Agricultural overview

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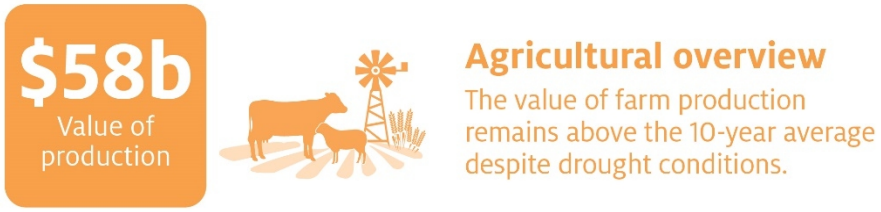
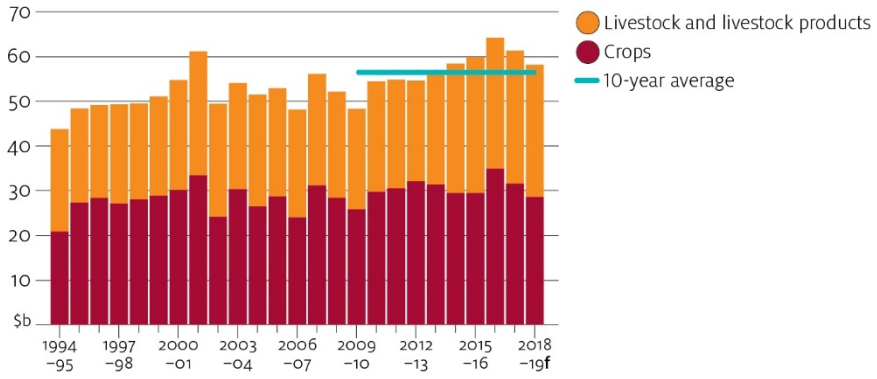


Value of farm production to be lower in 2018–19

In 2018–19 the value of farm production is forecast to decline by 3% to $58 billion, 6% lower than the record achieved in 2016–17. If realised, this would still be above the 10-year average of $56 billion (in 2018–19 dollars).

Real value of farm production, 1994–95 to 2018–19

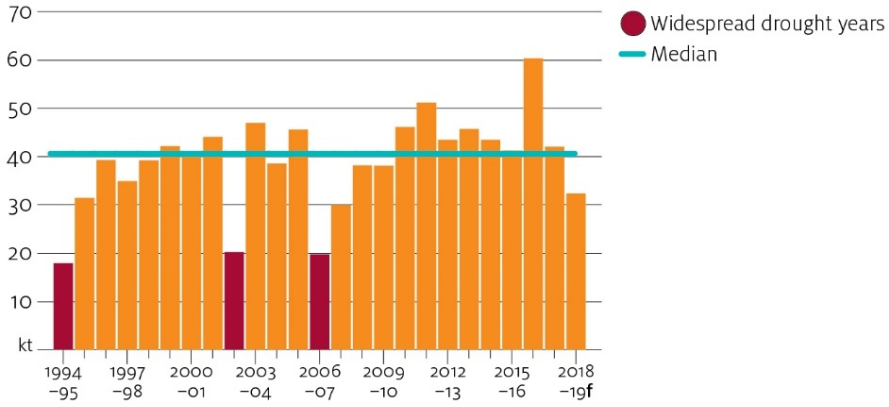


f ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics

Production of crops and livestock products affected by drought

The value of crop production is forecast to decline by 7% to $29 billion in 2018–19. The fall is driven by substantially lower production of crops including cotton (down $1.1 billion), wheat (down $870 million), canola (down $800 million) and chickpeas (down $680 million) compared with last year. The most significant reductions in crop prospects are in New South Wales and Victoria, where frosts and lack of rain damaged crops prior to harvest. Production in New South Wales is expected to be the lowest in 24 years. Nationally, production of grains, oilseeds and pulses in 2018–19 is forecast to be 32 million tonnes. This is substantially higher than during the more widespread droughts of 1994–95, 2002–03 and 2006–07. For more detail on crop conditions and prospects for major field crops see the December Crop Report.

Grain, oilseed and pulse production, 1994–95 to 2018–19



f ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics

The value of livestock and livestock products is forecast to increase by 2% to $30 billion in 2018–19. Higher cattle and sheep turn-off and strong prices for lamb and wool are forecast to support the value of production. Droughts tend to increase meat production. However, dry conditions in eastern Australia have reduced milk and wool production, with yields for both forecast to decline.

