Agricultural overview

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The outlook for farm production is mixed. Sharp falls are forecast for livestock, livestock products and summer crops. Winter crop production is expected to increase, but remain low.

Lower production will reduce exportable supplies and export earnings. However, high export prices for some major commodities and a lower Australian dollar are expected to support earnings.

China–US trade tensions, strong competition in key export markets and ongoing drought cloud the outlook for export earnings.

Opportunities and challenges in uncertain times
The outlook for Australia’s agricultural sector is characterised by a high degree of uncertainty, but the impact on the sector has been tempered by a regionally diversified production base. The ongoing China–US trade dispute is disrupting world markets. This presents opportunities and challenges for Australia’s agriculture sector. At the same time, the sector faces challenges at home, including drought and shifting societal expectations of agricultural production.

In 2019–20 the volume of farm production and agricultural exports are expected to fall below long term averages, mainly due to ongoing drought in large areas of south-eastern Australia. However, the extent of this fall is likely to be limited by above average crop production in Victoria—where seasonal conditions have been favourable—and close to average crop production in Western Australia and South Australia—where conditions have been mixed.

The China–US trade dispute and a fall in pork production due to African swine fever have increased Chinese import demand for some Australian products. Australian graziers experiencing drought and high feed prices can sell livestock into global markets at high prices because demand for Australian meat is at unprecedented levels.

Some crop producers are also benefiting as China looks for suppliers other than the United States for products such as cotton, fruit and nuts. In contrast, other producers are now having to compete with US commodities displaced from Chinese markets, such as canola exports to Europe and beef exports to Japan and the Republic of Korea.

The recent escalation in the China–US trade dispute has increased the uncertainty of Chinese clothing sales to the United States. This is likely contributing to the decline in prices received for Australian wool and cotton. The trade war is also dampening global economic growth and economic growth in East Asia, Australia’s largest export market for agricultural goods. This could have longer term ramifications for import demand of some of Australia’s high-value agrifood products, particularly in emerging markets.

Some opportunities and challenges for Australian agriculture originate with consumers. Fertiliser use and soil management by sugarcane growers and graziers along the coast of Queensland are attracting
increasing attention because of their impact on the Great Barrier Reef. Concern over animal welfare has led to restrictions on the export of live sheep to the Middle East. In South Australia, farmers now have an opportunity to grow both conventional and genetically modified crops for the first time since 2004.

Farm production lowest since the Millennium Drought

In 2019–20 the value of farm production is forecast to decline by 5% to $59 billion. This is driven by the third consecutive decline in the volume of farm production since favourable seasonal conditions delivered the largest winter crop on record in 2016–17. Prices received by Australian farmers are forecast to decline due to prices falling for some of Australia’s major commodity exports. These exports include barley, cotton, pulses, wheat and wool. However, an assumed 4% decline in the Australian dollar on a trade-weighted basis will provide some support to export prices and farm incomes.

Since reaching a peak in 2016–17, the volume of farm production is forecast to have declined by 15%, reaching its lowest level since 2009–10. Forecast volume of farm production for 2019–20 is similar to levels last recorded during the Millennium Drought. The index is forecast to be about 25 percentage points above the worst years in 2002–03 and 2006–07.

The decline in the volume of farm production in 2019–20 is forecast to be driven by a fall in slaughterings, live animal exports, wool and summer crop production. Dry conditions across much of central and northern New South Wales, and southern Queensland over consecutive years have reduced herds and flocks, which is beginning to have a noticeable effect on the productive capacity of the sector. Area planted to cotton and grain sorghum is forecast to fall in key producing regions of New South Wales and Queensland, because of very low soil moisture and dam levels combined with a poor seasonal outlook for spring.

Volume of farm production, Australia, 1989–90 to 2019–20

The 2019–20 winter crop is forecast to increase by 11% to 33.9 million tonnes, supported by favourable seasonal conditions across Victorian cropping regions and reasonable conditions in parts of South Australia and Western Australia. However, the national winter crop is forecast to be 16% below the 10-year average to 2018–19 because of poor growing conditions across significant areas of New South Wales and Queensland. See the Australian crop report: September quarter 2019 for more information and a state-by-state breakdown.
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Forecast change in the volume of farm production, Australia, 2019–20

Note: Fisher chain volume measures. Changes in the volume of production of horticulture and hay, pasture & grasses are indicative only.
Sources: ABARES; Australian Bureau of Statistics

Implications of dry conditions continuing

There are a number of regions across central and northern New South Wales and southern Queensland that will have low resilience to continued dryness next year. Much of this region has not harvested a grain or fodder crop since 2017–18. Pasture production across this area has been well below average since early 2018 leading to extremely low levels of standing pasture biomass. Moreover, soil moisture levels across much of New South Wales and southern Queensland are extremely low, providing little to no buffer to ongoing dry conditions.

