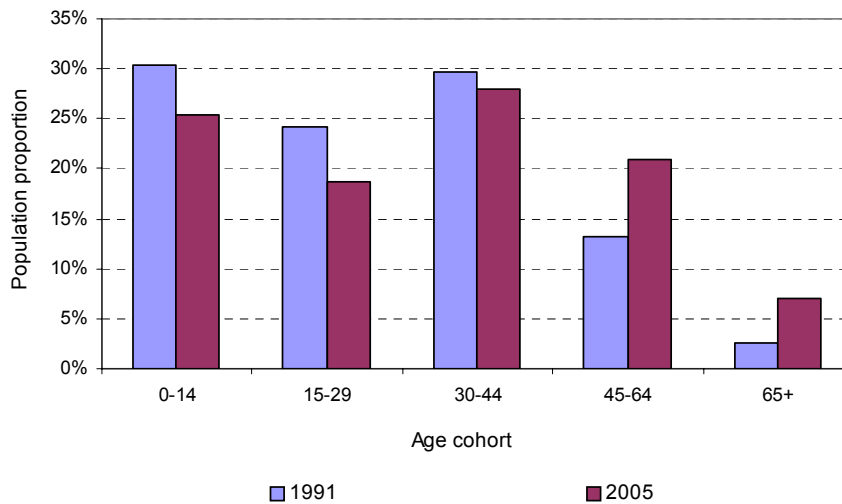
Chart 3.3 Population by age group, Nebo Shire, 1991 to 2005^(a)



(a) Population at 30 June each year
Source: ABS 3235.0.55.001

In 2005, the 45-64 age cohort comprised 20.9 per cent of the population, up from 13.2 per cent in 1991. Similarly, those aged 65 years and over increased to 7.0 per cent of the 2005 population, from 2.6 per cent in 1991 (Chart 3.4).

Chart 3.4 Age cohorts, Nebo Shire, 1991 and 2005



Source: ABS 3235.0.55.001

Despite these trends, Nebo Shire currently has a very young age profile. In 2005, the 45 years and over age cohort (ie. those who are of traditional retirement age or will reach it in the next twenty years) accounted for 27.9 per cent of the Shire’s population, well below the averages for the Mackay Statistical Division (35.1 per cent) and Queensland (36.7 per cent). Additionally, the median age of the Shire’s population was 32.7 years in 2005, compared with 35.5 years for the Mackay Statistical Division and 36.0 years for Queensland. Hence, Nebo Shire is one of Queensland’s youngest regional populations (Table 3.3). By 2026, the

median age in Nebo Shire is projected³ to be 35.6 years, compared with 40.8 years for Queensland as a whole.

Table 3.3 Population proportions (45+ cohort) and median age, Queensland local government areas, 2005

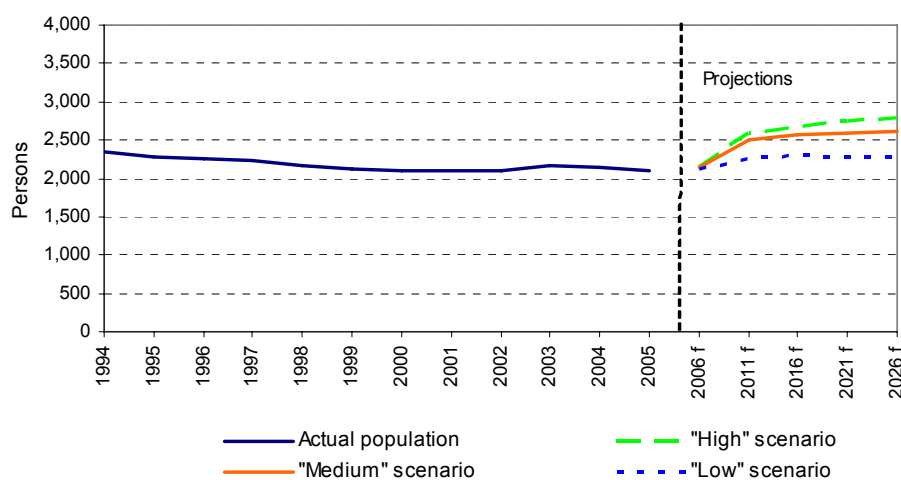
| Local Government Areas | 45+cohort (per cent of population) | Median age (years) |
|------------------------|------------------------------------|--------------------|
| 1. Biggenden | 51.8 | 46.9 |
| 2. Mount Morgan | 51.6 | 46.1 |
| 3. Isis | 51.4 | 46.0 |
| 4. Nanango | 48.6 | 43.9 |
| 5. Monto | 48.6 | 43.9 |
| | | |
| 114. Nebo | 27.9 | 32.7 |
| | | |
| Mackay SD | 35.1 | 35.5 |
| Queensland | 36.7 | 36.0 |

Sources: ABS (3235.0.55.001 and 3235.3.55.001) and QRSIS database maintained by the Office of Economic and Statistical Research (OESR).

