Agricultural overview

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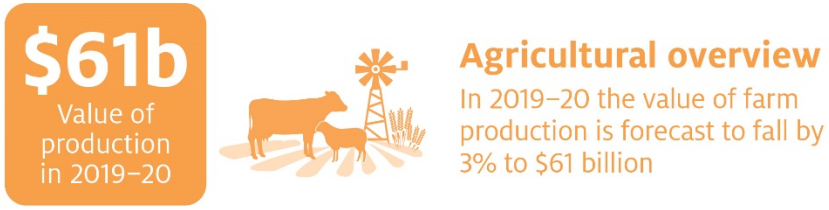


- The impact of drought is becoming more apparent as production continues to fall.
- Improved livestock prices are helping maintain the total value of production at just above $60 billion in 2019–20.
- Export earnings are forecast to fall by 8% to $45 billion.

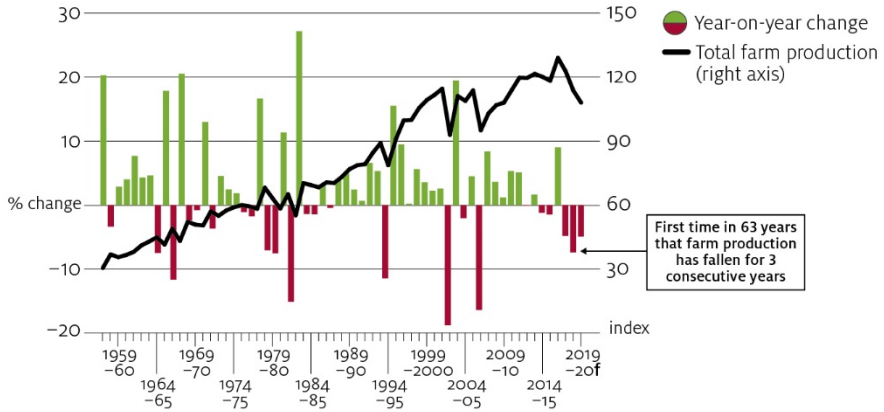
Drought continues to affect agricultural sector

The impact of drought continues to be felt across Australia's agricultural sector, contributing to a forecast unprecedented third consecutive year of falling production. However, the total value of agricultural production is forecast to remain just above $60 billion in 2019–20 despite the significant challenges facing the sector.

Strong global demand and increased prices for almost all livestock products are providing a buffer against falling production. The share of total agricultural gross value contributed by the livestock sector is forecast to reach 53% for the first time since 1990–91—the same year the Wool Reserve Price Scheme collapsed and Australia had nearly 100 million more sheep than in 2019.

Reduced production will result in lower exports. In 2019–20 agricultural export earnings are forecast to fall by 8%, to $45 billion. The main drivers of this fall are lower crop and livestock production and a diversion of grain to the domestic market for feed and human consumption. Prices for Australia's major grain exports are also forecast to fall because global production conditions have been generally favourable. Downside risks to global economic growth have increased considerably (see Economic overview).