Farmgate price rises provide buffer to national outlook

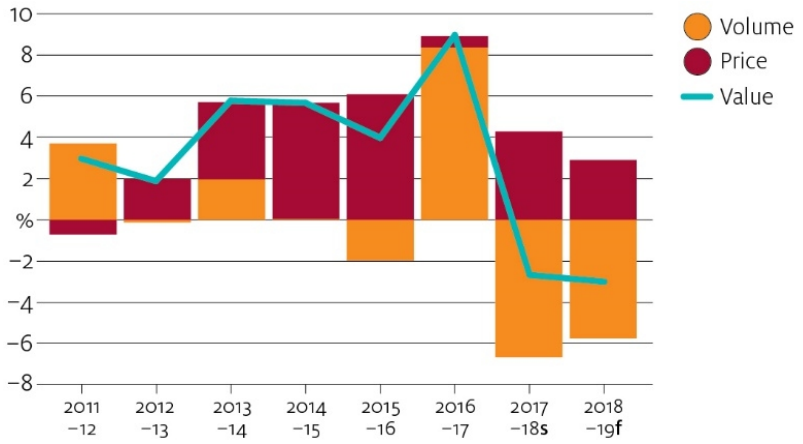
Farmgate prices are forecast to increase for canola, coarse grains and wheat in 2018–19. These crops are mostly destined for export, with prices set in world markets. World indicator prices for these grains are forecast to increase in 2018–19 because of lower production in key exporting countries, including Australia, the Russian Federation and in parts of the European Union.

At the same time, domestic prices for grains suitable for feed are expected to be high because of poor pasture growth and low availability of feed grains and fodder. Domestic feed grain prices rise above world prices in times of drought because of the high cost of meeting Australia's biosecurity protocols on imported feed.

Saleyard prices for sheep are forecast to rise because of enduring high demand from Asia and constrained production due to poor seasonal conditions. High world prices are supporting farm incomes and providing an incentive to purchase feed despite its high cost.

The aggregate index of prices received by Australian farms is forecast to increase by 3% in 2018–19, after increasing by 4% in 2017–18. Relatively strong growth in prices in 2017–18 mitigated the decline in the value of production and this is expected to continue with a forecast rise in prices in 2018–19.

Annual growth in the value of farm production, by price and volume, 2011–12 to 2018–19



f ABARES forecast. **s** ABARES estimate.
Note: Chained Fisher volume and price indexes, reference year 2018–19 = 100.
Sources: ABARES; Australian Bureau of Statistics

Rising input costs putting pressure on farm incomes

At the national level, farm profitability is expected to be lower in 2018–19 compared with the previous two years. This is due to the effects of drought in eastern Australia on production and costs. However, farm incomes are expected to remain comparatively high. This is because generally favourable prices received for most commodities and a lower Australian dollar are boosting export returns. Average to above average production outside drought-affected regions is also supporting national income. Some drought-affected broadacre farms have managed to maintain earnings by selling drought-affected crops as hay into the domestic feed market.

Farm profitability in 2018–19 is expected to be much worse in parts of Queensland, New South Wales and Victoria, where the drought is most severe. Lower production from winter crops and higher input costs—particularly for fodder and feed-grains— are putting substantial downward pressure on farm incomes in these regions. High prices for irrigation water in the Murray–Darling Basin are also affecting farm profitability in the irrigation sector. This is particularly the case for dairy producers, who are reliant on fodder and in some regions irrigation water for production.

The final picture for farm incomes in 2018–19 will depend on the success of summer crops in northern New South Wales and southern Queensland. Good outcomes for summer cropping are likely to improve cropping farm incomes in these regions. The improved availability of fodder and feed grains may also benefit livestock producers. Detailed projections of farm costs and net farm cash income for 2018–19 will be available at the Outlook 2019 conference in March.

Select input prices, July 2008 to November 2018

Note: Pasture hay prices in Wagga Wagga; Feed Barley delivered to Sydney; Water allocation prices in the southern Murray-Darling Basin.
Sources: ABARES; Bureau of Meteorology; The Land; The Weekly Times

Lower exportable supplies reduce export earnings

In 2018–19 export earnings for agricultural commodities are forecast to decline by 7% to $45 billion.

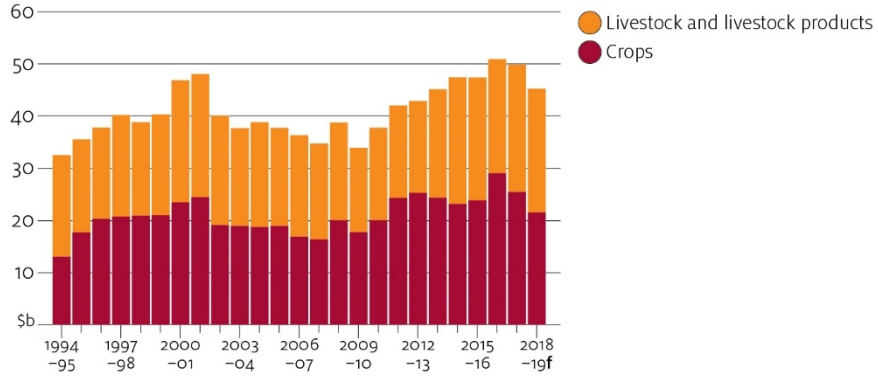
The value of crop exports is forecast to be $22 billion in 2018–19, 14% lower than in 2017–18. The main driver of the decline is lower production due to poor seasonal conditions and increased domestic consumption of coarse grains and wheat for feed.