If drought conditions across south-eastern Australia were to extend into 2020–21, national crop production and exports are likely to continue to decline, as they have done for the past 3 years. Analysis of historical rainfall records indicates that 3 consecutive failed crops in New South Wales would be unprecedented.

Exports of grain, which comprised 16% of the value of agricultural exports over the 5 years to 2018–19, would fall even further than production as high prices divert grain to the domestic market. Grain stocks could also fall, triggering further imports of stockfeed and milling wheat, provided they meet Australia’s biosecurity standards. However, a break in the drought—particularly in New South Wales, normally the second largest winter crop producer—would lead to a quick recovery in the national crop.

In the livestock sector, drought extending into next year would likely lead to continued destocking and delay herd rebuilding, due to a lack of pasture production across large areas of south-eastern and northern Australia. This would increase their reliance on supplementary feeding to maintain production, and on purchasing livestock rather than breeding. As a result, prices of young cattle and sheep would increase sharply when pasture growth improves. In unaffected areas, producers with young cattle to sell could benefit significantly.

The high prices forecast for cattle, sheep and lambs, and meat products has enabled some producers to withstand ongoing high feed grain and hay prices, which was not feasible in previous droughts. Agistment of livestock from areas of low to high pasture availability will also help to maintain herds.

Public reporting of grain stocks during drought years

The ongoing drought in parts of Australia reignited a public debate about the reporting of grain stocks. The availability of grain stocks information helps market participants to ascertain their negotiation positions and assess the benefits and costs of trading in Australia’s grain market relative to other international markets. For large grain

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consuming businesses, knowledge of domestic stocks helps assess the returns from securing import pathways and meeting Australia’s rigorous biosecurity protocols. Forthcoming analysis by ABARES found that improved public reporting of national grain stocks in times of drought complements the commercial knowledge of businesses to better evaluate the benefits and costs of these investments.

Export earnings constrained by drought
In 2019–20 agricultural export earnings are forecast to fall by 11%, to $44 billion. This is $1.8 billion lower than the Agricultural commodities: June quarter 2019 forecast. Lower farm production is the driver of the forecast fall in export earnings, which have managed to remain relatively well supported in 2017–18 and 2018–19 because of strong export price growth and a falling Australian dollar. Despite the assumed depreciation in the exchange rate in 2019–20, average export prices for agricultural exports are forecast to decline slightly by 2%. This is driven by a return of wool prices to long term average levels, and falls in cotton and coarse grain export prices. Prices for wool and cotton are forecast to fall in part because of US import tariffs on Chinese apparel implemented on 1 September 2019 (see Fibres). Lower coarse grain prices are forecast because of ample global supplies (see Coarse grains).

Real export prices for livestock and livestock products have trended up
From 2012–13 to 2018–19 the average price for agricultural exports increased by 19% in real terms. This was due to a 36% increase in the average export price for livestock and livestock products.

Australian export unit returns, 1994–95 to 2019–20

Strong export demand for beef and sheep meat has supported prices for Australian cattle and lambs, enabling producers to purchase feed at high prices during the drought. The ratio of heavy steer prices to feed wheat has remained above 1.0 despite the sharp increase in feed prices during 2018–19. This suggests that it may still be profitable for some producers to continue feeding cattle. While only indicative, this ratio does reveal that the relative cost of feed wheat to the price of steers was much higher in the drought years 1995–96, 2002–03 and 2006–07, when the ratio fell well below 1.0.
Export earnings supported by lower Australian dollar
The Australian dollar is assumed to fall by 5% against the US dollar in 2019–20. This will support agricultural exports, particularly of grains, fibres and beef, a significant proportion of which are invoiced in US dollars. The recent depreciation in the Australian dollar against other currencies including the Japanese yen and Korean won, is also boosting Australia's competitiveness in these markets. This is at a time when Australia is facing increased competition in many traditional export markets (see Wheat for an example).

Chinese import tariffs on US products of limited benefit to Australian producers
The benefits of the China–US trade dispute are expected to be limited for Australian agricultural producers. Major US agricultural exports to China differ substantially from Australia’s. Where Australian goods are substitutable with US products, exports to China are relatively small, or face significant competition from other major exporting countries (see United States and Australian agriculture – a comparison).

In 2018–19, the first full year of the trade dispute, the value of Australia’s agricultural exports to China increased by 11%. This was driven primarily by an increase in beef and veal exports. Exports of nuts, mutton and cotton also increased sharply, compared with their 5-year average annual growth rate.

A sharp increase in Australia’s nut and cotton exports to China is partially due to retaliatory tariffs on US agricultural products. The value of shelled and unshelled almond exports to China increased by 107% in 2018–19. Australian cotton exports to China increased by an estimated 55% as Chinese mills recommenced importing after several years of reducing stockpiles (see Fibres).