Volume of farm production, 1957–58 to 2019–20f

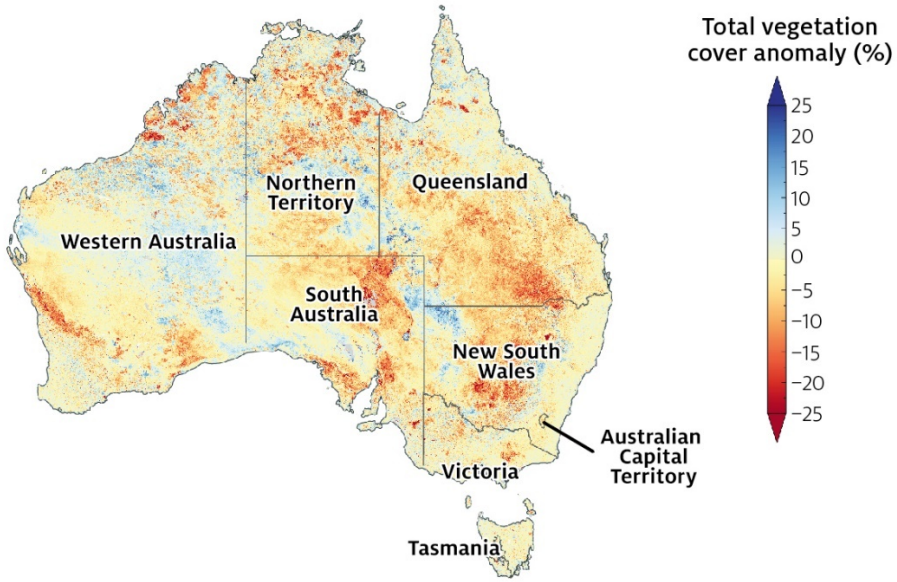


f ABARES forecast.
Note: Index 1997–98 = 100. Chain volume measure shown.

Poor conditions widespread

Current seasonal conditions are remarkable in their extent and severity when compared with previous major droughts. In October 2019 vegetation cover across New South Wales, Queensland, the Northern Territory and Western Australia was noticeably lower than in October 2007, during the last major widespread drought.

Vegetation cover anomaly, October 2007

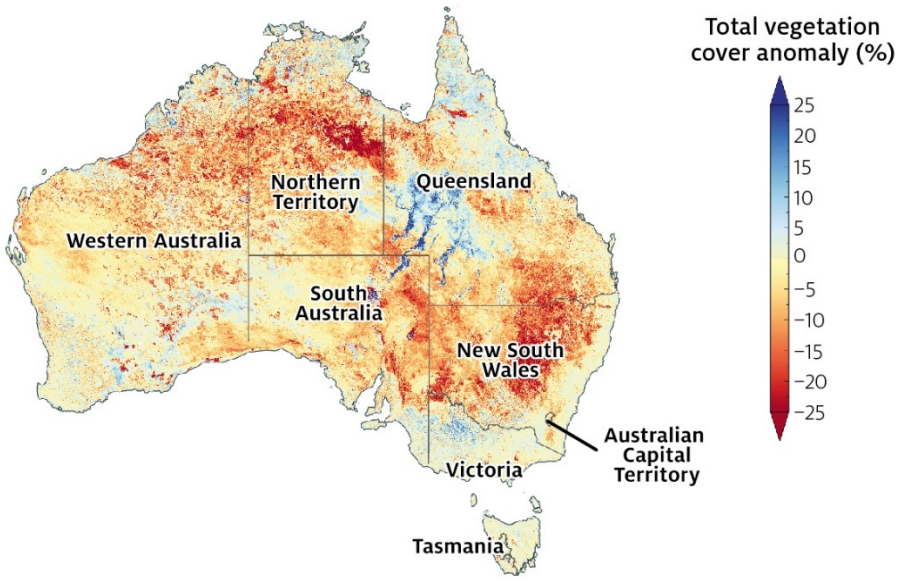


Source: GEOGLAM RAPP

Graziers are expected to continue to turn off animals over the remainder of 2019–20 in response to the poor conditions. The last time the share of the national cattle herd slaughtered reached current levels was during Queensland's 2015 drought.

Total crop production in 2019–20 is forecast to be the lowest since 2007–08. Conditions were poor at the start of the season in Queensland and New South Wales and have deteriorated further. Conditions in Western Australia worsened markedly over spring and have led to significant production downgrades (see the Australian crop report).

Vegetation cover anomaly, October 2019



Source: GEOGLAM RAPP

Summer crop prospects are also poor due to very low soil moisture levels in most of these regions. The latest rainfall outlook from the Bureau of Meteorology suggests that even average yields are unlikely to be achieved for crops that are planted.