3.2 Future Trends

Population projections published in 2006 by the Department of Local Government and Planning (DLGP) are available in 5 year snapshots from 2006 to 2026. There are three scenarios – low, medium and high (Chart 3.5).

Chart 3.5 Population estimates and projections, Nebo Shire, 1991 to 2026^(a)



(a) Population at 30 June each year.

Source: ABS 3218.0 and Department of Local Government and Planning, *Queensland's Future Population* (2006 edition).

The DLGP projections for Nebo Shire are all positive, ranging from an increase of 167 people (7.9 per cent) to an increase of 697 people (33.1 per cent) by 2026. For 2006, the DLGP “high” projection (recommended for Shires in the Bowen Basin) implies an increase of 49 people, compared with a decline of 40 people in 2005. It should be remembered that these projections are for the *resident* population, and that outcomes for this will depend on the demand for permanent family residences versus temporary drive in, drive out living arrangements, and also on the response of the housing stock. Dwelling approvals have been virtually constant over the four years to 2005-06 (see Table 4.1), although the current large numbers of applications suggest that approvals are likely to increase in 2006-07 and beyond.

³ Department of Local Government and Planning, 2006 Population Projections, high series.

4. ECONOMIC INDICATORS

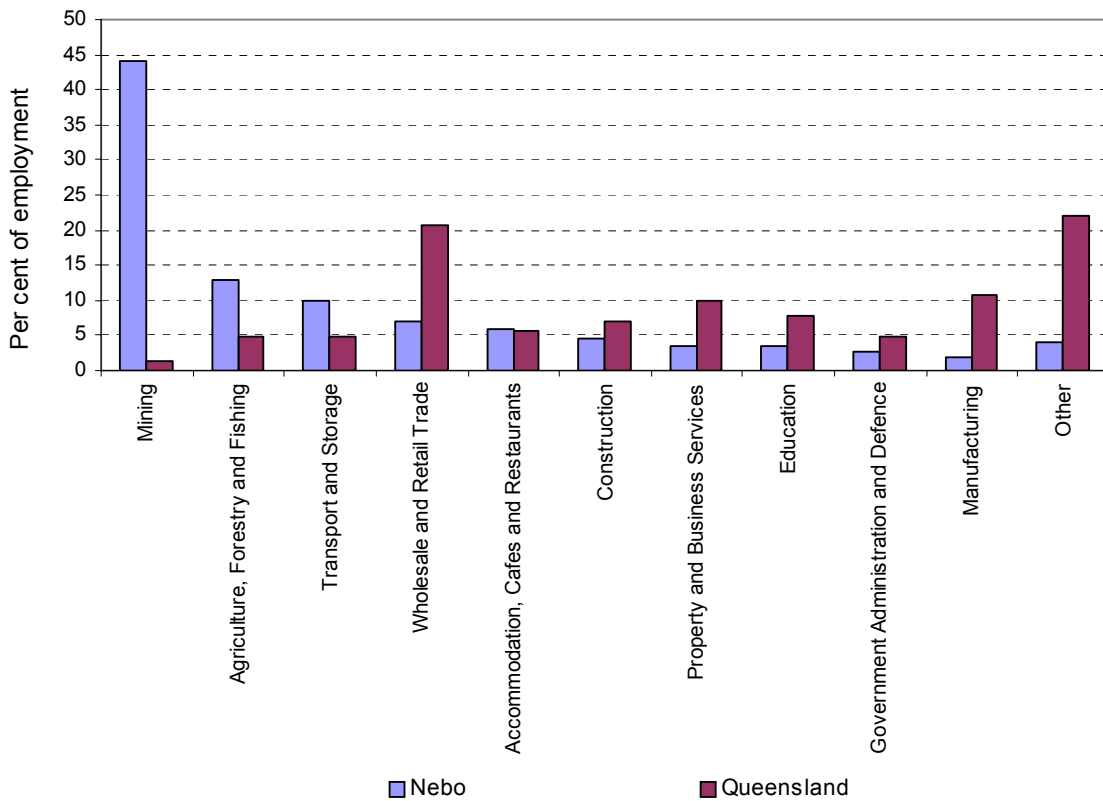
The most detailed and comprehensive data on the economy at local government area level are provided by the ABS Census of Population and Housing, the most recent of which was in 2001. The 2006 Census was conducted on 8 August 2006, with data becoming available in 2007.

