

Agricultural overview

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\$59b
Value of
production
in 2019–20



Agricultural overview

In 2019–20 the national value of farm production is forecast to be \$59 billion.

- Lower forecast prices for major cereal crops and a decline in meat and wool production are expected to weigh on the value of production.
- The value of production is contingent on seasonal conditions. This uncertainty is compounded by volatile external conditions.
- In 2019–20 export earnings are forecast to be \$45 billion, constrained by limited exportable supplies and a decline in international prices.

Farm production contingent on seasonal conditions

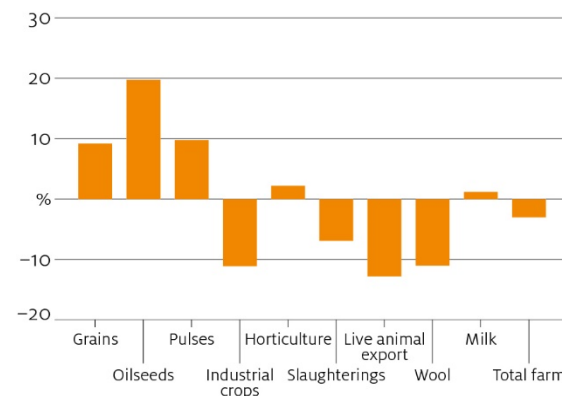
In 2019–20 the value of farm production is forecast to be \$59 billion.

The value of crop production is forecast to remain unchanged from 2018–19 at \$30 billion, weighed down by forecast lower prices received, especially compared to the high prices that prevailed in domestic grain markets in 2018–19. Average to above average rainfall and an improvement in soil moisture levels across large areas of south-eastern Australia and the cropping region of central Queensland have provided a better start to this season's winter crop compared with the same period last year. Assuming adequate rainfall throughout

the remainder of the growing season, grain, oilseed and pulse production are expected to increase by 20% to 36.4 million tonnes—driven by higher yields and area planted when compared to the drought affected 2018–19 season. However, production is nevertheless expected to be 10% below the 10 year average to 2018–19. Production of irrigated crops (particularly cotton and rice) is forecast to remain low because of low water availability and high temporary water prices.

The value of livestock and livestock products is forecast to decline by 6% to \$29 billion. The improvement in seasonal conditions since March has also motivated herd and flock rebuilding. As a result, declines are forecast in 2019–20 for live animal exports (down by 11%), slaughter (9%) and wool production (7%). Milk production is forecast to be relatively unchanged from the low level in 2018–19, as dry conditions over the past 2 years take their toll on production capacity.

Forecast change in value of production by commodity group, 2019–20



Source: ABARES

Domestic production and prices uncertain

These production forecasts are highly dependent on seasonal conditions during 2019–20. A continuation of the poor seasonal conditions experienced in 2018–19 is possible but unlikely (see [Seasonal conditions](#)). However, if dry conditions do continue across eastern Australia, crop yields could again be low while increased turn-off (and meat production) could reduce livestock inventories. The national cattle herd is at its lowest level since 1992–93. While early indications are that rainfall will be sufficient for crop and pasture growth during winter, much depends on conditions during the spring of 2019 which are beyond the window of reliable seasonal forecasts.

Poor grazing conditions and concerns over the cost and availability of grain during 2019–20 have resulted in a rise in applications to the Department of Agriculture to import processed stockfeed. Inquiries about importing bulk grains for milling have also increased. The department has strict requirements which must be complied with in order to manage the biosecurity risks with processed stockfeed and imported grain. Imports of hay have never been approved because of an unacceptably high risk of introducing pests, weeds and diseases. In May 2019, the department issued several [bulk grain import permits](#) for high-protein Canadian milling wheat, the first since 2007. More permits are expected to be issued for wheat and other grains.

Imports help provide certainty and reduce the cost of grain for manufacturers and consumers. The total volume of imports permitted so far is about 2% of the 8 to 9 million tonnes consumed in Australia each year, and during previous droughts grain imports have not exceeded 0.5 million tonnes. However, their effect on grain and food prices is disproportionate to their volume. The potential to import increases competition in Australian grain markets, and has

contributed to a mostly downward trend in feed and milling wheat prices since March 2019.