Livestock sector faced with drought and African swine fever

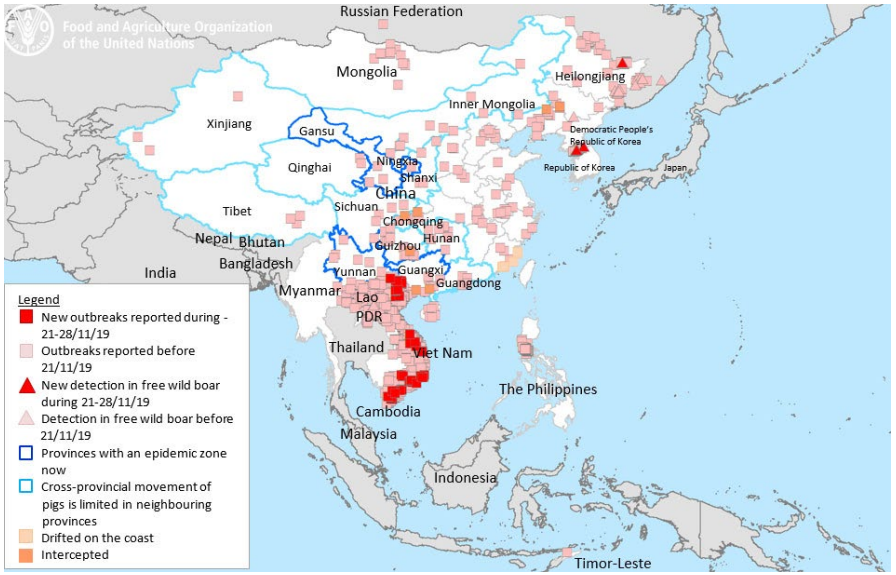
Livestock slaughter has remained elevated as producers in drought-affected regions continue to destock. The national sheep flock and cattle herd are forecast to decline in 2019–20. The cattle herd is forecast to reach its lowest level since the early 1990s. Production and

exports are forecast to fall because fewer animals are available for slaughter.

The productive capacity of the livestock sector will be reduced over the next 5 to 10 years because animal numbers will have to be rebuilt from low levels. Herd and flock rebuilding is only expected to accelerate if seasonal conditions improve sufficiently to restore pastures. This is unlikely to occur until after the current wet season in northern Australia, or before late autumn or winter 2020 in southern Australia.

African swine fever outbreaks across Asia continue to affect global production and trade. New outbreaks have been confirmed in Vietnam and unconfirmed reports of pig deaths are emerging from Indonesia. The significant shortfall in protein supplies is likely to persist for some years, and has led to sharply rising meat prices. Retail pork prices in China doubled in the 12 months to October 2019, beef prices were up by 20%, and mutton prices up by 16%. Australian farmgate prices for cattle, sheep, lambs, pigs and goats are forecast to be higher year-on-year, partly as a result of strong export demand from Asian countries affected by the outbreak.

African swine fever outbreaks in Asia, August 2018 to November 2019



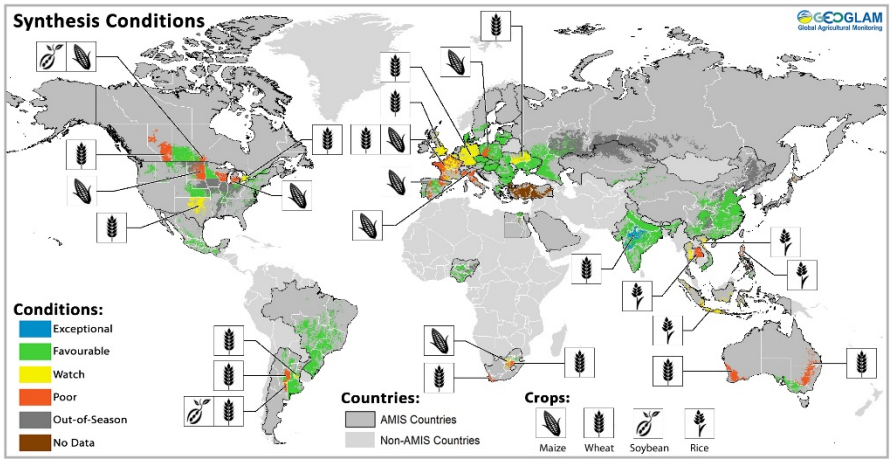
Note: Outbreaks shown from August 2018.
Source: FAO

Intensive pig and livestock producers across North America, South America and Europe are expected to respond to the shortfall by increasing production and exports. This will lead to changes in feed grain and meal markets, particularly for soybean and corn. This shift is occurring at the same time as a significant forecast fall in US soybean production in 2019–20 (stemming from the China–US trade dispute), redirection of Canadian canola from China to other markets (stemming from trade disruptions) and rising palm oil prices as supplies tighten. As a result, prices across oilseed markets are forecast to rise from a low base in 2019–20.

