



# Agricultural lending data 2019–20

Australian Bureau of Agricultural and Resource Economics and Sciences



© Commonwealth of Australia 2021

### **Ownership of intellectual property rights**

Unless otherwise noted, copyright (and any other intellectual property rights) in this publication is owned by the Commonwealth of Australia (referred to as the Commonwealth).

### **Creative Commons licence**

All material in this publication is licensed under a [Creative Commons Attribution 4.0 International Licence](#) except content supplied by third parties, logos and the Commonwealth Coat of Arms.

Inquiries about the licence and any use of this document should be emailed to [copyright@awe.gov.au](mailto:copyright@awe.gov.au).



### **Cataloguing data**

This publication (and any material sourced from it) should be attributed as: DAWE 2021, *Agricultural lending data 2019–20*, Department of Agriculture, Water and the Environment, Canberra, November. CC BY 4.0.

ISBN 978-1-76003-494-8

This publication is available at [agriculture.gov.au/ag-farm-food/drought/agricultural-lending-data](http://agriculture.gov.au/ag-farm-food/drought/agricultural-lending-data)

Department of Agriculture, Water and the Environment

GPO Box 858 Canberra ACT 2601

Telephone 1800 900 090

Web [awe.gov.au](http://awe.gov.au)

### **Disclaimer**

The Australian Government acting through the Department of Agriculture, Water and the Environment has exercised due care and skill in preparing and compiling the information and data in this publication. Notwithstanding, the Department of Agriculture, Water and the Environment, its employees and advisers disclaim all liability, including liability for negligence and for any loss, damage, injury, expense or cost incurred by any person as a result of accessing, using or relying on any of the information or data in this publication to the maximum extent permitted by law.

# Foreword

This 4th edition of the Agricultural Lending Data report highlights the agricultural sector's productivity, resilience and capacity to respond to adversity.

Despite the widespread impact of drought, bushfires and the COVID-19 pandemic, the gross value of farm production increased in 2019–20 to \$61.4 billion, which is 4.8% above the 5-year-average to 2018–19.

As of 30 June 2020, national agricultural debt was \$83.7 billion, an increase of nearly 7%, or \$5.4 billion, since 30 June 2019. This increase in agricultural lending shows strong demand for finance in response to the recent drought in eastern Australia, particularly New South Wales and Queensland, where borrowing for working capital grew significantly.

While total agricultural lending increased in 2019–20, some measures of the sector's aggregate capacity to service debt improved. For example, total interest paid on agricultural loans decreased by an estimated 23% reflecting lower average interest rates, while growth in profit (23%) outstripped the increase in total debt (7%).

This edition features for the first time an interactive data interface via the ABARES website, allowing users to highlight the data sets most relevant to them.

The Australian Government supports farmers during challenging times. This includes supporting access to capital for farm businesses and providing a suite of tax arrangements and incentives to help farmers manage their cash flow and invest in the future of their businesses. These include farm business concessional loans, delivered by the Regional Investment Corporation (RIC); the Farm Management Deposits Scheme; accelerated depreciation and the instant asset write-off.

As conditions improve across much of the country, the government will continue to work with the agri-finance sector to support Australian farmers. We've established an Agriculture Finance Roundtable, which includes leaders from the agriculture, banking and insurance industries, to work together on the future competitiveness, profitability, and sustainability of the Australian agricultural sector.

Future editions of the Agricultural Lending Data report will continue to support the industry's goal of a \$100 billion industry by 2030 by informing agri-finance policy development by both government and agricultural stakeholders.

David Littleproud  
Minister for Agriculture and Northern Australia

# Contents

<b>Foreword</b> .....	<b>iii</b>
<b>Summary</b> .....	<b>vi</b>
Aggregate lending.....	vi
Industry level results .....	vi
Land values and farm equity.....	vi
Borrowers in arrears.....	vii
Debt servicing .....	vii
Long-term trends.....	vii
Lending in 2020–21.....	viii
<b>Introduction</b> .....	<b>1</b>
Previous reports.....	1
A new development in 2021 .....	1
Revisions to last years’ data .....	1
<b>Developments in agricultural lending in 2019–20</b> .....	<b>2</b>
Industry-level results.....	3
Borrowers in arrears.....	4
Debt servicing .....	6
<b>Long-term trends in debt</b> .....	<b>8</b>
Land values, farm equity and the distribution of debt.....	8
<b>Agricultural lending in 2020–21</b> .....	<b>10</b>
Regional Investment Corporation lending in 2020–21 .....	10
<b>Appendix A: Background to APRA data</b> .....	<b>12</b>
Data collection .....	12
Confidentiality requirements .....	12
Scope of data.....	12
Lenders covered – financial sector reporting entities.....	13
Types of debt reported.....	13
Data collection period.....	13
Future data collection and revisions .....	13
Data presentation and interpretation .....	13
Data categories .....	13
Farm business entities and the number of borrowers.....	14
Assigning loans and leases to different industries.....	14
Farm business entity locations .....	15

<b>Appendix B: Other sources of agricultural lending data .....</b>	<b>16</b>
Timeliness and coverage .....	16
Comparability.....	16
<b>Glossary .....</b>	<b>18</b>
<b>References .....</b>	<b>20</b>

## Tables

Table 1 RIC net value of loan portfolio, by industry, 2018–19 to 2020–21.....	11
Table 2 RIC net value of loan portfolio, by state, 2018–19 to 2020–21 .....	11
Table A1 Agricultural industry classification codes, Australia .....	14

## Figures

Figure 1 Loans and leases outstanding at 30 June, Australia, 2016–17 to 2019–20 .....	2
Figure 2 Loans and leases outstanding at 30 June, by state, 2018–19 to 2019–20.....	2
Figure 3 Change in loans and leases outstanding, by industry, 2018–19 to 2019–20 .....	3
Figure 4 Loans and leases more than 90 days past due, Australia, 2016–17 to 2019–20.....	4
Figure 5 Loans and leases more than 90 days past due, by state, 2016–17 to 2019–20 .....	5
Figure 6 New instances of loans and leases under mediation and new farm foreclosures, Australia, 2016–17 to 2019–20 .....	5
Figure 7 Aggregate interest payments by the farm sector, Australia, 1995–96 to 2019–20 .....	6
Figure 8 Net value of farm production and rural debt, Australia, 1995–96 to 2019–20 .....	8
Figure 9 Farm business equity, debt and equity ratio, broadacre and dairy farms, Australia, 1995–96 to 2019–20 (average per farm) .....	9
Figure 10 Distribution of farm business debt on broadacre and dairy farms, Australia, 2019–20 (average debt per farm) .....	9
Figure 11 Lending to businesses – agriculture, forestry and fishing, Australia, July 2019 to June 2021.....	10
Figure B1 APRA and RBA data on rural lending, Australia, 2016–17 to 2020–21 .....	17
Figure B2 Year-on-year change in loans outstanding, APRA and RBA data on rural lending, Australia, 2017–18 to 2020–21 .....	17

## Boxes

Box 1 ABARES farm surveys data.....	7
-------------------------------------	---

# Summary

## Aggregate lending

- The latest agricultural lending statistics prepared by the Australian Prudential Regulatory Authority (APRA) show an increase in lending to the farm sector in 2019–20, but with some important differences across states.
- At the national level, the nominal value of loans and leases owed by the farm sector was \$83.7 billion by the end of the 2019–20 financial year, an annual increase of 6.9%. This compares with increases of 5.4% in 2018–19 and 4.9% in 2017–18.
- The increase in agricultural lending during 2019–20 is consistent with stronger demand for finance in response to the cumulative impacts of the recent drought in eastern Australia.
- In the 2 states with the greatest lending share, New South Wales and Queensland, the value of loans and leases increased respectively by 10.8% (\$23.6 billion to \$26.2 billion) and 8.4% (\$18.6 billion to \$20.1 billion) in 2019–20.
- Data from Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) annual farm surveys program also support the view that drought contributed to increased lending to the farm sector in New South Wales and Queensland in 2019–20.
- ABARES survey results for broadacre and dairy farms in both Queensland and New South Wales show a sharp increase in borrowing for working capital purposes in both 2018–19 and 2019–20 compared with the 4 years prior to 2018–19. Borrowing for working capital purposes represented around 40% of new loans taken out during 2018–19 and 2019–20, compared with an average of just 15% in the 4 years prior.

## Industry level results

- The dominant driver of agricultural lending patterns in recent years is drought, although some industry-specific factors are also likely to have been significant.
- Aggregate lending to farms in the dairy industry decreased in 2019–20, which may reflect ongoing structural adjustment pressures in this industry which have seen many farmers exit the sector.
- Aggregate lending to some horticultural industries, such as fruit and nuts, and grape growing, increased in 2019–20 and may underpin the recent strong growth in output recorded by these industries.

## Land values and farm equity

- Lending to the farm sector in recent years has been supported by continued growth in agricultural land values and comparatively high farm equity.
- ABARES farm survey data show that the average value of broadacre and dairy farms (on a per hectare basis) increased by around 1.6% in 2019–20. However, the average equity ratio across this group of farms – that is, the ratio of owned capital to total capital – was largely unchanged.

## Borrowers in arrears

- The agricultural lending data for 2019–20 provide some evidence of growing difficulty within the farm sector in servicing loans, most likely associated with the adverse effects of drought on some borrowers. For example, the value of loans and leases that were more than 90 days past due increased from \$663 million in 2018–19 to \$1.1 billion in 2019–20 – an increase of 65%.
- The value of loans and leases in arrears increased by 15% during the 2018–19 financial year (from \$577 million in 2017–18 to \$663 million in 2018–19) and decreased by 9% during 2017–18 (from \$631 million in 2016–17 to \$577 million in 2017–18).
- When represented as a share of total agricultural lending, loans and leases in arrears increased from 0.8% of total lending in 2018–19 to 1.3% of total lending in 2019–20.
- As with changes in total lending in 2019–20, there were significant differences across the states. Four states – New South Wales, Queensland, Victoria and South Australia – recorded large increases in the value and number of loans and leases in arrears during 2019–20. New South Wales also recorded a large increase in this category of loans and leases during the previous financial year (2018–19).
- The value of loans in arrears in Western Australia fell slightly during 2019–20, on top of more substantive declines in the 2 previous financial years.
- While statistics relating to loans and leases in arrears worsened considerably in 2019–20, the number of new instances of debt mediation fell from 264 in 2018–19 to 200 in 2019–20, with reductions recorded in all states for which disaggregated data are available.
- The number of new foreclosures increased from 31 cases in 2018–19 to 37 cases in 2019–20. However, foreclosures remain a very small proportion of the total number of farm businesses in the country (around 87,800 in 2019–20).