The value of livestock and livestock product exports is forecast to remain relatively unchanged from 2017–18 at $24 billion. Higher prices for lamb, mutton and wool are offsetting falling export volumes. Volumes of exported beef and mutton are forecast to increase by 5%. The number of live sheep exported is forecast to fall by 44% in 2018–

19 because shipments were constrained during the northern summer. However, this will only have a small impact on total exports.

Increasing competition in Asia poses a risk to Australian export earnings. Australian wheat exports are facing increased competition from lower-cost producers who are improving the quality of their grain. Beef exports are also facing increased competition from the United States and Brazil.

Real agricultural export earnings, 1994–95 to 2018–19



f ABARES forecast.
Sources: ABARES; Australian Bureau of Statistics

Trade conflict weighing on consumer confidence

The continuing trade conflict between the United States and China is a key source of uncertainty in the outlook for Australian agricultural exports. The dispute may advantage some Australian exporters, but it is likely that the long-term implications will be negative. This is because Asia accounts for around two-thirds of Australia's agricultural exports annually. A prolonged dispute could have significant consequences for regional income growth and import demand. The trade war appears to be weighing on Chinese consumer confidence, which could result in lower demand for some agricultural products such as wool.

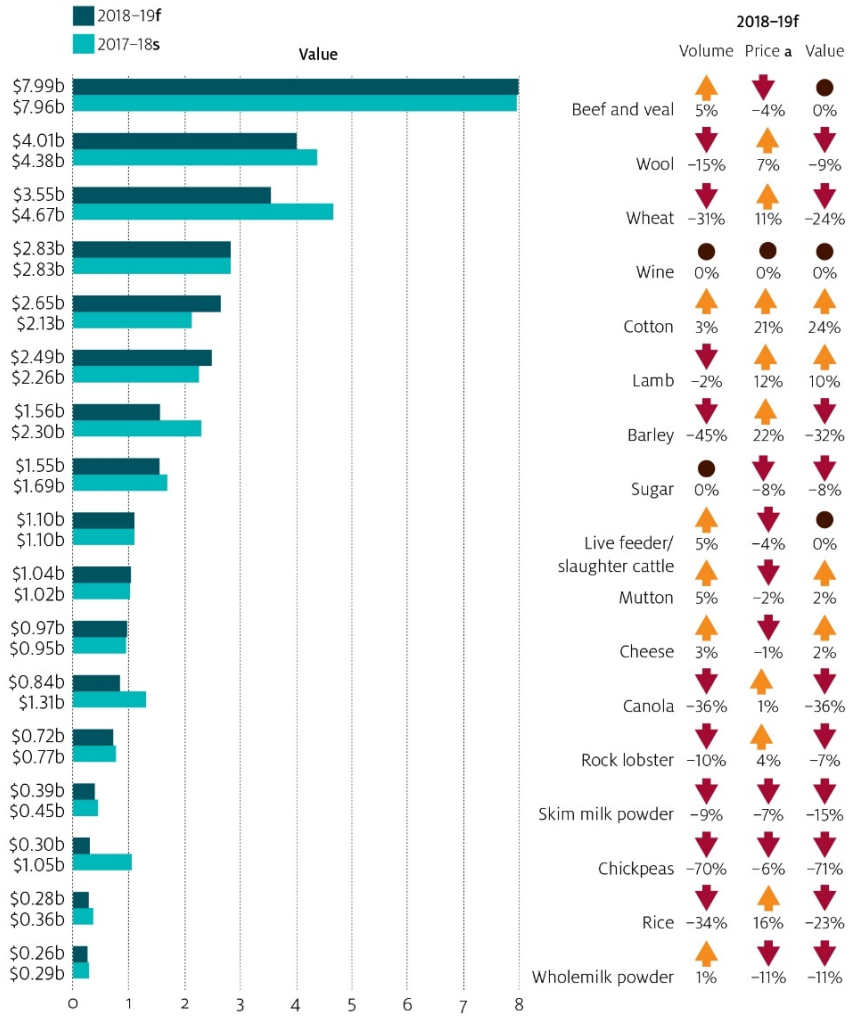
Trans-Pacific Partnership to come into effect in late 2018

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11) will enter into force on 30 December 2018 for Australia, Canada, Japan, Mexico, New Zealand and Singapore. Brunei, Chile, Malaysia, Peru and Vietnam will join once each has ratified the agreement. In 2017 the United States withdrew from the original agreement, signed in 2016. Agricultural outcomes of the TPP-11 are otherwise identical.