Record world cereal harvest forecast

While Australia's wheat crop is expected to again be well below average in 2019–20, global production is forecast to reach another record. Favourable growing conditions across North America, Asia, the Black Sea region and Europe are expected to result in a world wheat crop of 764 million tonnes. The world barley crop is also forecast to grow. Increases in wheat and barley crops are expected to result in a fall in world prices for these grains in 2019–20. Poor seasonal conditions in many corn-growing regions will lead to a forecast small price rise for corn, but this will be limited by the abundance of wheat and barley.

Global crop conditions, December 2019



Source: Agricultural Market Information System

Australian domestic grain prices are expected to fall slightly in 2019–20 from peaks reached in 2018–19, but they will remain elevated and above export parity in many regions. Reduced numbers of animals on feed, primarily due to a reduction in drought feeding as animals are slaughtered, is expected to lead to small falls in total domestic feed grain use. Imports of Canadian milling wheat are also likely to continue during 2020. Around half a million tonnes of grain have been imported since June 2019.

Transhipment of grain from Western Australia for use as domestic feed on the east coast is expected to continue. However, volumes are likely to be lower than in 2018–19, as road and rail supplies from Victoria and South Australia increase following forecast higher crop production in those states.

Milk prices high, but input squeeze will continue

A record high farmgate milk price is forecast for 2019–20 (in nominal terms), but high input costs will reduce the profitability of many dairy farms. Global dairy prices have improved relative to forecasts in Agricultural commodities: September quarter 2019. This is due to slower rates of production growth in major exporting nations. Domestic processors are also competing strongly to secure a share of declining milk supplies.

There is significant downside risk to dairy prices if global production growth accelerates in 2020 and economic growth slows further across Asia. However, the final impact will depend on movements in the Australian dollar, which would likely depreciate in such a scenario.

Despite attractive farmgate milk prices, some dairy farms will still face significant cost pressures due to seasonal conditions. As a result, national milk production is forecast to fall. Seasonal conditions are expected to remain unfavourable across some dairy-producing regions well into 2020, and the dairy herd is forecast to continue to contract as cows are culled to support incomes and reduce feed costs.

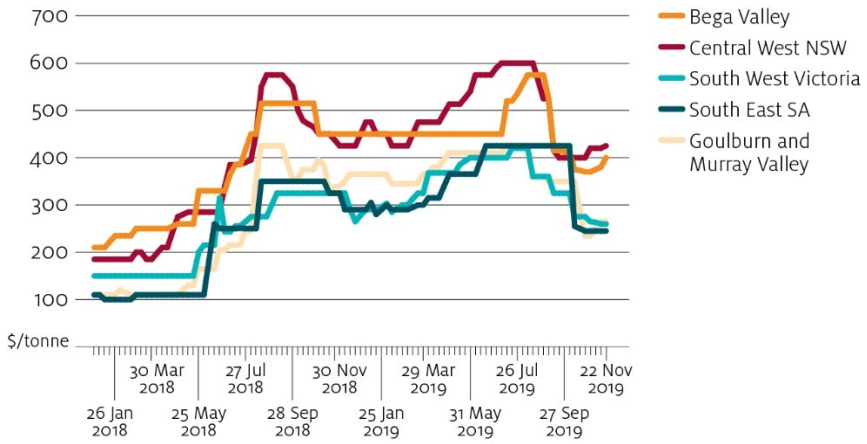
Risk management strategies will remain important in 2019–20. According to Dairy Australia's farm monitor project, Victorian dairy farms that employed management strategies that limited exposure to fodder spot markets during 2018–19 were generally more profitable than those who did not.

Input costs continue to present challenges

The cost of fodder is likely to fall in 2019–20 because of higher production than in 2018–19 and lower demand for supplementary drought feed as animal numbers fall. Most of Australia's fodder is grown in Victoria, South Australia and the southern regions of New South Wales. Many of these areas have recorded reasonable growing conditions in 2019–20. As new season fodder has come to market, prices have fallen. Across major markets, spot prices for cereal and pasture hay have fallen by 30% to 40% on average from their August 2019 peaks.