The Census provides two different views which are used here to illustrate different aspects of the economy at local government area level. ‘Place of employment’ data show local economic activity, which includes workers who travel from other local government areas. This view illustrates the economic activity for which councils have to plan and provide infrastructure. ‘Place of residence’ data shows the employment of local residents, some of whom depend on jobs in other local government areas. This view illustrates the extent to which the incomes of local residents are affected by developments and prospects in the broader region.

4.1 Economic Structure

Based on Census ‘place of employment’ data, a total of 1,667 people were employed in Nebo Shire in 2001. The largest sector was Mining, which accounted for 44.1 per cent of employed persons (Chart 4.1). This was followed by Agriculture, Forestry and Fishing (13.0 per cent) and Transport and Storage (9.8 per cent).

Chart 4.1 Employment by Industry, Nebo Shire, 2001



Source: ABS 2006.0

Nebo Shire is located in the Bowen Basin, a large coal and gas resource that spans a number of Shires in central Queensland. Across Queensland local government areas, Nebo Shire was the 5th largest coal producer in 2004-05, although this may have changed recently, with two new mines (Millennium and Poitrel) coming on line in the second half of 2006. Both thermal and coking coal is produced in the area, mainly by open cut methods. Most of it is transported by rail to the Dalrymple Bay and Hay Point coal terminals just south of Mackay, for shipping to domestic and international markets. Mining activity in the Shire also drives employment in the transport, construction, and accommodation sectors.

The Agriculture, Forestry and Fishing industry also accounts for a substantially higher share of employment in Nebo Shire than for Queensland as a whole (13.0 per cent compared with 4.9 per cent). In 2001, the value of agricultural production in the Shire was \$32.3 million. Beef cattle production was the main activity, accounting for 94 per cent of the value of production.

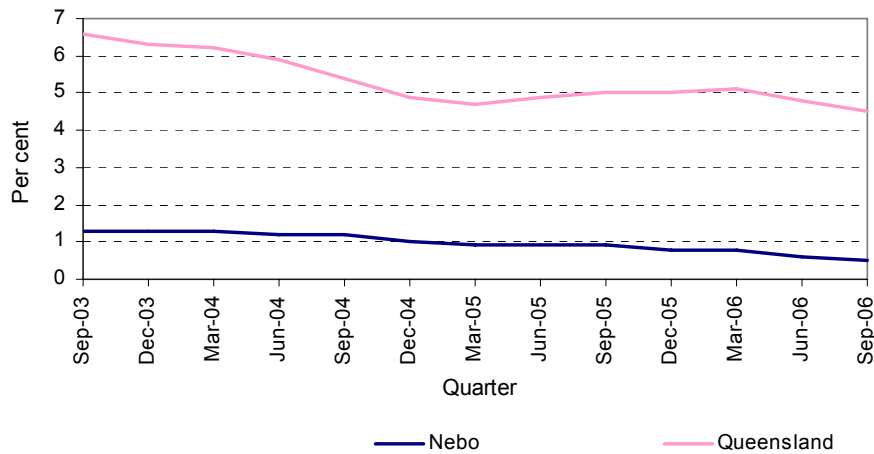
4.2 Labour Market

Between the 1996 Census and 2001 Census, the number of employed residents of Nebo Shire increased at an average annual rate of 0.6 per cent, much lower than the 2.0 per cent growth rate for Queensland as a whole. During this period, the main employment gains were in Wholesale Trade (38 persons), Agriculture, Forestry and Fishing (32 persons), and Property and Business Services (30 persons). This more than offset lower employment in Construction (104 persons), Government Administration and Defence (6 persons), and Finance and Insurance (4 persons).