Wheat, general purpose, May 2014 to May 2019



Source: The Land

Domestic livestock and feed prices in 2019–20 are contingent on seasonal conditions. If average seasonal conditions are realised saleyard prices for cattle and lamb are expected to be supported as producers rebuild herds and flocks. However, prices could fall if a lack of rainfall reduces feed availability and high livestock turn-off continues (see [Beef and veal](#)).

Improved seasonal conditions will lead to a decline in feed prices by reducing the need for supplementary feeding of livestock and increasing the production of fodder, grain and pasture.

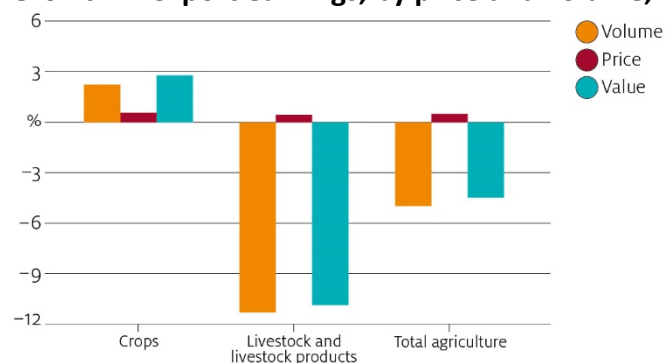
Forecast mixed growth in export earnings

Agricultural export earnings are forecast to decline by 5% in 2019–20, driven by a forecast fall in exports of livestock and livestock products. The average agricultural export price is forecast to remain unchanged in 2019–20, following an estimated 8% increase in 2018–19.

Crop export earnings are forecast to increase by 3%, driven by increased grain, oilseed and pulse exports. However, world prices are forecast to decline for most major crops, including wheat and barley. Favourable conditions for northern hemisphere crop production are driving international prices lower.

Export earnings for livestock and livestock products are forecast to decline by 11%. This is driven by a reduction in volumes, assuming seasonal conditions improve and enable farmers to rebuild herds and flocks. The average export price for livestock and livestock products is forecast to be unchanged, and remain above average because of strong demand rising faster than the supply for red meat and wool, as has been the case for several years.

Growth in export earnings, by price and volume, 2019–20



Source: ABARES

Uncertain outlook for exports in 2019–20

A number of uncertainties affect the outlook for Australia's agricultural exports in 2019–20. Global economic growth has been revised down, and downside risks have increased, particularly in China—Australia's largest export market.

China–US trade dispute clouds the outlook

The China–US trade dispute is a key downside risk to 2019–20 export forecasts. High import tariffs introduced by China on US agricultural goods are providing some Australian exporters with a competitive advantage over the United States. Beyond 2019–20, these benefits are likely to be offset by reduced export demand as incomes of affected consumers grow more slowly over the long term.

The trade dispute could reduce import demand for agricultural goods in China and other markets important to Australia. Tariffs can reduce demand for imports by increasing the cost of food and reducing the spending power of consumers. Emerging and developing countries in Asia are especially vulnerable, and represented about 65% of Australia's agricultural exports in 2017–18.

Lower growth expectations in emerging and developing countries could also weaken their currencies. This would further reduce the purchasing power of income-sensitive consumers and lower their demand for imports, including Australian agricultural goods. Increases in interest rates by central banks designed to stabilise these currencies could reduce investment and further dampen economic growth and consumer confidence.

Chinese import tariffs, Australia and the United States, June 2019

Category	Australia		United States	
	Tariff rate (%)	Exports (\$m) a	Tariff rate (%)	Exports (\$m) a
Under ChAFTA				
Barley	0	\$934	27	\$0
Beef and veal	6–12.5	\$836	37–50	\$40
Dairy	0–10	\$495	31–45	\$532
Fresh or dried fruit	0–13.3	\$304	37–70	\$350
Grain sorghum	0	\$72	26	\$1,096
Pork and pork products	0	\$0	37–70	\$309
Tree nuts	0	\$86	25–65	\$287
Vegetables and legumes	0	\$23	25–38	\$62
Wine	0	\$829	45–90	\$100
Not included in ChAFTA b				
Cotton c	1	\$648	26	\$1,269
Durum wheat	1	\$442	26	\$460
Soybeans	3	\$0	28	\$15,983

a Value of exports in 2017. For comparative purposes, Australian and US figures are from UN Comtrade International Statistics Database. **b** Most favoured nation in quota tariff rates. **c** Value of Australian cotton imported by China. **ChAFTA** China-Australia Free Trade Agreement.