Prices are still likely to remain elevated relative to 5- to 10-year averages until pasture growth conditions improve across New South Wales and Queensland. A number of interventions have taken place in fodder markets in recent years that have likely contributed to higher prices. Fodder transport subsidies continue to be offered by state governments in New South Wales and Queensland, with charity-based fodder purchases also occurring during 2018 and 2019. Fodder transport subsidies can increase demand and raise fodder prices, and risk providing an incentive to retain stock and overgraze pastures, causing long-term damage to farming ecosystems.

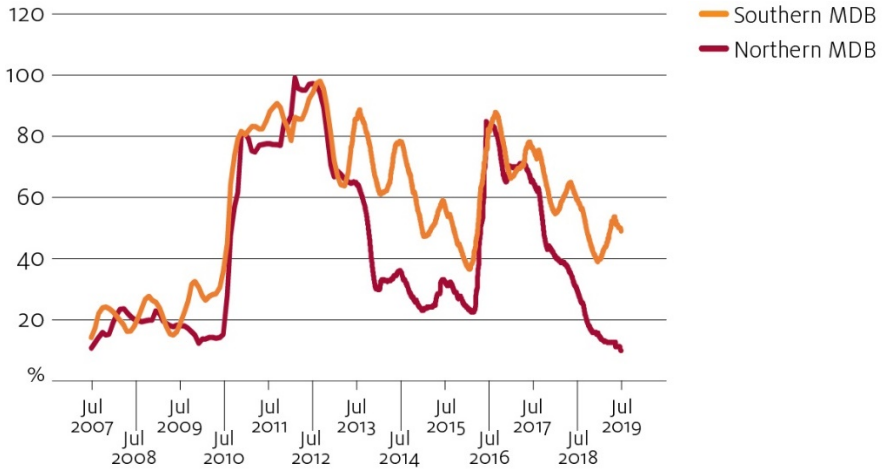
Cereal hay prices in major markets, January 2018 to November 2019



Source: Dairy Australia

Water storage levels across the Murray–Darling Basin continue to fall. Allocation prices reflect both the scarcity of irrigation water and the changing willingness to pay as new higher-value industries enter the market. Since mid-October 2019, allocation trades in the Southern Basin have averaged more than $850 per megalitre. For some entitlement holders the value of water allocation exceeds the potential return from growing pasture or crops, making selling water an attractive low-risk option.

Water storage levels in the Murray–Darling Basin, July 2007 to November 2019



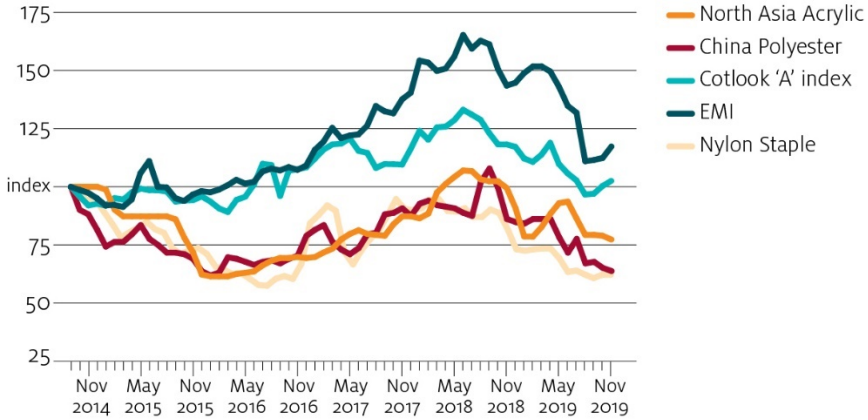
Note: Data prior to 21 July 2019 is originally sourced from the Bureau of Meteorology, data on or after this date is estimated by ABARES based on Murray Darling Basin Authority data.
Source: Bureau of Meteorology; Murray Darling Basin Authority; ABARES

Fibres market down amid trade uncertainty

The global economic slowdown resulting from the China–US trade dispute has dampened demand for textiles and forced prices of natural and synthetic fibres down. Wool and cotton prices are forecast to fall in 2019–20.

World cotton production is forecast to exceed consumption in 2019–20 and stock levels outside China will rise as a result. By contrast, Australia is forecast to have the second-smallest crop in 35 years. Chinese mills are expected to continue drawing down stocks and limit their use of tariff-affected US cotton.