According to the 2001 Census, Nebo Shire had 999 employed residents at Census time. Census journey-to-work data show that 165 Nebo Shire residents worked outside the Shire, mainly in the Shires of Bowen (51 persons), Belyando (31), and Sarina (23), as well as Mackay City (19). Inward labour flows were much greater than outflows, however, with Mackay City (417 persons), Belyando Shire (93), Broadsound Shire (77), and Sarina Shire (51) all providing significant quantities of labour, mainly in the mining sector.

Post-Census population outcomes suggest little growth in Nebo Shire's resident labour force. The only post-Census labour market estimates at LGA level are the 'small area' estimates published by the federal Department of Employment and Workplace Relations (DEWR), and these relate principally to unemployment⁴. DEWR estimates that, over the past three years, the unemployment rate in Nebo Shire has trended downward, and was just 0.5 per cent in September quarter 2006, well below the State's trend unemployment rate of 4.5 per cent in the same period (Chart 4.2). DEWR estimates that the average number of unemployed persons in Nebo Shire has declined in trend terms, from around 11 people over the year ended September quarter 2005 to about 6 people over the year ended September quarter 2006.

⁴ DEWR, *Small Area Labour Markets- Australia*. It should be noted that the DEWR estimates employ a number of simplifying assumptions, and should be interpreted with caution.

Chart 4.2 Unemployment rates, Nebo Shire and Queensland


Source: ABS 6202.0 and Commonwealth Department of Employment and Workplace Relations

4.3 Building Approvals

Building approvals data are comprised of two main categories - residential and non-residential. Recent approvals data for Nebo Shire are shown in Table 4.1.

Table 4.1 Building approvals: Number and Value, Nebo Shire

| | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---|--------------|--------------|--------------|--------------|
| Number of dwellings approvals (number) | | | | |
| Residential | 11 | 11 | 12 | 12 |
| Value of residential approvals (\$ 000) | 1,471 | 1,251 | 1,808 | 2,498 |
| New residential | | | | |
| Houses | 1,106 | 724 | 1,465 | 2,149 |
| Other residential | 297 | 488 | 290 | 0 |
| Alterations, additions and conversions to residential buildings | 68 | 39 | 53 | 349 |
| Value of non-residential approvals(\$ 000) | 3,259 | 710 | 0 | 288 |
| Total value of building approvals (\$ 000) | 4,730 | 1,961 | 1,808 | 2,786 |

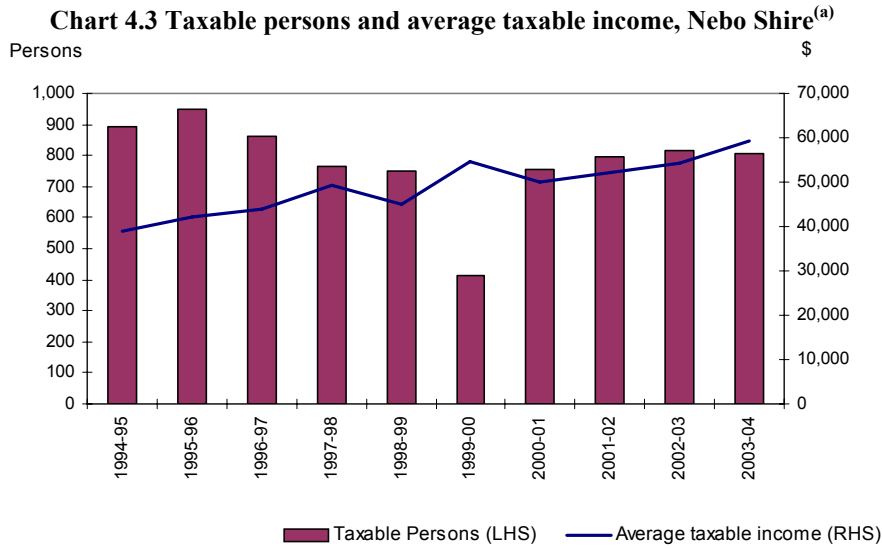
Source: Office of Economic and Statistical Research, *Queensland Regional Statistical Information System*

Numbers of dwelling approvals were quite steady over the four years to 2005-06, with 11 or 12 in each year. More recent monthly data suggests a significant increase in activity, with 20 new houses approved over the six months to December 2006.