Sources: Department of Foreign Affairs and Trade; UN Comtrade; US Department of Agriculture

China–US trade dispute increases competition in other markets

The China–US trade dispute has had a major impact on the global oilseed market. Low-cost soybeans from the United States and Canadian canola have been diverted to the European Union, increasing

the competition faced by Australian exporters who have historically received a price premium for non-GM canola (see [Oilseeds](#)).

On 23 May 2019 the United States announced a support package valued at up to US\$16 billion for farmers affected by the ongoing trade dispute. This is in addition to support measures of US\$12 billion announced last year. This latest package is not tied to production of specific commodities. Payments will be made based on the damage suffered by a particular county as a consequence of the trade dispute.

Overall, the support package is not likely to affect the decisions US producers make about which crop to produce. However, the support package is likely to sustain a larger aggregate crop area than US producers would have planted without government support.

Full impact of African swine fever remains uncertain

Outbreaks of African swine fever have been reported in every province of China since August 2018. The spread of the disease is expected to have a significant impact on global protein and oilseed markets.

Increased Chinese import demand for protein is forecast to support prices received for Australian beef and sheep meat. However, the overall effect on prices remains uncertain, and depends on the total loss of domestic pork supply. In 2019, China's pork production is estimated to fall by between 10% and 35%, with herd losses of 20% to 30%. Any increases in Chinese import demand will depend on consumer's willingness to substitute towards alternative proteins and the ability of local industry to increase domestic supply of poultry, beef and seafood.

A reduction in the pig herd is also expected to reduce Chinese and therefore global demand for oilseeds, particularly soybeans and corn.

This will weigh on international prices for oilseeds (including canola) in 2019–20.

Export earnings supported by a lower Australian dollar

The depreciating dollar contributed to a broad-based increase in export prices for crops and livestock products. Over the year to March 2019, the Australian dollar depreciated by 8% against the US dollar, and by 3% against a basket of currencies weighted by agricultural export shares. Agricultural export prices increased by 13% over the same period.

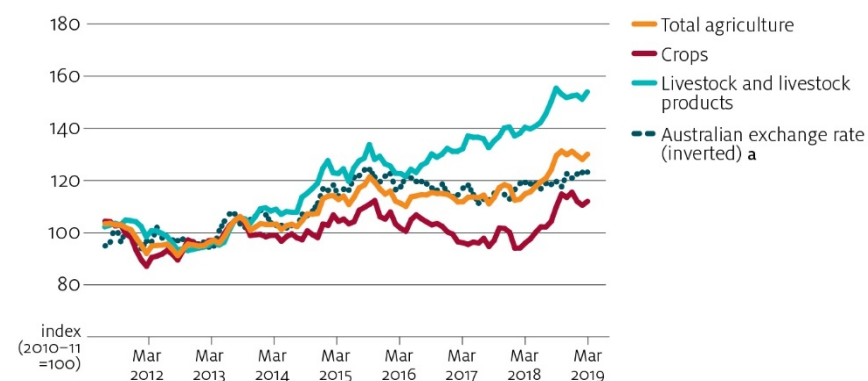
A weaker Australian dollar will help to maintain global consumption of Australian agricultural exports, by making beef, dairy products, horticultural products and sheep meat cheaper for importing countries. It will also help maintain profit margins for grain producers if global prices fall as forecast in 2019–20.

On the downside, the demand side benefits of a fall in the Australian dollar are likely to be partially offset by the rising cost of imported inputs such as fuel and chemicals.

Competitor exchange rates

The exchange rates of Australia's major exporting competitors have also declined against the US dollar, eroding some of Australia's advantage of a lower exchange rate. From January 2018 (when the China–US trade dispute began) to May 2019, the Australian dollar depreciated by 12% against the US dollar, the Brazilian real fell by 19%, the Russian ruble by 12%, the NZ dollar by 9% and the euro and Canadian dollar each fell by 8%.

Agricultural export prices and the Australian dollar, March 2011 to March 2019



^a Australian exchange rate is the weighted average of the currencies of Australia's 10 largest agricultural export markets.

Note: Chained Fisher price indexes.