## Debt servicing

- By some metrics, the capacity of the farm sector to service outstanding debt improved in 2019–20 compared with the previous year, despite the increase in overall lending to the sector.
- The total interest paid on agricultural loans decreased by an estimated 23% in 2019–20 (from \$1.93 billion in 2018–19 to \$1.48 billion in 2019–20). This reflected a substantial decline in the average rate of interest applying to agricultural loans and leases, which more than offset the increase in total borrowing.
- The ratio of aggregate farm sector profit to total debt increased in 2019–20, as growth in profit (up 23% to \$9.6 billion) outstripped the increase in total debt (7%).

## Long-term trends

- Long-term trends in lending to the farm sector are influenced by changes in the sector's profitability, with agricultural lending typically increasing when the profitability of farming is lower, and vice versa.



- From 2002 to 2009 (the millennium drought period) profitability of the farm sector declined considerably, and there was an increase in lending – particularly for working capital purposes.
- After the millennium drought broke there was a sustained period of higher farm profitability, and aggregate lending to the sector declined as many loans were repaid.
- Debt financing remains of critical importance to the farm sector, both to fund new investment and to help manage temporal variability in farm revenue and profit.
- ABARES farm surveys data show that, among broadacre and dairy farms (which collectively account for around 65% of the value of farm output), the 2 main reasons for borrowing are to fund land purchases and for working capital. On average, these 2 uses account for around 80% of total farm sector borrowing in these industries.

## **Lending in 2020–21**

- While detailed APRA statistics on agricultural lending in 2020–21 will not be available until next year's report, the Reserve Bank of Australia (RBA) recently released data showing a further increase in aggregate rural lending during 2020–21, but at a slower rate than the previous year (a 7.1% increase in 2020–21 to \$91.3 billion, compared with a 10% increase in 2019–20).
- It is important to note, however, that the RBA data includes lending to businesses in the forestry and fishing sectors, whereas the APRA data only include lending to agricultural businesses.



# Introduction

In 2016, the Australian Government introduced legislation authorising the collection and reporting of annual statistics on lending to the farm sector by banks and other institutional lenders. Under the Financial Sector (Collection of Data) (reporting standard) determination No 18 of 2017, major lenders to farm businesses are required to submit annual statistics to APRA, who collate and process the data before providing it to the Department of Agriculture, Water and the Environment (DAWE) for further analysis and reporting. More information on the data collection and definitions of terms is at [Appendix A](#).

The data collected by APRA are a key resource for assessing trends and developments in the use of debt financing by the farm sector. They support the development of government policy and add substantially to the broader collection of statistical information available to those with an interest in the farm sector.

## Previous reports

DAWE has published [Agricultural lending data reports](#), prepared by ABARES, based on APRA data for 2016–17, 2017–18 and 2018–19. The purpose of the reports is to provide context and further explanation of trends and developments in agricultural lending. In preparing the reports, ABARES draws on its detailed knowledge of developments in Australia’s agricultural commodity markets, as well as other sources of information relating to agricultural lending and farm performance. The latter include aggregate rural debt statistics published by the RBA, and farm-level information about debt and other aspects of farm performance collected by ABARES as part of its regular surveys of Australian farms.

## A new development in 2021

In this year’s report the agricultural lending data collected by APRA are being made available via an interactive ABARES [data dashboard](#). The dashboard is designed to make it easier for users to access and visualise the APRA data, while providing greater flexibility to add data in the future. The dashboard will be updated each year as new APRA lending data becomes available. There is also an option for users to download the raw data.

Readers of this report (and users of the data dashboard) should familiarise themselves with the [Glossary](#) and background to APRA data in [Appendix A](#).

## Revisions to last year’s data

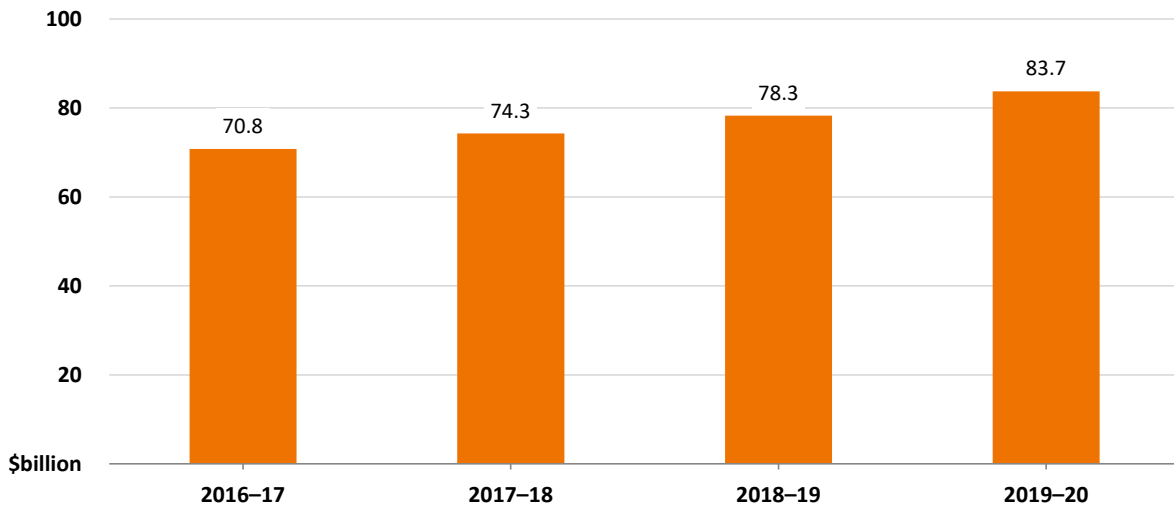
Readers should note that APRA recently made significant revisions to lending data for 2018–19. The most important of these revisions affects estimates of agricultural lending in Queensland, with flow-on effects for national-level results. As a result, some of the data and analysis in the 2018–19 report is out of date.

The revised APRA data for 2018–19 have been used in preparing the current report and the associated data dashboard. Readers interested in accessing or using the APRA lending data (including historical data) should access them via the data dashboard, rather than via the printed tables in earlier reports.

# Developments in agricultural lending in 2019–20

At the national level, agricultural lending (the value of loans and leases outstanding at 30 June 2020) increased from \$78.3 billion at the end of 2018–19 to \$83.7 billion at the end of 2019–20, an increase of 6.9%. This compares with increases of 5.4% in 2018–19 and 4.9% in 2017–18 (Figure 1).

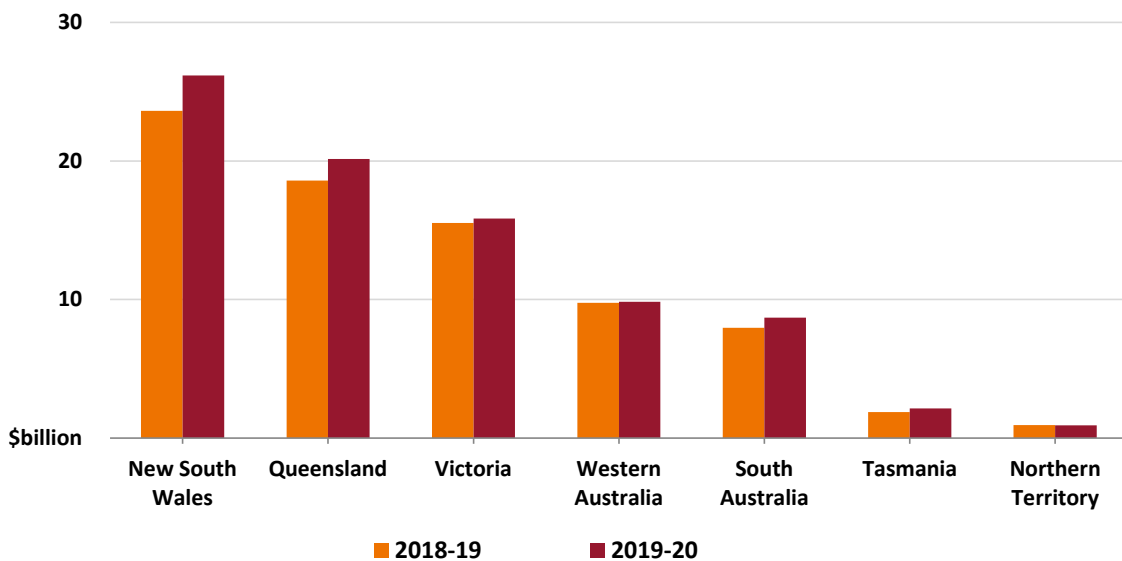
**Figure 1 Loans and leases outstanding at 30 June, Australia, 2016–17 to 2019–20**



Source: APRA

Lending to the agricultural sector increased in most states during 2019–20, with the largest percentage increases occurring in Tasmania (14.3%) and New South Wales (10.8%) (Figure 2).

**Figure 2 Loans and leases outstanding at 30 June, by state, 2018–19 to 2019–20**



Note: Data for New South Wales includes the Australian Capital Territory.

Source: APRA

Increases in agricultural lending in New South Wales and Queensland during 2019–20 are likely to have been driven by the need for increased ‘carry on’ finance in response to drought. For example, results from ABARES surveys of broadacre and dairy farms in both Queensland and New South Wales show a sharp increase in borrowing for working capital purposes in both 2018–19 and 2019–20 (Box 1). Borrowing for working capital purposes represented around 40% of new loans taken out during both 2018–19 and 2019–20, compared with an average of just 15% across the 4 prior financial years.