4.4 Incomes

Statistics from the Australian Taxation Office show that for 2003-04, there were 806 taxable persons residing in Nebo Shire and their aggregate taxable income was \$47.9 million. Over the period 1994-95 to 2003-04, the average taxable income in the Shire rose by 53.1 per cent, compared with 44.9 per cent for Queensland as a whole. Average taxable income in the Shire (\$59,396) was well above the State average (\$40,037), reflecting the high proportion of highly-paid mining workers in the Shire. Among Queensland local government areas, the Shire ranked 1st on this measure.

Taxable persons represented 37.5 per cent of the Shire’s population in 2003-04. By comparison, for Queensland as a whole, taxable persons accounted for 43.6 per cent of the population.

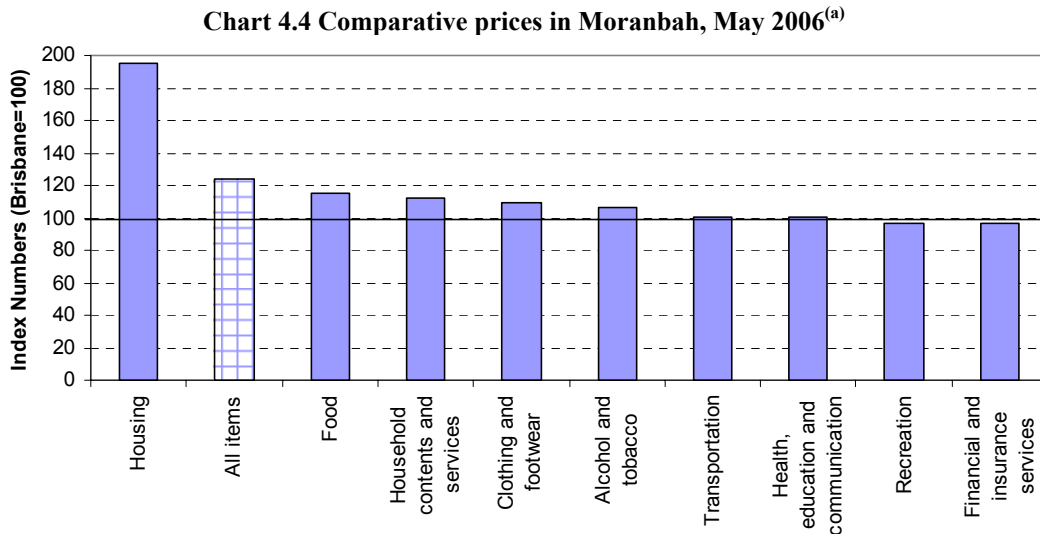


(a) Data for 1999-00 are incomplete.
 Source: Office of Economic and Statistical Research, *Queensland Regional Statistical Information System*

4.5 Prices

A survey of regional retail prices in selected Queensland cities and towns was undertaken by the Office of Economic and Statistical Research in May 2006, and the results were released in December 2006. Unfortunately, no localities in Nebo Shire were surveyed. Instead, the results for nearby Moranbah are shown below as a possible guide to prices faced in mining localities like Nebo town. Moranbah is a coal mining town in Belyando Shire which is facing similar population pressures due to expansion of mining activity.

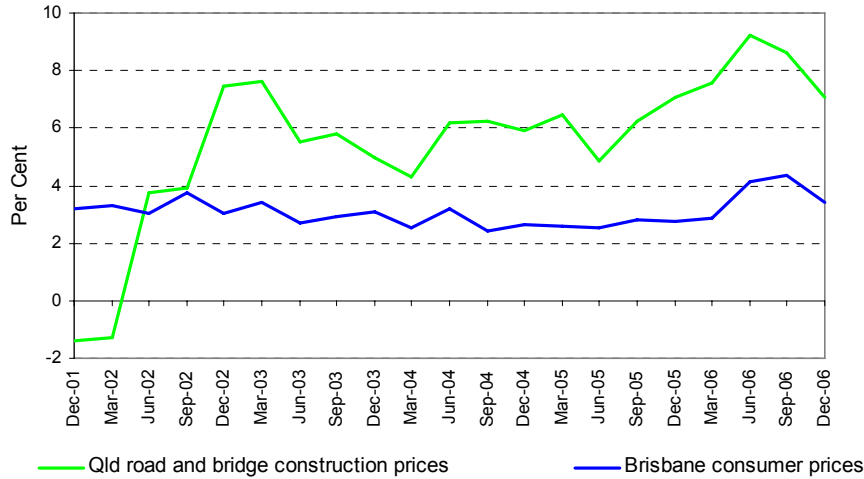
The ‘all items’ average in Moranbah was 23.8 per cent higher than in Brisbane. A key driver of this result was the Housing category, which was almost twice as expensive as in Brisbane. A number of other categories (Food, Household Contents and Services, and Clothing and Footwear) were also significantly more expensive than in Brisbane (Chart 4.4).