Source: ABARES; Australian Bureau of Statistics; Reserve Bank of Australia

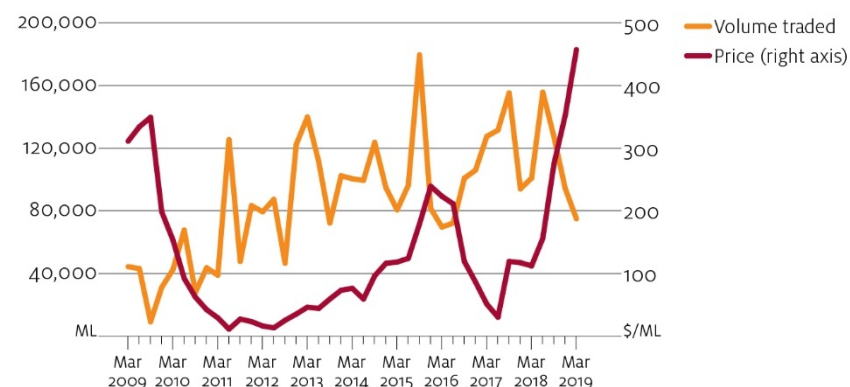
Implications for farm incomes

In general, in areas affected by drought in 2018–19, farm incomes are likely to rise as seasonal conditions and production improve. Higher forecast crop yields and production are expected to more than offset a forecast fall in prices for some commodities.

However, input prices—especially water and fodder—are forecast to remain elevated, limiting growth in farm incomes. High input costs have significantly affected dairy producers. Australia's milk production in 2018–19 is expected to be the lowest since 1994–95. In 2019–20 dairy farm incomes are expected to improve as improved seasonal conditions and lower input prices alleviate cost pressures on producers.

Surface water allocation prices in the southern Murray-Darling Basin have more than doubled since July 2018. Prices in the 2019–20 season are expected to remain elevated until water inflows improve storage levels. The next ABARES [Water Market Outlook](#) is expected to be released in July.

Surface water allocation markets, southern Murray Darling Basin, March 2009 to March 2019



Source: ABARES

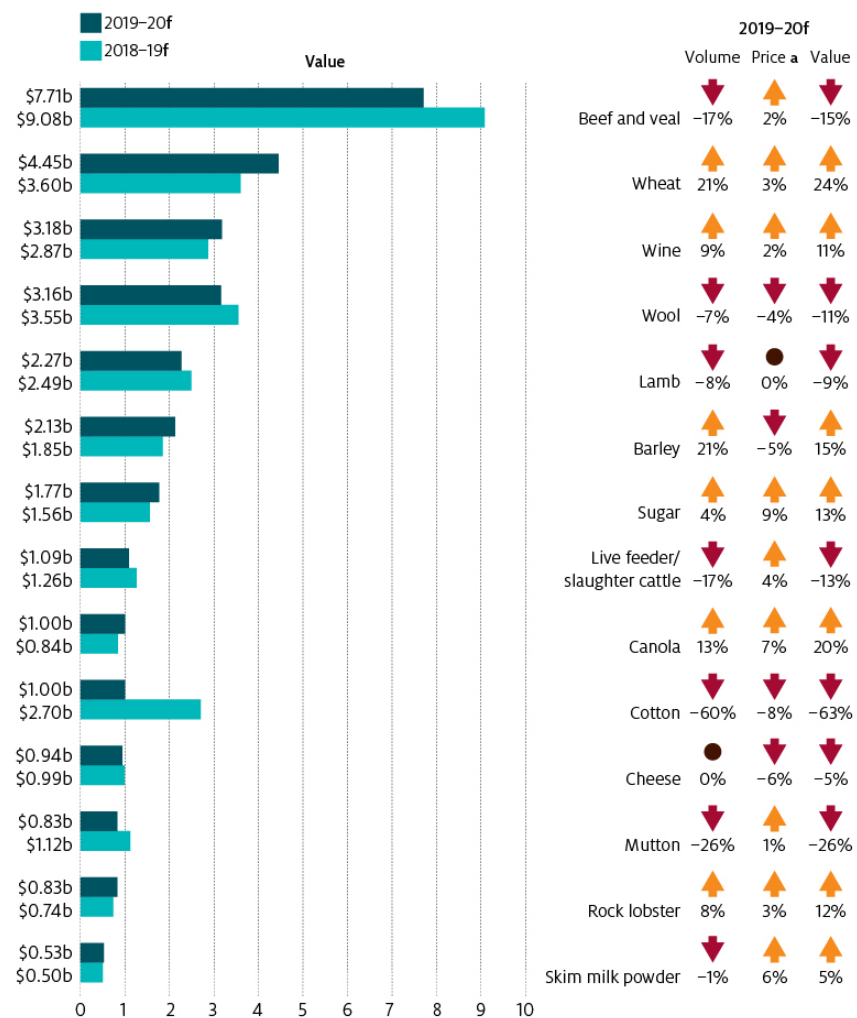
Fodder prices increased sharply in 2018–19. An expected return to average seasonal conditions should cause prices to fall by increasing fodder supply and the number of livestock on pasture. Barley and wheat prices are expected to be lower in 2019–20 after increasing in 2018–19.