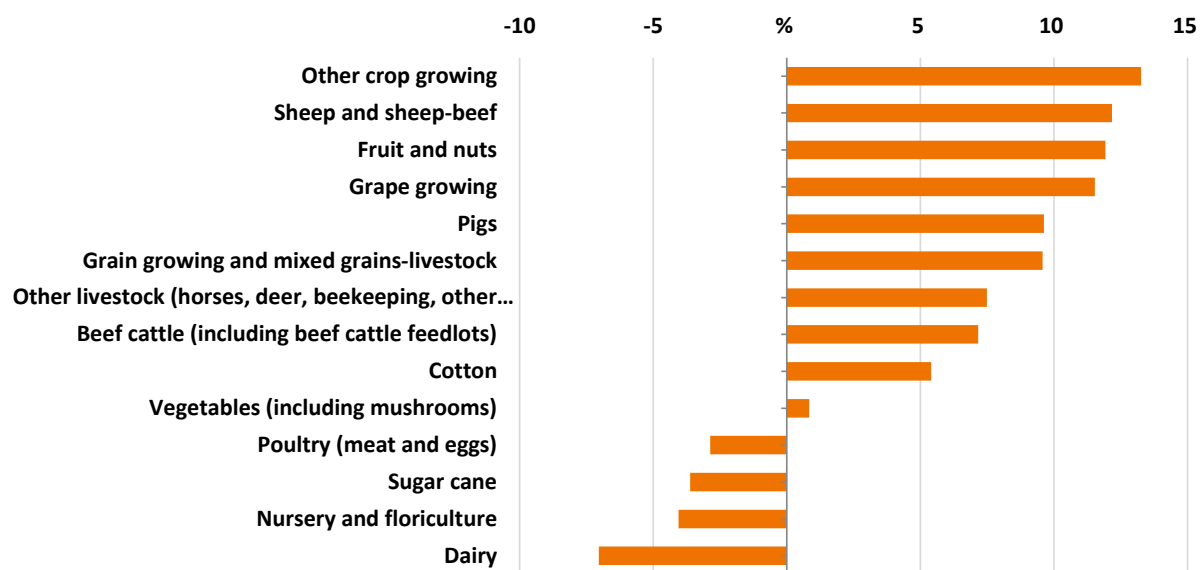
In Western Australia, where farming was much less affected by drought in the period up to 2019–20, farms that increased their borrowing in 2018–19 and 2019–20 largely did so to fund land and machinery purchases (70% of new borrowing) compared with borrowing for working capital (22% of new borrowing).

## Industry-level results

The dominant driver of agricultural lending patterns in recent years is drought, although some industry-specific factors are also likely to have been significant.

Agricultural lending patterns in 2019–20 varied across industries. For example, aggregate lending to farms in the ‘other crop growing’ industry (which includes growers of fodder, hay and silage crops) increased by 13% during 2019–20, while lending to dairy farms decreased by 7% (Figure 3).

**Figure 3 Change in loans and leases outstanding, by industry, 2018–19 to 2019–20**



Source: APRA

The reduction in lending to dairy farms in 2019–20 is consistent with a further decline in the overall size of this sector, as farmers continued to adjust to a sustained period of challenging market conditions on both the output side (periods of low farm-gate milk prices) and the input side (periods of high prices for feed and irrigation water). According to Dairy Australia (2021):

*“One factor contributing to [the decline in the number of dairy cattle in Australia in 2019–20] is the increased volatility in farm cash incomes. This has led many farmers to participate in the export heifer trade or sell dairy cows for slaughter in an attempt*

*to stabilise farm income. In 2019–20 the national herd decreased as a challenging start to the year resulted in an increase in farm exits and a move to smaller herd sizes on many farms.”*

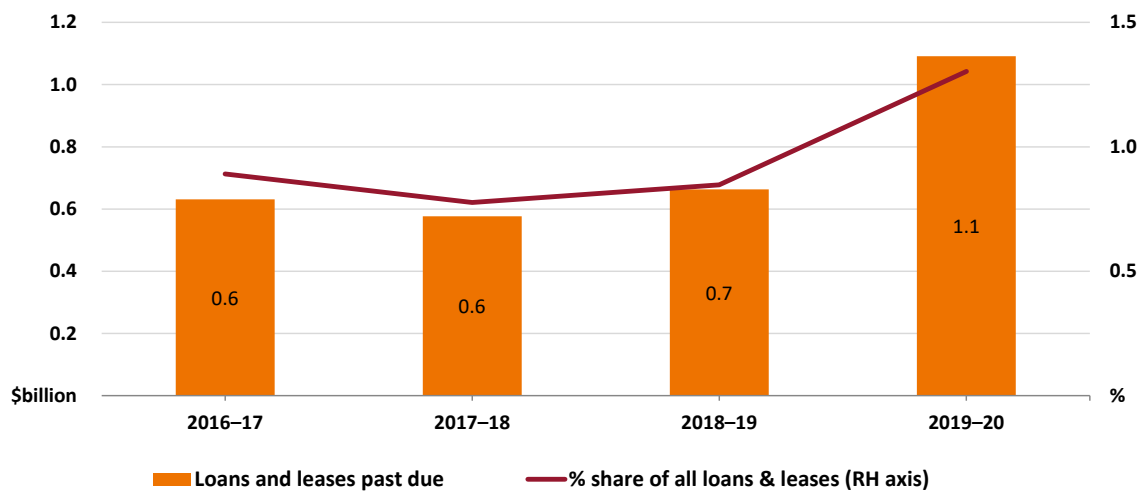
The increase in lending to farms in the grape growing and fruit and nuts sectors may reflect an expansion in output in these industries in recent years, as farmers and investors responded to favourable prices and export opportunities. For example, between 2017–18 and 2019–20 the gross value of fruit & nut production in Australia increased by 18%, and the value of grape growing (table grapes plus wine grapes) increased by 8% (ABARES 2021). In contrast, the gross value of production in the rest of the farm sector grew by less than 2% over the period.

## Borrowers in arrears

The agricultural lending data for 2019–20 provide some evidence of growing difficulty within the farm sector in servicing loans. For example, the value of loans and leases that were more than 90 days past due increased from \$663 million in 2018–19 to \$1.1 billion in 2019–20, an increase of 65%. In contrast, the value of loans and leases in arrears increased by 15% during the 2018–19 financial year and decreased by 9% during 2017–18 (Figure 4).

When represented as a share of total agricultural lending, loans and leases in arrears increased from 0.8% of total lending in 2018–19 to 1.3% of total lending in 2019–20.

**Figure 4 Loans and leases more than 90 days past due, Australia, 2016–17 to 2019–20**



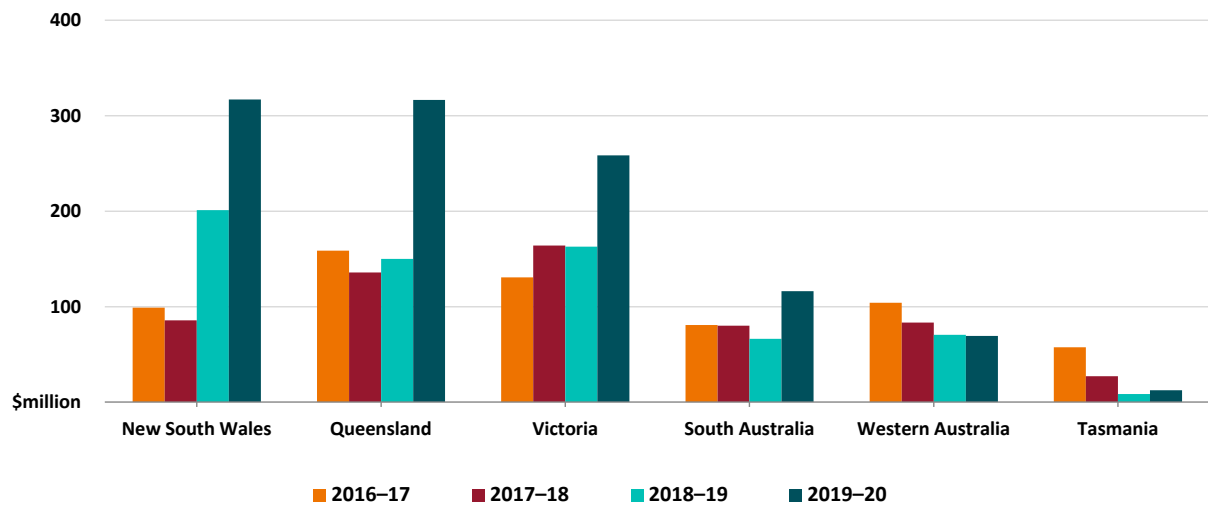
Note: Value of loans and lease more than 90 days past due at the end of each financial year.

Source: APRA

As with changes in total lending in 2019–20, there were significant differences across states. For example, 4 states – New South Wales, Queensland, Victoria and South Australia – recorded large increases in the value and number of loans and leases in arrears during 2019–20 (Figure 5). New South Wales also recorded a large increase in loans and leases in arrears during the previous financial year (2018–19). These developments likely reflect the cumulative impact of drought on farm cash flows in much of eastern Australia in the three years up to and including 2019–20.

In contrast, the value of loans in arrears in Western Australia fell slightly during 2019–20, on top of more substantive declines in the 2 previous financial years.

**Figure 5 Loans and leases more than 90 days past due, by state, 2016–17 to 2019–20**

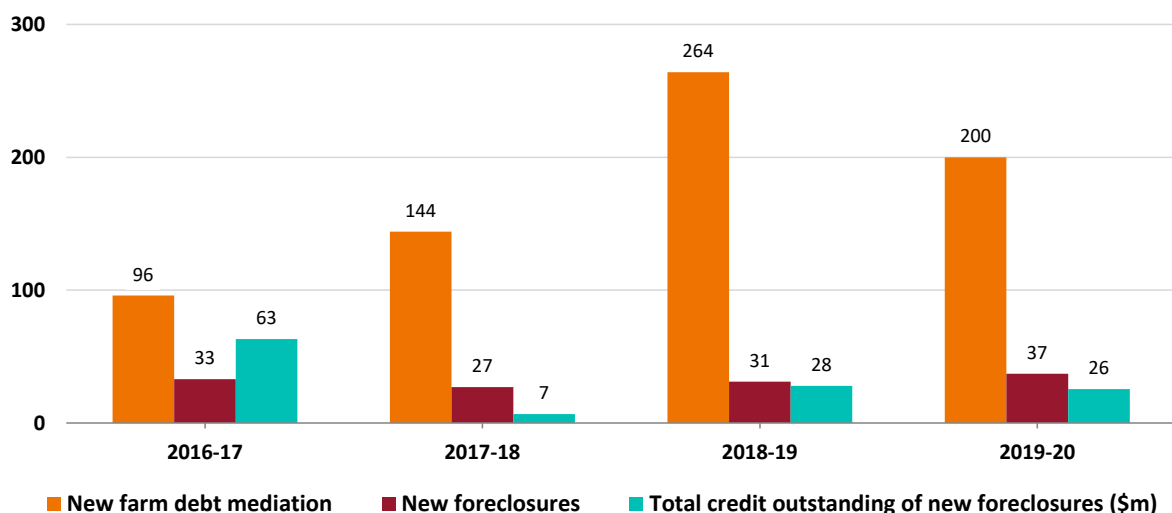


Note: Loans and lease more than 90 days past due at 30 June. Data for the Northern Territory is not available.  
Source: APRA

While statistics relating to loans and leases in arrears suggest greater financial difficulty in the farm sector during 2019–20, the number of new instances of debt mediation was lower compared with the previous year. Specifically, there were 200 instances of new debt mediations in 2019–20, compared with 264 in 2018–19 (Figure 6). Reductions in new debt mediations were recorded in all states for which data are available. Note that APRA results by state or industry or state by industry are not always available due to confidentiality reasons ([Appendix A](#)).