(a) Brisbane Statistical Division = 100. The data are expressed in the form of index numbers, which allow comparison of relative retail prices between selected centres and Brisbane SD at the time of the survey.
 Source: Office of Economic and Statistical Research, *Index of Retail Prices in Queensland Regional Centres, May 2006*

The only available measure of retail prices over time is the Consumer Price Index (CPI), which only captures price movements in capital cities. From December quarter 2001 to March quarter 2006, the Brisbane CPI increased steadily at approximately 3 per cent per annum. The June and September quarters in 2006 saw faster inflation, with consumer prices more than 4 per cent higher than a year earlier, before a moderation to 3.4 per cent in December quarter 2006 (Chart 4.5).

**Chart 4.5 Selected price indices for Queensland
(annual percentage change)**



Source: ABS 6401.0 and 6427.0

Of equal interest to governments are developments in producer prices, with road and bridge construction prices being of particular significance to local government. Over the past few years, road and bridge construction prices in Queensland have grown at about twice the rate of consumer prices. The annual rate of growth increased sharply over the year to June quarter 2006, peaking at 9.2 per cent, but has since declined to 7.1 per cent in December quarter 2006.

For the foreseeable future, a continuation of high oil prices and the high number of infrastructure and industrial projects currently underway and proposed in Queensland are likely to continue to exert upward pressure on construction prices, and to maintain the growth rate differential between construction prices and consumer prices.

5. ECONOMIC OUTLOOK

Nebo Shire's economy is based substantially on mining and agriculture, which tends to connect the incomes of Shire residents very strongly to external factors like exchange rates and global market forces, as well as variations in rainfall.

The outlook for coal mining in the Shire is positive. The mines in Nebo Shire primarily provide steaming and coking coal to international markets. Short term demand depends primarily on economic conditions in Japan, India, China, and other parts of Asia, which are currently favourable. In the medium term, export growth and prices will be influenced by developments in fast-growing countries like China and India. While their usage of coal will continue to increase, high prices have the effect of increasing the viability of domestic supply in those countries, which impacts on the demand for Australian coal. A longer-term area of uncertainty for coal production generally is the impact of environmental concerns on demand. While there is an obvious downside risk, this may be offset by the cleaner-burning properties of Queensland coals and the substantial efforts at state and national level to develop viable 'clean coal' technologies.

On the supply side of the coal industry, prospective new mines in Nebo Shire are currently being evaluated, such as Daunia Coal Project and Wards Well-Lancewood Coal Project. Additionally, Nebo Shire mines will benefit from substantial upgrades to critical infrastructure, such as expansion of the Dalrymple Bay and Hay Point coal terminals, expansion and electrification of the rail network, and construction of water pipelines. Electricity infrastructure is also set to expand, with the construction of new transmission lines to support rail electrification, and a gas-fired power station at Nebo, which will have a fuel supply link with a similar new facility at Moranbah.

A more traditional rural commodity produced in Nebo Shire is beef cattle. As with most of the agricultural areas of southern and central Queensland, lack of rainfall is impacting on pasture availability and stock numbers and condition, with Nebo Shire being drought-declared since 2002. Currently, the Department of Natural Resources and Water reports a marginal improvement in the seasonal outlook, with a 40 to 50 per cent chance of median rainfall for most of Queensland in January to March 2007.⁵ For nearby Moranbah, the Bureau of Meteorology reported 124mm of rainfall in January 2007.

In addition to region-specific rainfall issues, the Australian Bureau of Agricultural and Resource Economics has recently outlined some medium term risks to the beef industry generally. Saleyard prices of cattle are expected to ease due to growing supply and increasingly competitive export markets (see Appendix). A key development is the recent relaxation of the Japanese and Korean embargos on North American beef, which is expected to eventually reverse some of the recent market share gains by Australian beef.