The assumed lower Australian dollar is expected to increase the cost of imported inputs in 2019–20. Crude oil prices increased in the second half of 2018–19 in response to uncertainty regarding global supply. In 2019–20 fuel prices are forecast to increase due to higher

crude oil prices and a lower exchange rate. Fertiliser prices are also expected to increase in 2019–20.

Capital inputs, such as tractors and other farm machinery could also become more expensive in 2019–20. The ongoing China–US trade dispute is contributing to rising costs for US manufacturers of farm equipment. The degree to which the trade dispute will increase costs on imported farm equipment is unclear.

Major Australian agricultural commodity exports



ABARES Agricultural commodities:

June 2019



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

Category		2014–15	2015–16	2016–17	2017–18	2018–19s	2019–20 f	% change
Exchange rate	A\$/US\$	0.84	0.73	0.75	0.78	0.72	0.70	– 2.2
Australian export unit returns a								
Agriculture	index	100.0	104.4	104.5	106.9	115.9	116.5	0.5
Value of exports								
Agriculture	A\$m	44,200	44,774	48,941	48,981	47,596	45,453	– 4.5
crops	A\$m	21,574	22,511	27,939	25,045	22,256	22,881	2.8
livestock	A\$m	22,625	22,263	21,002	23,935	25,339	22,572	– 10.9
Fisheries products	A\$m	1,440	1,542	1,435	1,575	1,519	1,669	9.9
Forestry products	A\$m	2,772	3,116	3,460	3,605	3,995	3,990	– 0.1
Total agriculture, fisheries and forestry exports	A\$m	48,412	49,432	53,837	54,161	53,109	51,112	– 3.8
Gross value of production b								
Farm	A\$m	54,387	56,554	61,647	59,581	61,244	59,387	– 3.0
crops	A\$m	27,423	27,791	33,547	29,855	30,221	30,370	0.5
livestock	A\$m	26,964	28,763	28,099	29,726	31,024	29,018	– 6.5
Fisheries	A\$m	2,764	3,020	3,058	3,141	3,207	3,356	4.6
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	67,276	65,385	67,026	65,362	– 2.5
Volume of farm production d	index	122.0	120.7	131.3	123.5	115.9	112.6	– 2.8
crops	index	125.0	129.8	164.5	138.5	122.3	126.1	3.1
livestock	index	117.5	111.0	103.7	109.1	108.3	99.5	– 8.1
Production area and livestock numbers								
Crop area (grains, oilseeds and pulses)	'000 ha	22,910	21,337	24,373	23,144	19,044	20,581	8.1
Sheep	million	68.0	67.5	72.1	70.6	66.9	69.3	3.6
Cattle	million	27.4	25.0	26.2	26.4	25.0	24.9	– 0.3
Costs and returns								
Farm costs	A\$m	38,441	38,516	39,758	39,403	42,236	42,620	0.9
Net farm cash income e	A\$m	21,390	23,564	27,510	25,908	24,834	22,711	– 8.6
Net value of farm production g	A\$m	15,946	18,038	21,889	20,178	19,009	16,768	– 11.8
Farmers' terms of trade h	index	103.8	109.1	109.6	109.1	110.3	110.2	– 0.1
Employment								
Agriculture, forestry and fishing	'000	317	321	304	329	na	na	na
Australia	'000	11,662	11,898	12,075	12,446	na	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; Australian Bureau of Statistics; Reserve Bank of Australia