The number of new foreclosures increased from 31 cases in 2018–19 to 37 cases in 2019–20.

**Figure 6 New instances of loans and leases under mediation and new farm foreclosures, Australia, 2016–17 to 2019–20**

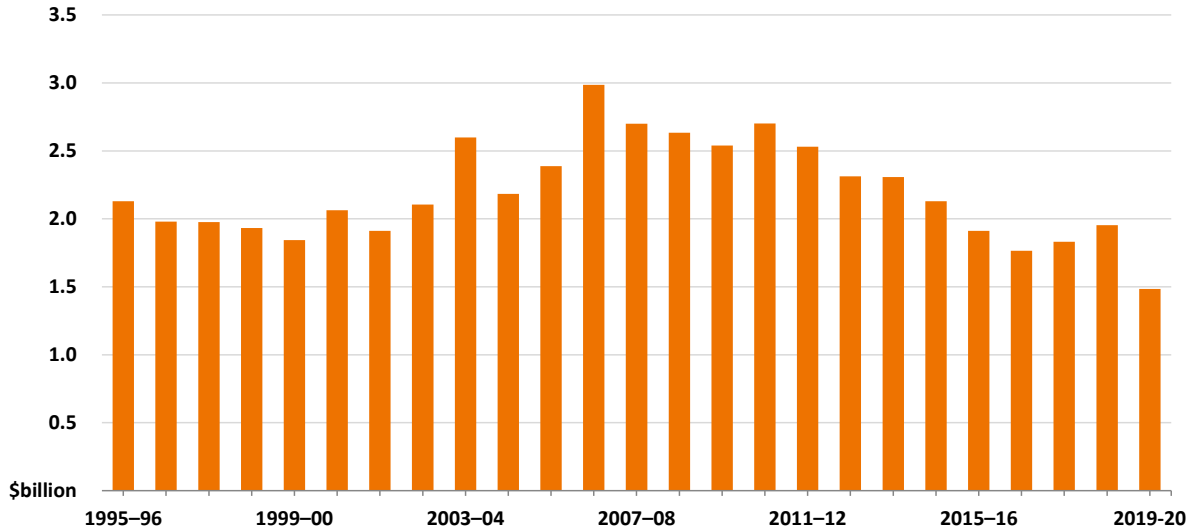


Note: New instances of mediation or foreclosure in each financial year.  
Source: APRA

## Debt servicing

By some metrics the capacity of the farm sector to service outstanding debt improved in 2019–20 compared with the previous year, despite the increase in overall lending to the sector. For example, the total interest paid on agricultural loans decreased by an estimated 23% in 2019–20, from \$1.93 billion in 2018–19 to \$1.48 billion in 2019–20 (Figure 7).

**Figure 7 Aggregate interest payments by the farm sector, Australia, 1995–96 to 2019–20**



Note: Data converted to 2019–20 dollars.

Source: ABARES (2021)

The reduction in total interest paid by the agricultural sector in 2019–20 reflects a substantial decrease in the average rate of interest applying to agricultural loans and leases, which more than offset the increase in total borrowing. For example, among broadacre and dairy farms, the average rate of interest paid on agricultural loans and leases fell from 4.6% in 2018–19 to 3.9% in 2019–20, a reduction of 14%.

Another indicator suggesting improved debt servicing in the rural sector in 2019–20 was an increase in the ratio of aggregate farm sector profit to total debt, with growth in profit (up 23%) outstripping the increase in total debt (up 7%).

### Box 1 ABARES farm surveys data

Some of the data in this report are drawn from 2 long-standing farm surveys conducted by ABARES: the Australian Agricultural and Grazing Industries Survey (AAGIS); and Australian Dairy Industry Survey (ADIS).

AAGIS and ADIS are conducted annually and provide representative estimates of farm business physical and financial performance. AAGIS covers broadacre farms with an estimated value of agricultural operations (EVAO) greater than \$40,000 and includes the following industries:

- Beef cattle farming (specialised)
- Grain-sheep or grain-beef cattle farming
- Other grain growing
- Sheep farming (specialised)
- Sheep-beef cattle farming.

ADIS covers dairy farms with an estimated value of agricultural operations (EVAO) greater than \$40,000.

AAGIS and ADIS include detailed questions about farm debt, including amounts borrowed by purpose of loan and source of loan, as well as reasons for any changes in debt during the year.

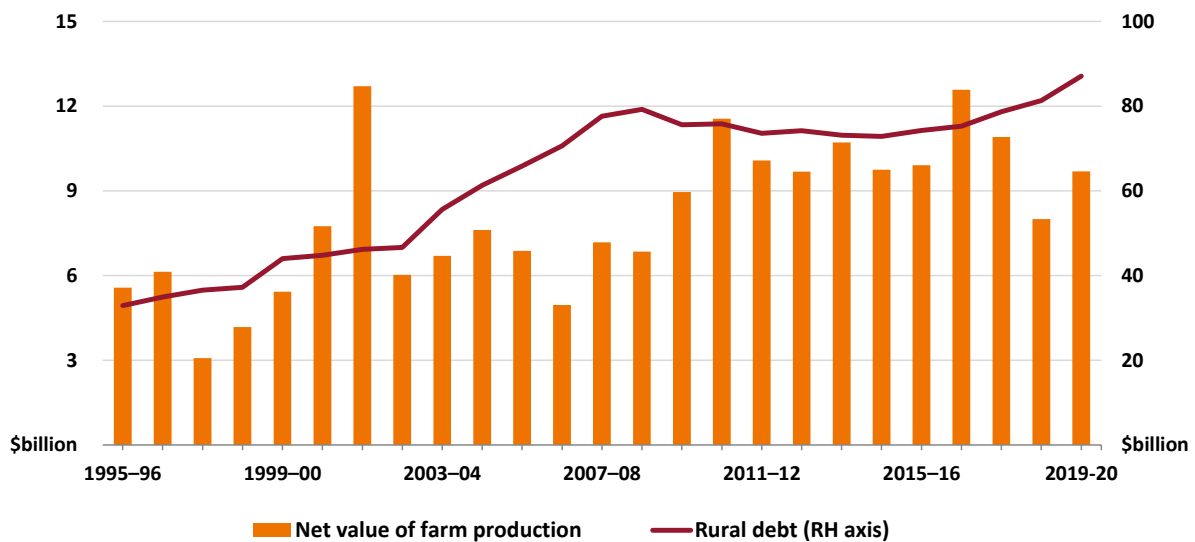
Further information on the farm surveys [definitions and methods](#) can be found on the ABARES website. Detailed [farm survey results](#) can be accessed via the AgSurf interface.



# Long-term trends in debt

Long-term trends in lending to the farm sector continue to be influenced by changes in the farm sector’s profitability. In general, agricultural lending tends to increase during periods when the profitability of farming is below average, and vice versa. From 2002 to 2009 (the millennium drought period), profitability of the farm sector declined considerably, coinciding with an increase in lending, particularly for working capital purposes. After the millennium drought broke there was a sustained period of higher farm profitability, and aggregate lending to the sector declined as many loans were repaid (Figure 8).

**Figure 8 Net value of farm production and rural debt, Australia, 1995–96 to 2019–20**



Note: Data converted to 2019–20 dollars.  
 Source: ABARES (2021); RBA (2021)

Debt financing remains of critical importance to the farm sector, both to fund new investment and to help manage temporal variability in farm revenue and profit. ABARES farm surveys data show that, among broadacre and dairy farms (which collectively account for around 65% of the value of farm output), the 2 main reasons for borrowing are to fund land purchase and for working capital. On average, these 2 uses account for around 80% of total farm sector borrowing in these industries.

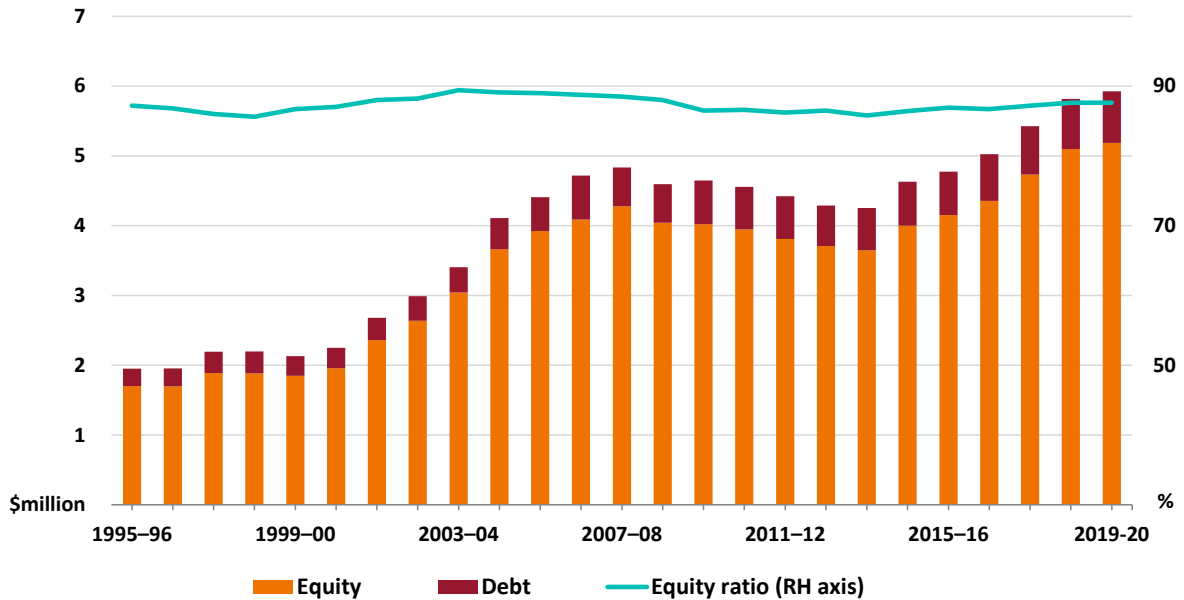
Farmers also access finance from a wide range of providers. For example, the agricultural lending statistics collected by APRA show that farmers collectively accessed 88 different finance providers during 2019–20, ranging from small, locally owned and operated credit unions, to the finance arms of major vehicle and farm-machinery suppliers, to the major retail and commercial banks.