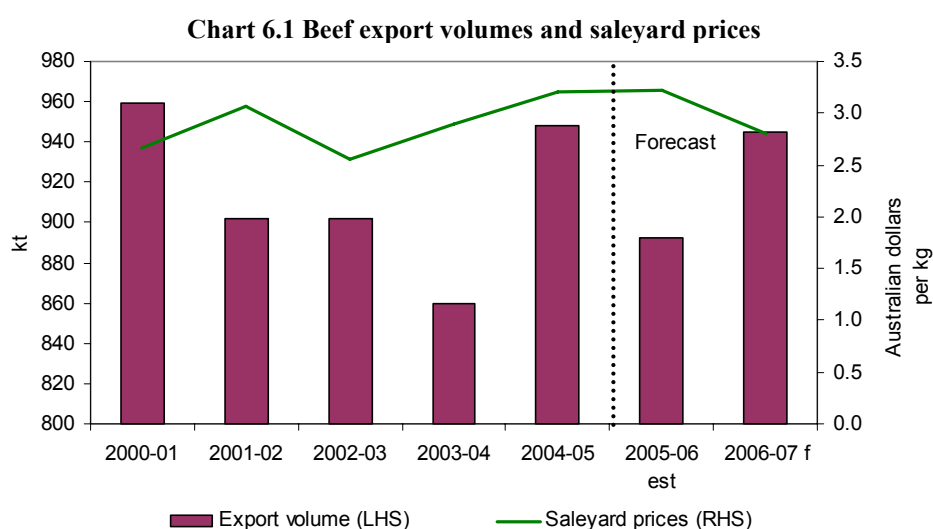
Growth of the resident population in Nebo Shire in the five years to June 2005 averaged 0.1 per cent per annum. However, the recommended Department of Local Government and Planning 'high' projection for the Shire suggests an expansion of 3.2 per cent per annum over the five years to June 2011, driven by increasing mining activity. Growth of this magnitude can be expected to generate downstream employment in residential construction and population-related services like education and health. A key variable in the population outlook is the extent to which the expansion of mining employment translates to growth in the Shire's *resident* population, as opposed to drive in, drive out living arrangements.

⁵ *Queensland Drought Report, December 31, 2006.*

6. APPENDIX: OUTLOOK FOR THE BEEF INDUSTRY

Approximately two-thirds of Australian beef production is exported. While the United States is traditionally Australia's largest single export market, over 60 per cent of Australia's exports are sold to Asian markets. Developments in key export markets, particularly the United States and Japan, have a significant influence on the local beef industry. More specifically, over the past few years, concerns over animal health, food safety and market access have had a major impact.

In late 2003, after the discovery of BSE (bovine spongiform encephalopathy or "mad cow" disease) in the United States and Canada, Japan and Korea imposed embargos on beef from these countries, stimulating demand for Australian beef. Moreover, US demand for Australian beef has also been boosted by the combination of bans on Canadian beef into the United States and reduced US production. Against this backdrop, not surprisingly, there has been upward pressure on beef prices.



Source: Australian Bureau of Agriculture and Resource Economics, *Australian Commodities*, December quarter 2006 and various earlier issues.

Looking ahead, growth prospects for the Australian beef industry will continue to be driven by developments in its major export markets. The embargo on US and Canadian beef in Japan was lifted in July 2006, and Korea lifted its embargo in October 2006, resulting in greater competition in those markets, although stringent conditions are in place which will limit market share changes in the short term. Exports to Japan (by weight) are forecast to decline by 2.6 per cent in 2006-07, while exports to Korea are forecast to continue growing, by 10.7 per cent. Increased demand (1.7 per cent) by the US in 2006-07 is also anticipated, due to lower availability of Uruguay beef and herd rebuilding by US producers. However, ABARE expects these demand pressures to be more than offset by higher supply of manufacturing beef by Australian producers, such that saleyard prices in Australia are expected to fall by 13 per cent in 2006-07.

The major issue on the supply side of the Australian beef industry is the drought in eastern Australia, which is reducing pasture availability and elevating feed prices. Large parts of Queensland's main cattle producing regions are drought-declared, and Queensland accounts for around 45 per cent of the Australian herd. In its recent *Drought Update*, ABARE reports that Queensland conditions are slightly better than in other states, such that major drought-prompted increases in slaughterings are not likely. However, increases in slaughterings in other states are expected to increase national supply and therefore drive down prices received by all producers.