Growth in exports to China, selected commodities, 2018–19

Note: Values for July and August 2019 are estimates.
Source: ABARES; Australian Bureau of Statistics; Meat & Livestock Australia
However, China’s import tariffs on US products are not the only cause of Australia’s increased exports to China. For example, the rising value of Australia’s meat exports is mainly due to lower pork production in China following the spread of African swine fever.

**Long-term implications of the China–US trade dispute likely to outweigh short-term gains**

The current trade dispute is providing opportunities for some Australian producers to grow market share in China. However, the trade war is likely to have longer-term implications that will out-weight any short-term benefits.

The effective exclusion of the US agricultural exports to China has increased competition in Australia’s other export markets, including countries in East Asia and the eurozone (see *Beef and veal* and *Oilseeds* for examples).

The dispute is also affecting regional and global economic growth. Australia’s export dependence on emerging Asian markets means that Australian producers are potentially vulnerable to a downturn in income growth. The risk is that consumers in these markets could react by substituting away from Australia’s high-value agrifood products to lower-cost alternatives.

The extent and impact of the income-related dampening of demand for Australia’s exports will be revealed over the next year or so. Beyond food, US import tariffs on Chinese consumer goods, such as clothing, could disrupt global supply chains in these markets. This presents a significant risk for Australian fibre exports.
## Major indicators of Australia’s agriculture, fisheries and forestry sectors

### Australian export unit returns

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<tbody>
<tr>
<td>Agriculture</td>
<td>$A$/US$</td>
<td>0.84</td>
<td>0.73</td>
<td>0.75</td>
<td>0.78</td>
<td>0.72</td>
<td>0.68</td>
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<tr>
<td>Value of exports</td>
<td>index</td>
<td>100.0</td>
<td>104.4</td>
<td>104.5</td>
<td>106.9</td>
<td>117.2</td>
<td>115.2</td>
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<tr>
<td>Agriculture</td>
<td>$A$m</td>
<td>44,200</td>
<td>44,774</td>
<td>48,941</td>
<td>48,983</td>
<td>49,226</td>
<td>49,664</td>
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<tr>
<td>livestock</td>
<td>$A$m</td>
<td>2,772</td>
<td>3,116</td>
<td>3,460</td>
<td>3,605</td>
<td>3,932</td>
<td>3,990</td>
</tr>
<tr>
<td>Total agriculture, fisheries and forestry exports</td>
<td>$A$m</td>
<td>48,412</td>
<td>49,432</td>
<td>53,837</td>
<td>54,164</td>
<td>54,694</td>
<td>49,265</td>
</tr>
<tr>
<td>Gross value of production</td>
<td>$A$m</td>
<td>48,412</td>
<td>49,432</td>
<td>53,837</td>
<td>54,164</td>
<td>54,694</td>
<td>49,265</td>
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### Costs and returns

| Farm costs                        | $A$m    | 27,423  | 27,791  | 31,547  | 29,855  | 30,431  | 29,441   | – 3.3    |
| Livestock                         | $A$m    | 2,694   | 28,763  | 28,099  | 29,276  | 31,777  | 29,912   | – 5.9    |
| Total farm, fisheries and forestry products | $A$m    | 59,176  | 61,843  | 67,276  | 65,385  | 67,990  | 65,346   | – 3.9    |
| Volume of farm production         | index   | 122.0   | 120.7   | 131.3   | 123.5   | 117.0   | 111.6    | – 4.6    |
| Livestock                         | index   | 125.0   | 129.8   | 164.5   | 138.5   | 123.4   | 123.4    | – 0.0    |
| Production area and livestock numbers | '000 ha | 22,910  | 21,337  | 24,373  | 23,144  | 19,043  | 19,899   | 4.5      |
| Sheep                             | million | 68.0    | 67.5    | 72.1    | 70.6    | 66.4    | 67.5     | 1.7      |
| Cattle                            | million | 27.4    | 25.0    | 26.2    | 26.4    | 24.9    | 24.7     | – 0.8    |
| Costs and returns                 | $A$m    | 38,441  | 38,516  | 39,629  | 38,893  | 41,707  | 42,136   | 1.0      |
| Net farm cash income              | $A$m    | 21,390  | 21,373  | 24,373  | 23,144  | 19,043  | 19,899   | 4.5      |
| Net value of farm production      | $A$m    | 15,946  | 15,143  | 15,256  | 15,040  | 12,653  | 12,237   | – 12.1   |
| Farmers’ terms of trade           | index   | 103.8   | 109.1   | 110.0   | 109.7   | 111.6   | 111.2    | – 0.4    |
| Agriculture, forestry and fishing | '000    | 317     | 321     | 304     | 329     | 333     | na       | na       |

### Sources

- ABARES: Australian Bureau of Agricultural Resources and Environment Studies
- ABS: Australian Bureau of Statistics
- RBA: Reserve Bank of Australia