## Land values, farm equity and the distribution of debt

Lending to the farm sector in recent years has been supported by continued growth in agricultural land values and comparatively high farm equity. For example, ABARES farm survey data show that the farmer-estimated average value of broadacre and dairy farms (on a per hectare basis) increased by around 3% in 2019–20. However, the average equity ratio across

this group of farms – that is, the ratio of owned capital to total capital – was largely unchanged (Figure 9).

**Figure 9 Farm business equity, debt and equity ratio, broadacre and dairy farms, Australia, 1995–96 to 2019–20 (average per farm)**



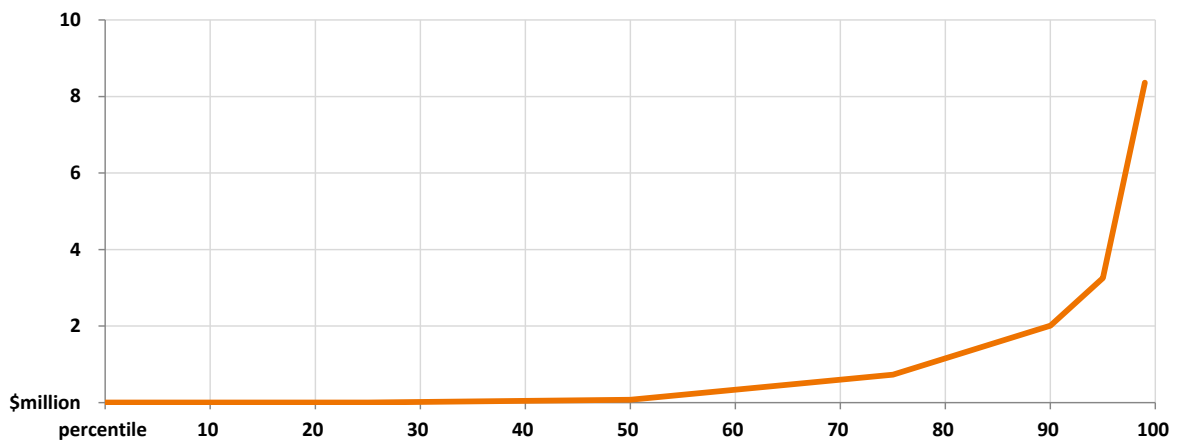
Note: Equity and debt at 30 June. Equity ratio is the ratio of owned capital to total capital.  
Source: ABARES Australian Agricultural and Grazing Industries Survey and Australian Dairy Industry Survey

### The distribution of debt across farms

Debt financing is common in Australian agriculture – both as a way for farmers enter the sector or expand their operations, and to help farmers manage fluctuations in revenue within or between years. However, in any given year many farms have little to no debt.

In 2019–20, 25% of broadacre and dairy farms had no debt, another 25% of farms had debt between \$0 and \$75,000, the next 25% had debt between \$75,000 and \$730,000, and the final 25% had debt greater than \$730,000 (Figure 10).

**Figure 10 Distribution of farm business debt on broadacre and dairy farms, Australia, 2019–20 (average debt per farm)**



Source: ABARES Australian Agricultural and Grazing Industries Survey and Australian Dairy Industry Survey

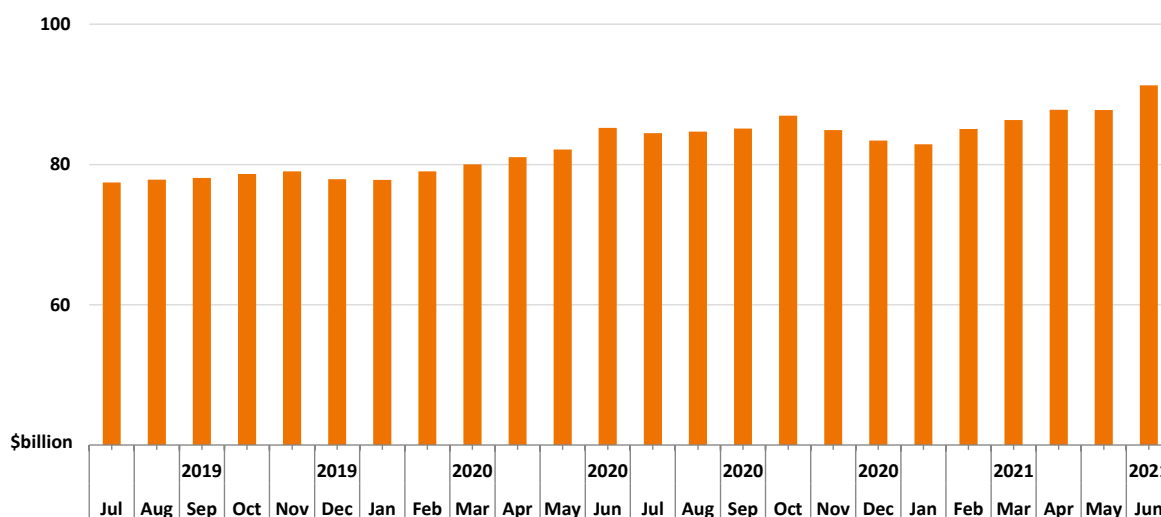
# Agricultural lending in 2020–21

Some early insights into agricultural lending in 2020–21 can be found in a new monthly series published by the RBA covering lending to businesses in the ‘agricultural, forestry and fisheries’ sector (RBA 2021). This series tracks monthly lending to the sector from July 2019 to June 2021.

It is important to note that the RBA series differs from APRA data in several ways – not least being RBA’s inclusion of businesses in the forestry and fisheries sectors ([Appendix B](#)). Nevertheless, the RBA series provides a guide to the likely changes to expect in APRA’s aggregate lending data for 2020–21 when it is available.

Aggregate debt continued to increase in 2020–21, albeit at a slower rate than the previous year. The RBA series shows a 7.1% increase in lending to businesses in the agriculture, forestry and fishing sector during 2020–21 (Figure 11). This compares with an increase in debt the previous year (2019–20) of 10%.

**Figure 11 Lending to businesses – agriculture, forestry and fishing, Australia, July 2019 to June 2021**



Note: Each column shows the value of loans outstanding at the end of each month.

Source: RBA (2021)

## Regional Investment Corporation lending in 2020–21

Another source of information on agricultural lending trends in 2020–21 is the Regional Investment Corporation (RIC). The RIC is an Australian Government-backed specialist finance provider for farmers and farm-related small businesses (RIC 2021).

While the RIC is a new and comparatively small lender, it recorded substantial increases in lending to the farm sector during both 2019–20 and 2020–21. As at 30 June 2021, the RIC had loans to farmers of \$1.3 billion, compared with \$416 million at 30 June 2020, and \$28 million at 30 June 2019. The expansions in lending in both 2019–20 and 2020–21 were mostly in the form of ‘drought’ loans, which were concentrated in New South Wales and Queensland, and with the majority of these loans taken out by farms in 3 industries: broadacre livestock; broadacre cropping; and dairy (Table 1 and Table 2).

**Table 1 RIC net value of loan portfolio, by industry, 2018–19 to 2020–21**

<b>Lending by industry</b>	<b>2018–19 (\$m)</b>	<b>2019–20 (\$m)</b>	<b>2020–21 (\$m)</b>
Beef cattle (including beef cattle feedlots)	1	98	308
Sheep and sheep–beef	8	74	218
Pigs	–	–	1
Dairy	1	19	66
Poultry (meat and eggs)	–	–	3
Other livestock (horses, deer, beekeeping, other livestock)	–	1	3
Grain growing and mixed grains–livestock	17	191	620
Cotton	–	7	24
Sugar cane	–	2	3
Vegetables (including mushrooms)	–	2	4
Grape growing	–	3	7
Fruit and nuts	–	8	21
Other crop growing	–	10	12
Other	–	–	2
Non-primary production	–	–	15
<b>All industries</b>	<b>28</b>	<b>416</b>	<b>1,308</b>

Note: Calculated as total value of settled loans minus value of repaid loans in the portfolio at 30 June each year. Data for New South Wales includes the Australian Capital Territory. Data rounded to the nearest million. Columns may not sum due to rounding.

Source: Regional Investment Corporation

**Table 2 RIC net value of loan portfolio, by state, 2018–19 to 2020–21**

<b>Lending by state/territory</b>	<b>2018–19 (\$m)</b>	<b>2019–20 (\$m)</b>	<b>2020–21 (\$m)</b>
New South Wales	21	264	765
Victoria	1	37	91
Queensland	3	88	335
South Australia	2	22	83
Western Australia	–	1	21
Tasmania	–	1	1
Northern Territory	–	2	12
<b>All states/territories</b>	<b>28</b>	<b>416</b>	<b>1,308</b>

Note: Calculated as total value of settled loans minus value of repaid loans in the portfolio at 30 June each year. Data for New South Wales includes the Australian Capital Territory. Data rounded to the nearest million. Columns may not sum due to rounding.

Source: Regional Investment Corporation

Next year's APRA data will allow the regional and industry dimensions of agricultural lending in 2020–21 to be explored in greater detail.

# Appendix A: Background to APRA data

## Data collection

Under the *Financial Sector (Collection of Data) Act 2001* (FSCODA), APRA is authorised to collect information from financial sector entities. The latter submit agricultural lending data to APRA using forms specified under the *Corporations Act 2001*. Blank copies of reporting form [ARS 750.0 Agricultural Lending](#) and associated instructions are available on the APRA website.

Financial sector entities that provide data to APRA are:

- Authorised deposit-taking institutions (ADIs), excluding Payment Facility Providers
- Registered financial corporations (RFCs).

The FSCODA authorises APRA to share this data with DAWE for the purposes of producing this publication and the data dashboard. The information may also be used by APRA, the ABS or the RBA.

This report and the associated data dashboard should be read in conjunction with the [Glossary](#), which contains definitions and other important information relating to the rules and processes governing the collection of the lending data.