The first round of tariff cuts will take effect on 30 December 2018 and the second round on 1 January 2019. These two cuts will provide exporters in those countries that have ratified the agreement with a competitive advantage over those that have not yet ratified or are not part of the agreement.

Because Australia is among the first group of countries to ratify the agreement, exporters will be able to take advantage of their improved access to some markets. For example, on 1 January 2019 Australian beef exports to Japan will be subject to a tariff of 27.5%. This is 11 percentage points lower than the World Trade Organization's most-favoured-nation rate of 38.5% and just slightly below the current Japan–Australia Economic Partnership Agreement tariff rates of 29.3% for chilled beef and 26.9% for frozen beef. This gives Australian beef exporters a competitive advantage over their US counterparts, who do not benefit from a preferential agreement in this high-value market.

Major Australian agricultural commodity exports



a All commodity prices are expressed as export unit returns in A$. Export unit returns are obtained by dividing the value and quantity of the commodity exported.
f ABARES forecast. **s** ABARES estimate.

Major indicators of Australia's agriculture, fisheries and forestry sectors

Category		2013–14	2014–15	2015–16	2016–17	2017–18 s	2018–19 f	*% change*
Exchange rate	A$/US$	0.92	0.84	0.73	0.75	0.78	0.72	– 6.8
Australian export unit returns a								
Agriculture	index	100.0	106.2	110.5	110.4	113.5	117.7	3.7
Value of exports								
Agriculture	A$m	41,364	44,200	44,776	48,944	48,881	45,269	– 7.4
crops	A$m	22,318	21,574	22,511	27,939	24,944	21,544	– 13.6
livestock	A$m	19,046	22,625	22,265	21,004	23,936	23,725	– 0.9
Fisheries products	A$m	1,304	1,440	1,542	1,435	1,575	1,542	– 2.1
Forestry products	A$m	2,529	2,772	3,116	3,460	3,605	3,481	– 3.5
Total agriculture, fisheries and forestry exports	A$m	45,196	48,412	49,434	53,839	54,061	50,292	– 7.0
Gross value of production b								
Farm	A$m	51,464	54,387	56,554	61,629	59,978	58,171	– 3.0
crops	A$m	28,699	27,423	27,791	33,515	30,854	28,588	– 7.3
livestock	A$m	22,766	26,964	28,763	28,114	29,124	29,582	1.6
Fisheries	A$m	2,473	2,764	3,020	3,058	3,175	3,281	3.3
Forestry **c**	A$m	1,840	2,025	2,270	2,571	2,553	2,571	0.7
Total farm, fisheries and forestry products	A$m	55,778	59,176	61,844	67,258	65,707	64,023	– 2.6
Volume of farm production **d**	index	121.9	121.9	120.8	131.6	123.4	115.8	– 6.2
crops	index	131.9	125.0	130.2	165.2	138.8	122.8	– 11.6
livestock	index	110.7	117.3	111.0	103.6	109.0	108.1	– 0.8
Production area and livestock numbers								
Crop area (grains, oilseeds and pulses)	’000 ha	22,558	22,910	21,337	24,373	23,436	18,832	– 19.6
Sheep	million	69.4	68.0	67.5	72.1	69.6	68.5	– 1.6
Cattle	million	29.1	27.4	25.0	26.2	25.8	25.5	– 1.2
Costs and returns								
Farm costs	A$m	37,957	38,441	38,516	39,828	39,269	41,779	6.4
Net farm cash income **e**	A$m	18,852	21,390	23,564	27,422	26,439	22,242	– 15.9
Net value of farm production **g**	A$m	13,507	15,946	18,038	21,801	20,709	16,392	– 20.8
Farmers’ terms of trade **h**	index	98.2	103.8	109.2	109.5	109.9	106.8	– 2.8
Employment								
Agriculture, forestry and fishing	’000	312	318	321	304	329	na	na
Australia	’000	11,467	11,682	11,918	12,088	12,458	na	na

a Base: 2013–14 = 100. **b** For a definition of the gross value of farm production see Table 13. **c** Estimated gross value of logs delivered to mill door (or wharf gate)**. d** Chain-weighted basis using Fisher’s ideal index with a reference year of 1997–98 = 100. **e** Gross value of farm cash income less total cash costs. f ABARES forecast. **g** Gross value of farm production less total farm costs. **h** Ratio of index of prices received by farmers and index of prices paid by farmers; base: 1997–98 = 100. **s** ABARES estimate (excluding the exchange rate and employment figures).
Sources: ABARES; Australian Bureau of Statistics; Reserve Bank of Australia