Fibre price indicators, September 2014 to November 2019



Note: Nominal values used. September 2014 = 100. Eastern Market Indicator (wool), Cotlook 'A' Index (cotton), North Asia Acrylic (acrylic staple fibre, 1.5 denier) and China Polyester (polyester staple fibre, 1.4 denier, 38mm), Nylon Staple (China domestic, 1.5 denier, 38mm).
Sources: Australian Wool Exchange; Cotton Outlook; Fibre2Fashion

Australian wool production is forecast to fall by 9% in 2019–20 after falling by 12% in 2018–19. Fleece weights are showing the effects of poor seasonal conditions and are forecast to fall to their lowest level since 1986–87. The number of bales sold at auction and exported has fallen by even more than production volumes, indicating that grower stocks are beginning to build. Prospects for global economic growth have been reduced, suggesting that expectations of a demand-driven reversal in fibre market prices may be misplaced.

Seasonal scenarios for 2020–21

The Bureau of Meteorology's latest seasonal outlook for January to March 2020 indicates that a drier than average 3 months is likely across parts of eastern Australia. It is too early to tell whether poor seasonal conditions will extend into the 2020–21 winter crop planting

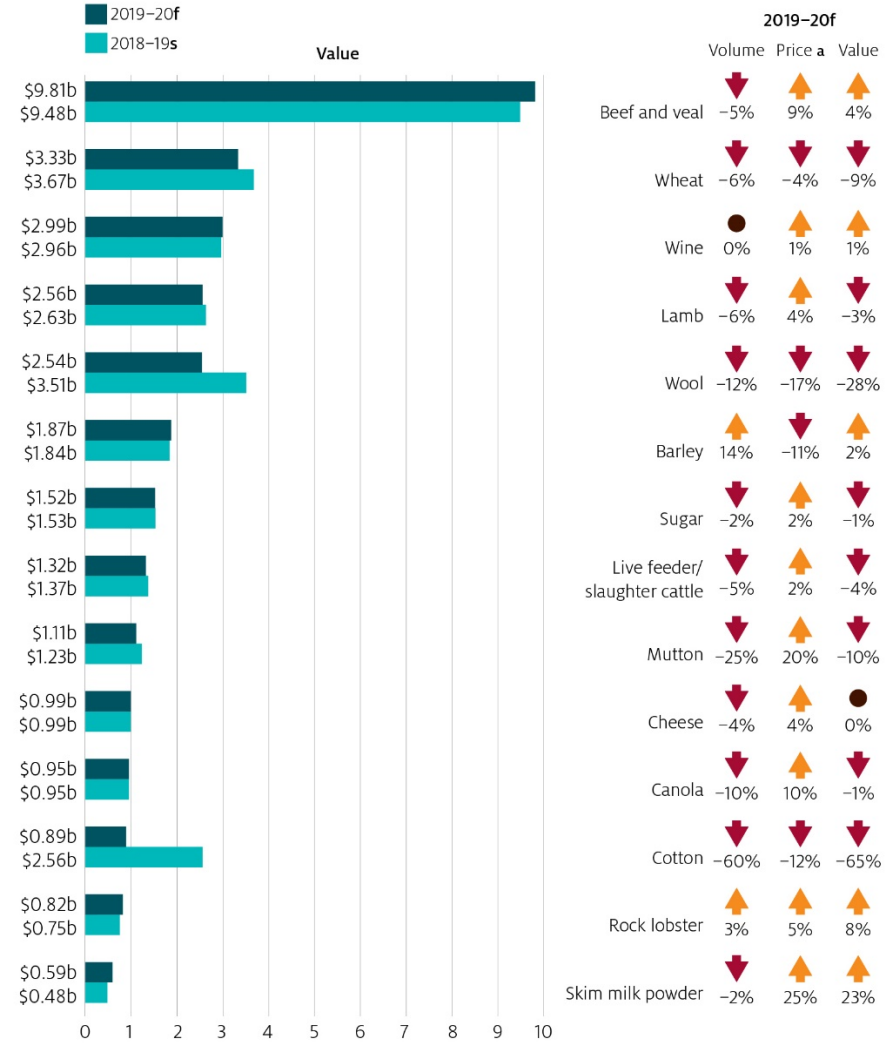
window of May to July 2020, particularly in New South Wales and Queensland.