## Confidentiality requirements

Lending data collected from individual ADIs and RFCs is subject to confidentiality requirements outlined in the *Australian Prudential Regulation Authority Act 1998*. In most circumstances, aggregation of data maintains confidentiality. Any items in this dashboard that are outside confidentiality protection measures relating to aggregation of data are masked.

## Scope of data

Data collected by APRA covers lending to businesses in the agricultural sector, which comprises agricultural subdivision 01 code of the Australian and New Zealand Standard Industrial Classification (ANZSIC) system. The collection does not include lending to businesses in the fishing/aquaculture, forestry, hunting and trapping, or support services to agriculture, forestry and fishing sectors (ANZSIC subdivision codes 02 to 05).

Data collected include:

- total credit outstanding on loans and leases
- total credit limits on loans and leases
- total credit outstanding on loans and leases more than 90 days past due
- number of new instances of farm debt mediations
- number of new farm foreclosures
- total credit outstanding on loans and leases for any new farm foreclosures.
- number of farm business entities with credit outstanding for loans and leases

- number of farm business entities with credit outstanding that is more than 90 days past due.

If only a portion of a loan or lease relates to an agricultural activity, APRA will only collect data for those loans or leases where the majority (whether or not drawn down) is for the purpose of agricultural activities. This may result in a slight over-reporting of agricultural lending.

## **Lenders covered – financial sector reporting entities**

It is mandatory for all ADIs to provide agricultural lending data to APRA. RFCs with assets (loans, advances and lending facilities) valued at less than \$50 million, either as a single entity or for combined related bodies corporate, are not required to report to APRA. This may result in some under-reporting of lending to farm business entities.

## **Types of debt reported**

APRA collects data about business lending (loans and leases) by reporting entities to farm business entities in the agricultural sector. APRA does not collect data about personal loans (secured or unsecured), personal leases and personal credit card debt. Some major credit card providers may provide cards to businesses, but they do not classify this as business lending.

APRA does not collect data about loans from government agencies, other business entities, vendor financiers, family or others external to the farm business entity, and sundry creditors (mainly input suppliers). This may result in an understatement of loan funds available to the agricultural sector.

## **Data collection period**

Lending data is presented as at 30 June each financial year. New incidents of farm debt mediations and farm foreclosures are reported for the full financial year.

## **Future data collection and revisions**

APRA will continue to collect data under the same parameters as those used for the 2017, 2018, 2019 and 2020 collections. Future publications may also contain revisions to previously published data to reflect resubmissions from reporting entities or corrections to compilation errors. APRA regularly analyses past revisions to identify potential improvements to source data and statistical compilation techniques. This helps minimise the frequency and scale of any future revisions. Significant revisions (variances of at least 10% or \$10 million) will be identified.

## **Data presentation and interpretation**

Amounts are expressed in Australian dollars. In some cases, data may not sum exactly to total figures due to rounding. If an item is masked to meet confidentiality requirements, other data items may also be masked so the value of the primary masked data item cannot be otherwise derived from totals. The term 'n/a' will be used to indicate where data have been masked to maintain confidentiality. Values shown as '-' represent nil values. Numbers rounded to 0 represent values under \$0.5 million.

## **Data categories**

Data are presented for 14 agricultural industry 'groups', based on 4-digit level ANZSIC classification codes (Table A1).

**Table A1 Agricultural industry classification codes, Australia**

Category	Industry	ANZSIC 2006 class or classes
<b>Livestock industries</b>	Beef cattle	0142, 0143
	Sheep and sheep-beef	0141, 0144
	Pigs	0192
	Dairy	0160
	Poultry (meat and eggs)	0171, 0172
	Other livestock (horses, deer, beekeeping, other livestock)	0180, 0191, 0193, 0199
<b>Cropping industries</b>	Grain growing and mixed grains-livestock	0146, 0149, 0145
	Cotton	0152
	Sugar cane	0151
	Vegetables (incl. mushrooms)	0122, 0123, 0121
	Grape growing	0131
	Fruit and nuts	0132, 0133, 0134, 0135, 0136, 0137, 0139
	Nursery and floriculture	0111, 0112, 0113, 0114, 0115
	Other crop growing	0159

Source: [Financial Sector \(Collection of Data\) \(reporting standard\) determination No. 18 of 2017 \(legislation.gov.au\)](#)

Industry-level results are also available by state (including for the Northern Territory), although in some cases, state and territory data may need to be merged to maintain data confidentiality.

## Farm business entities and the number of borrowers

The agricultural lending statistics collected by APRA include the number of agricultural borrowers (business entities) associated with the loans and leases that have been taken out. However, it is important to note that the aggregate of the number of borrowers reported by APRA can double-counts individual farm business entities where they have multiple loans or leases across different lenders. For example, an individual farm with a land loan with a major bank, a separate working capital facility with the same bank or a different lender, and a lease over a tractor with a different lender again would represent 3 'borrowers' in the APRA data base. Hence, the total 'borrower' numbers in the APRA data base are well in excess of the total number of farms in Australia.

As a result, interpreting year on year changes in the number of borrowers reported in the APRA data is challenging. Aggregate borrower numbers in the database would fall, for example, if the hypothetical borrower described above rationalised or consolidated its 3 loans into one. Care should therefore be taken when interpreting changes in the borrower numbers over time.

## Assigning loans and leases to different industries

Farm business entities (borrowers) are assigned to one of the 14 industry groups based on their predominant agricultural activity (ANZSIC code). Where a farm business entity has a loan or



lease directed to agricultural activities across multiple industries, the loan or lease is attributed to the industry in which the majority of the activity is undertaken.

## **Farm business entity locations**

Farm business entities are assigned to the state or territory in which they undertake their agricultural activity and derive their revenue. Where a farm business entity has a loan or lease directed to agricultural activities across multiple states and territories, the loan or lease is attributed to the state or territory where the majority of the revenue is derived.

# Appendix B: Other sources of agricultural lending data

The RBA currently publish 2 major series on aggregate lending to the rural sector:

- 1) 'Rural debt by lender', which is an active annual series available from 1994–95 to 2019-20 (RBA table D9)
- 2) 'Lending to business', an active monthly series running from July 2019 to June 2021. This table includes lending to businesses in the 'Agricultural, forestry and fishing' sector, by size of business (RBA table D14.1).

The RBA previously published a quarterly series on lending to 'Agricultural, forestry and fishing' businesses, covering the period from the December quarter 1993 to the September quarter 2019 (RBA table D7.3).

## Timeliness and coverage

The aggregate lending data in RBA table D14.1 are considerably more up to date than the APRA data. The RBA table show lending at 30 June 2021, versus lending at 30 June 2020 in the latest APRA tables. However, the RBA data are not available at the state and/or industry levels, and the RBA data are limited to 'loans outstanding'. In short, the data collected by APRA is more disaggregated than the RBA data, and includes more than just aggregate lending.

## Comparability

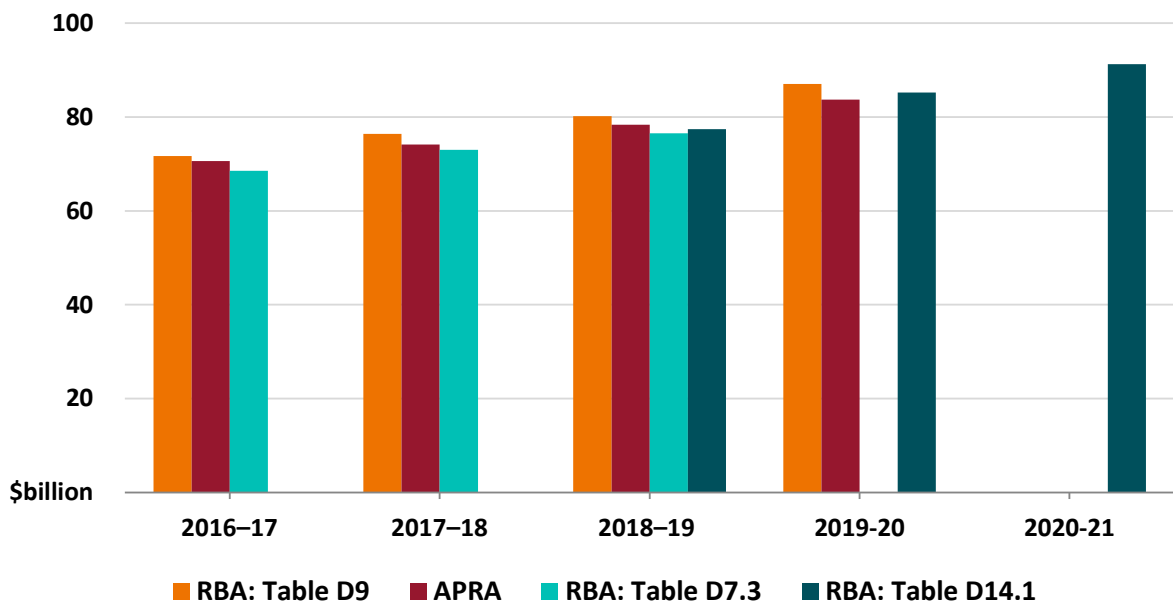
The RBA and APRA statistics relating to aggregate lending are not directly comparable. One important difference is that the APRA data only include lending to businesses in the agricultural sector, whereas the RBA data also include lending to businesses in the forestry and fisheries sectors. Based on Australian Bureau of Statistics data (ABS 2021), output from the 'agriculture' sector accounted for around 85% of the total 'agriculture, forestry and fishing' output over the last 5 years.

Another difference between the 2 data sources is that the aggregate lending threshold for institutions reporting in the RBA data is higher than it is for the APRA collection. This would tend to make RBA estimates of aggregate agricultural lending smaller than APRA estimates.

Notwithstanding these differences, comparing the 2 sources in Figure B1 and Figure B2 shows that:

- RBA estimates of aggregate lending in table D14.1 are similar to those reported in RBA table D9, and to the numbers reported in (the now discontinued) table D7.3
- RBA estimates of rural lending are consistently higher than APRA estimates
- movements over time in the APRA and RBA series are very consistent – that is, relativities between the different series are largely maintained over time, at least for the period covered in Figure B1.

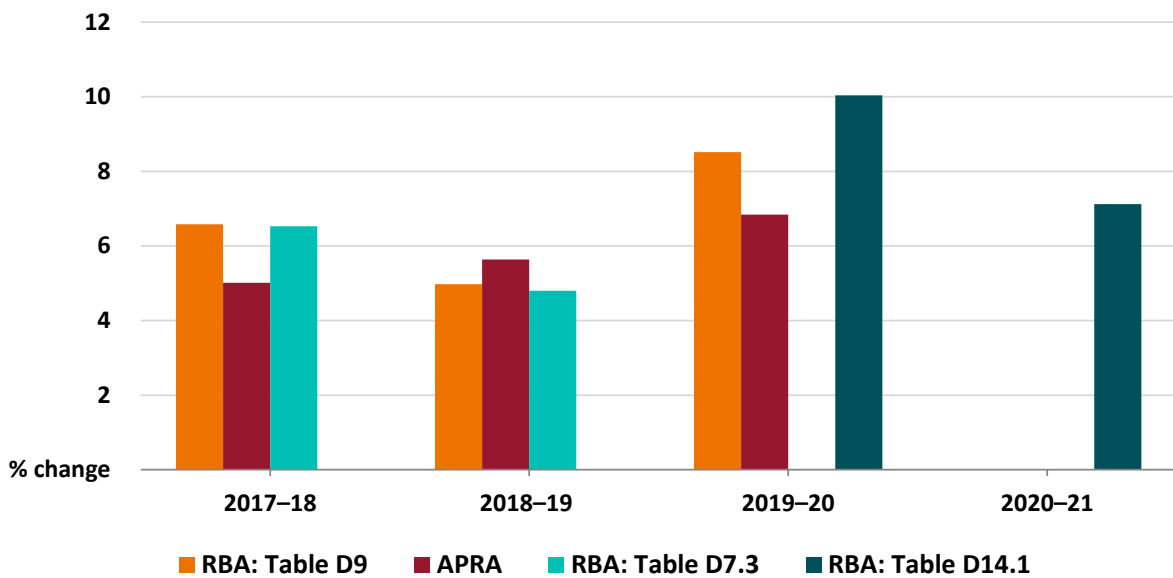
**Figure B1 APRA and RBA data on rural lending, Australia, 2016–17 to 2020–21**



Note: Each column shows the value of loans outstanding at the end of each financial year.

Source: APRA; RBA (2021)

**Figure B2 Year-on-year change in loans outstanding, APRA and RBA data on rural lending, Australia, 2017–18 to 2020–21**



Source: APRA; RBA (2021)

# Glossary

Term	Definition
90 days past due (in arrears)	<p>A loan or lease arrangement that is not subject to a regular repayment schedule is considered 90 days past due when it has remained continuously outside contractual or approved arrangements for 90 days.</p> <p>A loan or lease arrangement that is subject to a regular repayment schedule is considered 90 days past due when:</p> <p>a) at least 90 calendar days have elapsed since the due date of a contractual payment that has not been met in full</p> <p>b) the total amount outside contractual arrangements is equivalent to at least 90 days' worth of contractual payments.</p> <p>Reporting entities provide APRA with the total values of loans greater than 90 days past due and the number of business entities with loans greater than 90 days past due. Reporting entities supply data as at the end of the reporting period.</p>
ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
ADI	Authorised deposit-taking institution (as defined in the <i>Banking Act 1959</i> )
APRA	Australian Prudential Regulation Authority, established under the <i>Australian Prudential Regulation Authority Act 1998</i> .
borrower	See farm business entity
credit limit (total)	Means the maximum amount of funds available to the farm business entity without additional authorisation or approval. This amount includes outstanding credit (including capitalised interest or fees) and any other funds that can be drawn without additional approval by the reporting entity. Reporting entities supply data as at the end of the reporting period.
credit outstanding (total)	Credit outstanding is the original loan and/or lease amount less any repayments, including any redraw facilities drawn. Outstanding amounts are reported gross of provisions. Deposit balances in offset accounts are not netted against the outstanding credit amount. Finance that has been written off has been excluded. Reporting entities supply data as at the end of the reporting period.
Department of Agriculture, Water and the Environment	Department of Agriculture, Water and the Environment, including the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), or any Australian Government department that assumes or succeeds to its functions.
farm business entity	<p>An entity (company, trust, partnership, incorporated entity, sole trader or joint venture) that undertakes productive agricultural activities that constitute the entity's primary source of income. A farm business entity may comprise a group of related business entities. A group of related business entities are reported as one farm business entity.</p> <p>Related business entities include the parent entity, controlled entities, associated entities, joint venture entities and any other entity under the same parent entity. A farm business entity is effectively 'one borrower'.</p>
farm debt mediation	A structured negotiation process where a neutral and independent mediator helps the farm business entity and the reporting entity reach agreement about current and future debt arrangements. Some states and territories require that farm debt mediation occurs before the reporting entity is allowed to undertake foreclosure action. A new instance of farm debt mediation is considered by reporting entities to have commenced when the first meeting of the mediating parties has taken place. Reporting entities supply data to APRA on new instances of farm debt mediation for the reporting period.
foreclosure	A proceeding in which a reporting entity may take possession of a property used to secure a loan or lease. A new instance of a foreclosure is considered by a reporting entity to have commenced when a reporting entity, or a receiver or administrator appointed by the reporting entity, takes possession of a mortgaged property. Reporting entities supply data to APRA on new instances of farm foreclosures, and the total credit outstanding for new farm foreclosures to APRA for the reporting period.
FSCODA	<i>Financial Sector (Collection of Data) Act 2001</i>

---

Industry	<p>An individual farm business entity is assigned to an industry based on its predominant agricultural activity. The industry classification used in this publication is based on the 1993 and 2006 Australian and New Zealand Standard Industrial Classification (ANZSIC) classes. For confidentiality purposes, some of these classes were amalgamated with others to form an industry group.</p>
loans and leases	<p>Amounts owing to a reporting entity by a farm business entity evidenced by non-negotiable documents, including:</p> <ul style="list-style-type: none"> <li>• advances</li> <li>• secured and unsecured loans</li> <li>• mortgages</li> <li>• commercial loans</li> <li>• redeemable preference share finance not evidenced by a security</li> <li>• lease arrangements</li> <li>• equity participation in leveraged leases.</li> </ul> <p>Only those loans where half or more than half of the loan limit is for the purpose of agricultural activities and leases, whether drawn down or not, are reported to APRA.</p>
related parties	<p>Related parties of the reporting entity include the parent entity, controlled entities, associated entities, joint venture entities and other branches under the same parent entity.</p>
reporting entity	<p>An ADI or RFC to which the reporting form ARF 750.0 (DAWR Agricultural Lending) applies.</p>
RFC	<p>Registered financial corporation that is a registered entity under the <i>Financial Sector (Collection of Data) Act 2001</i>.</p>
Region	<p>Farm business entities are assigned to the state or territory in which they undertake their agricultural activity and derive their revenue. Where a farm business entity has a loan or lease directed to agricultural activities across multiple states and territories, the loan or lease is attributed to the state or territory where the majority of the revenue is derived.</p>

---

# References

ABARES 2021, Agricultural commodities: September quarter 2021, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra, September. CC BY 4.0.  
<https://doi.org/10.25814/ac89-vr35>

Australian Bureau of Statistics (ABS) 2021, [Value of Agricultural Commodities Produced, Australia](#), cat no. 7503.0, Canberra, May.

Dairy Australia 2021, [Cow and farm data](#). Accessed 1 September 2021.

Regional Investment Corporation (RIC) 2021, [About us](#). Accessed 1 September 2021.

Reserve Bank of Australia (RBA) 2021, [Statistical tables](#), Table D14.1, Lending to Business – Business Finance Outstanding by Business Size and Industry. Accessed 1 September 2021.



ANZ AGRI  
**INFOCUS**  
AUGUST  
2022

---

# COMMODITY INSIGHTS

---





---

# FOREWORD

---

After 2 years of strong prices, record seasons and profitable farming, key commodities such as wheat, canola, beef and sheep meat, are down from the highest levels. Are we settling at a level that's off the top, or is this the inevitable turn in the cycle? Hard to say. There's a lot of evidence pointing towards key markets that remain undersupplied, and this in conjunction with global trade instability, strong underpinning demand, and the focus on food security and domestic price management post-Covid, points to a decent case that the commodity price outlook will remain in upper quartile territory.

In Australia today, our season remains full of promise on the cusp of the critical spring period, which presents the chance through yield growth, to produce another very strong financial performance. But against this positive backdrop, we have rising input and operating costs that are now joined by increasing interest rates, and therefore borrowing costs. With farm debt at its highest ever aggregate level, this adds a cost impost, specifically on the fewer, but larger farmers, who carry the majority of farm debt. All of these factors combined point to a potential check in the system. If you plug in normal pricing to average yield and current costs, the industry is still likely to see a positive margin, albeit not as high as those of the previous two years. The weather will need to play its part though – as is always the case.

Another negativity as a backdrop to the otherwise solid outlook for industry is the heightened threat of a Foot-and-Mouth Disease (FMD) outbreak in Australia. This is driven by the FMD outbreak in Indonesia, and particularly the nearby island of Bali. This has the industry on high alert and is making many producers wary and focussed around their

own biosecurity protocols, in addition to the risk mitigation strategies that can be considered at the enterprise level.


On the latest figures, it still remains much more likely that Australia will avoid an FMD outbreak than not. Federal and State Governments are either implementing a range of measures to prevent transmission or preparing to apply a series of measures to contain any outbreak that may occur. A repeat of the 2001 United Kingdom rampant and initially unchecked outbreak which cost the industry over £14 billion, delayed national elections and took the UK years to recover from, is highly unlikely. Importantly, Australia's national biosecurity measures and processes are holding up and are being enhanced. In combination with traveller and consumer awareness programs, Australia remains well placed to maintain its ongoing FMD-free status. 'Be alert, not alarmed' seems the right tone, with an understanding that while a worst case scenario would be extremely damaging, it is a low odds possibility, as opposed to an inevitability.

As usual with farming, the ups and downs will continue. Still glass half full, but perhaps the difference now, more than any time in the past two years, is that Australian producers have a weather eye on the risk, more than the reward.



## Mark Bennett

Head of Agribusiness & Specialised Commercial,  
Business & Private Bank

 @bennett2\_mark





---

# AUSTRALIAN BIOSECURITY UPDATE

---

The presence of Foot-and-Mouth Disease (FMD) and Lumpy Skin Disease (LSD) in Indonesia has raised significant concerns across Australia at the prospect of transmission into the country. With the heightened risk of Australia losing its FMD disease-free status in particular, it is worth looking at a few facts surrounding FMD, the history of FMD and outbreaks in other countries, as well as the numbers behind the potential \$80 billion impact being quoted in the media.