The annual reset of Australia's seasonal climate drivers has been delayed by the late onset of the northern wet season. With a delayed northern wet season, an optimistic scenario is that sustained improvement in seasonal conditions from autumn 2020 will gradually replenish soil moisture levels, water storages and pastures during the winter and spring of 2020. A break in the drought—particularly in New South Wales, normally the second-largest winter crop–producing state—would lead to a rapid recovery in national crop production and exports.

However, if drought continues, national crop production and exports are likely to fall for a fourth consecutive year. This would maintain upward pressure on domestic prices due to the cost of importing and meeting biosecurity standards, and continue the diversion of grain from exports to meet domestic demand. A fall in grain stocks under this scenario would increase the uncertainty of domestic grain supplies and encourage imports of grain.

Strong global demand and high livestock prices provide strong economic and agronomic incentives to convert livestock into income, at the same time as pasture productivity is limited by drought. If this continues, Australia's livestock industry could increase the number of animals finished in feedlots, potentially fed using imported feed. However, such a change is likely to be temporary, and as pasture growth conditions improve the livestock production system would return to one based primarily on Australia's comparative advantages in extensive, low cost grazing.

Major Australian commodity exports



a All commodities are export unit returns in A$. **f** ABARES forecast.

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

Category	unit	2014–15	2015–16	2016–17	2017–18	2018–19 s	2019–20 f	*% change*
Exchange rate	A$/US$	0.84	0.73	0.75	0.78	0.72	0.68	*– 4.7*
Australian export unit returns a								
Agriculture	index	100.0	104.6	104.8	107.3	117.5	118.6	*0.9*
Value of exports								
Agriculture	A$m	44,175	44,724	48,889	48,898	48,729	44,757	*– 8.2*
crops	A$m	21,574	22,511	27,939	25,048	22,914	20,180	*– 11.9*
livestock	A$m	22,601	22,213	20,949	23,850	25,815	24,577	*– 4.8*
Fisheries products	A$m	1,440	1,542	1,435	1,575	1,530	1,683	*10.0*
Forestry products	A$m	2,772	3,116	3,460	3,605	3,924	3,990	*1.7*
Total agriculture, fisheries and forestry exports	A$m	48,387	49,382	53,784	54,078	54,183	50,430	*– 6.9*
Gross value of production b								
Farm	A$m	54,387	56,554	61,647	59,581	62,239	60,664	*– 2.5*
crops	A$m	27,423	27,791	33,547	29,855	30,358	28,337	*– 6.7*
livestock	A$m	26,964	28,763	28,099	29,726	31,881	32,327	*1.4*
Fisheries	A$m	2,764	3,020	3,058	3,178	3,236	3,389	*4.7*
Forestry **c**	A$m	2,025	2,270	2,571	2,663	2,575	2,620	*1.7*
Total farm, fisheries and forestry products	A$m	59,176	61,844	67,275	65,421	68,050	66,673	*– 2.0*
Volume of farm production **d**	index	120.1	118.3	129.0	122.7	113.7	108.1	*– 4.9*
crops	index	120.0	123.1	155.2	134.8	115.2	110.4	*– 4.2*
livestock	index	118.6	112.2	104.6	110.1	110.2	104.0	*– 5.6*
Production area and livestock numbers								
Crop area (grains, oilseeds and pulses)	’000 ha	22,910	21,337	24,373	23,144	19,043	18,584	*– 2.4*
Sheep	million	70.9	67.5	72.1	70.6	66.8	64.9	*– 2.8*
Cattle	million	27.4	25.0	26.2	26.4	24.8	23.5	*– 5.4*
Costs and returns								
Farm costs	A$m	38,441	38,516	39,629	38,692	41,619	40,082	*– 3.7*
Net farm cash income **e**	A$m	21,390	23,564	27,639	26,618	26,444	26,517	*0.3*
Net value of farm production **g**	A$m	15,946	18,038	22,018	20,888	20,619	20,582	*– 0.2*
Farmers’ terms of trade **h**	index	103.8	109.1	110.0	109.7	110.4	116.3	*5.4*
Employment								
Agriculture, forestry and fishing	’000	317	321	304	329	333	na	*na*
Australia	’000	11,662	11,898	12,075	12,446	12,750	na	*na*

a Base: 2014–15 = 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; ABS; RBA