## FOOT-AND-MOUTH DISEASE

FMD is a highly-transmissible, viral disease impacting cloven hooved animals – namely cattle, sheep, goats, pigs, camels and deer. The disease causes painful blisters and lameness and lesions which can prevent animals from normal eating and drinking. FMD generally does not cause mortality in adult animals however it can lead to death in young animals. It can also render adult animals unproductive as they are restricted from moving to eat and drink.

While the primary method of transmission is from animal to animal, the disease is also easily transmitted between animals, through farm machinery, boots or other surfaces and can remain capable of being transmitted from contact with contaminated surfaces for a number of weeks, depending on the environment.

According to Agriculture Victoria (AV) “under suitable conditions, and dependent upon the strain and concentration of virus, windborne spread could be involved in the transmission of FMD over several kilometres.”

Also according to AV, the primary risk of cross-border transmission into Australia is “through illegal entry of meat and dairy products infected with the FMD virus and subsequent illegal feeding of these products (swill) to pigs.”

## 2001 UNITED KINGDOM FMD OUTBREAK

The most recent major FMD outbreak was in the United Kingdom in 2001. The total economic impact of the UK outbreak was estimated at £14 billion – from a country that produced just under £3 billion in beef in 2020. 6 million cattle and sheep were culled in order to manage the spread of the disease.

During the 2001 UK FMD outbreak, the cost to tourist revenue surpassed the overall response costs — including compensation payments, government and contractor costs, and support for affected businesses. The impact on tourism is unlikely to be so extensive in Australia.

Many lessons were learnt from the UK outbreak – most notably the need for immediate identification and notification of the disease followed by movement restrictions. Once the disease’s spread had started, the UK Government implemented a policy of “contiguous cull” meaning that all sheep within 3 kilometres of known cases would be slaughtered.

The UK outbreak had significant economic and social impacts for rural areas of the country, leading to delays in the national election as well as effective ‘lockdowns’ across many infected areas. In total, the disease took 11 months to bring under control, with the UK Government declaring themselves disease free at the beginning of 2002.

## POTENTIAL IMPACT OF AN AUSTRALIAN OUTBREAK

In May 2022, an FMD outbreak was reported in Indonesia. While the Indonesian Government and Australian officials are working hard to contain the spread in Indonesia as well as vaccinate Indonesian livestock, the World Reference Laboratory for Foot-and-Mouth Disease (WRLFMD) noted in mid-July that “there were 336,887 livestock sick due to infection with FMD, 116,717 animals have recovered, 2936 animals were conditionally slaughtered, and the number of dead animals increased to 2128. The spread extends to 239 districts/cities in 21 infected provinces. It is recorded that the vaccination has reached 421,787 livestock”.

As a result, the Australian Government has strengthened our border protection measures and new measures imposed to help prevent transmission into Australia. A [Biosecurity \(Foot and Mouth Disease Biosecurity Response Zone\) Determination 2022](#) has also been established to enforce the use of foot mats at relevant points of entry. State Governments are also implementing a range of biosecurity and preparedness measures in case of an incursion.

The Australian Bureau of Resource Economics and Statistics released a report in 2013 modelling the impact of any potential FMD outbreak in Australia. As a worst case scenario, Australian GDP was forecast to fall 0.16 per cent, with regional areas, particularly regional Victoria (-0.92 per cent), most impacted. In comparison, a small, controlled outbreak was modelled to cost national GDP 0.03 per cent.

The total cost of the worst-case scenario, large-scale, unhindered FMD outbreak in the current market was forecast to be \$80 billion over 10 years. Most of this cost comes from loss of export markets. Smaller, best-case scenario cases were also modelled of small-scale, controlled outbreaks in Victoria (\$9.2 billion) and Queensland (\$8.6 billion).

According to 2013 ABARES research, the loss of export markets for major FMD-exposed commodities will be the major long-term factor impacting Australian agriculture. The least impacted sector is likely to be the wool sector,

which was modelled to return to ‘normal’ within 3 years. All other sectors were expected to still be trying to reclaim lost markets 10 years after a major, unhindered outbreak of FMD. The most impacted were forecast to be the beef and pork sectors which were predicted to achieve just under 80 per cent and 85 per cent of ‘normal’ market share after 10 years.

## MANAGEMENT OF AN OUTBREAK

Should an outbreak occur, the response management has been outlined in the Australian Veterinary Emergency Plan (AUSVETPLAN) which sets out the nationally agreed approach, including compensation.

The **AUSVETPLAN** outlines key policy responses, including:

- Livestock movement standstills and controls
- Livestock and livestock product disposal
- Management of contaminated/infected premises
- Biosecurity measures for personnel

It must be noted that while vaccinations exist for FMD, and could be rolled out if the disease was identified in Australia, a vaccination strategy represents an important and effective part of the control strategy – not a solution. This is primarily because of the nature of FMD which has a number of different strains and the disease itself mutates regularly – making it difficult to ensure a vaccine necessarily matches the transmitted disease. Vaccines have been proven, however, to slow the spread and transmissibility of the disease as well as protecting livestock from infection.

Some countries, most particularly Brazil, have now been recognised as FMD free with vaccination. This means that although vaccination involves the release of the live disease into livestock populations which had previously meant the loss of FMD status, the World Organization for Animal Health (OIE) has now recognised Brazil as FMD-free based on its vaccination regime resulting in 12 years without a recorded case of FMD.

## OILSEED INSIGHTS



### OVERVIEW

- Skyrocketing canola prices are expected to moderate into 2022/23 as the Canadian crop returns to normal;
- Indonesian government actions to reduce the cost of domestic cooking oil has resulted in a surplus of palm oil to be exported;
- Global vegetable oil prices have come off their historic highs, primarily due to the drop in palm oil prices;
- While global vegetable oil demand and supply is anticipated to trend back towards 'normal' for 2022/23, continuing high crude oil prices will keep upward pressure on vegetable oil prices as a biofuel.

The story of skyrocketing global and Australian canola prices has been well told over recent months – primarily focussing on the shortage of canola oil stemming from drought in northern America, as well as the impact of the war in Ukraine on sunflower oil exports. As a result, global vegetable oil prices have seen an exceptionally volatile year – exacerbated by the Indonesian Government's export ban on palm oil. With some of the heat coming out of canola prices in recent weeks, many producers will be looking to the global position and whether prices will continue to be supported into next year.

Australian canola prices have been one of the standout fairy-tales of the past year. With prices out of Western Australia peaking at around \$1,300/tonne, Australian canola producers have clearly had a stellar year. This has been the result of both a strong domestic crop combined with falling global production and resulting export bans.

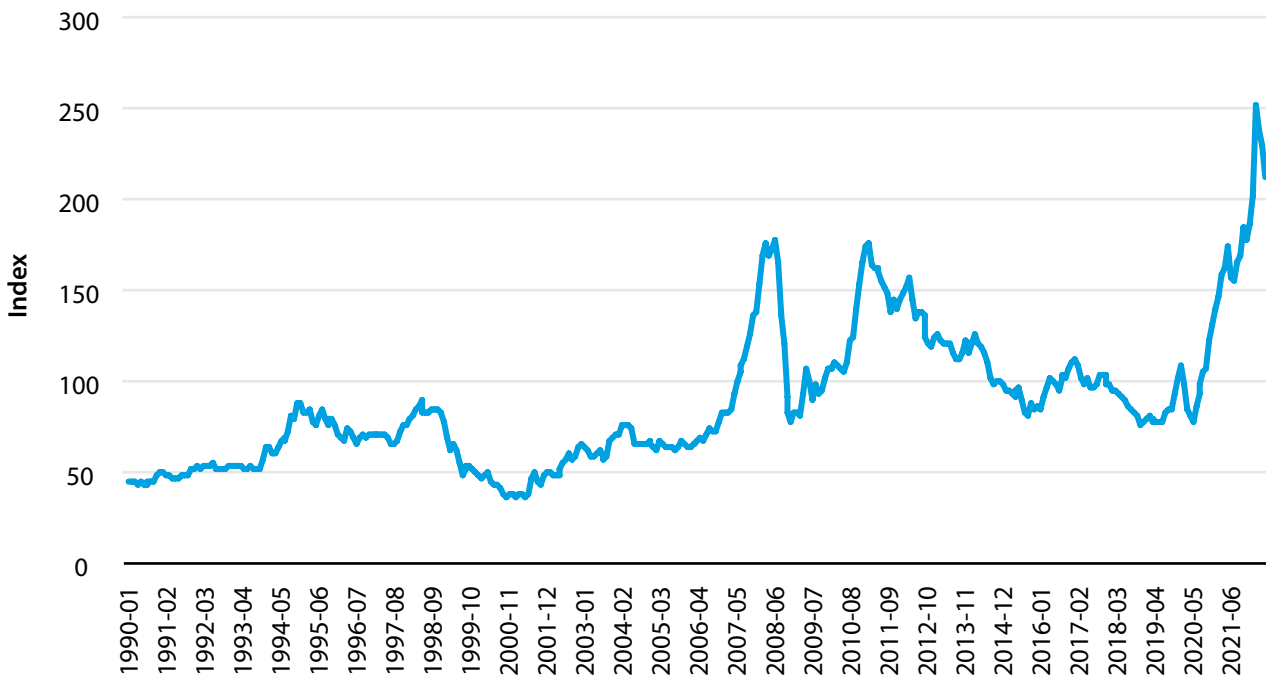
2021/22 saw the drought in Canada reduce global canola production strongly, while the Russian war in Ukraine saw Ukraine's exports of sunflower oil almost

cease. The resulting tight supply of global vegetable oils saw prices spike and purchasers look to alternative sources. Many consumers shifted to purchasing palm oil out of Indonesia and Malaysia. As the largest global source of vegetable oil and the largest export source of vegetable oil by many multiples, palm oil is heavily used in manufactured foodstuffs and other goods, but a less used source of biofuel.

Following the significant increase in global vegetable oil prices, the Indonesian Government announced a three week export ban on palm oil up until May 23rd to keep control of domestic cooking oil prices. Even following the cessation of the export ban, the Indonesian Government has continued to mandate set amounts of local sales, called the Domestic Market Obligation. At the same time, the Government has sought to boost exports to run down inventories by lowering the export levy until August 31st, before implementing a new levy of between \$55 and \$240 per tonne for crude palm oil.

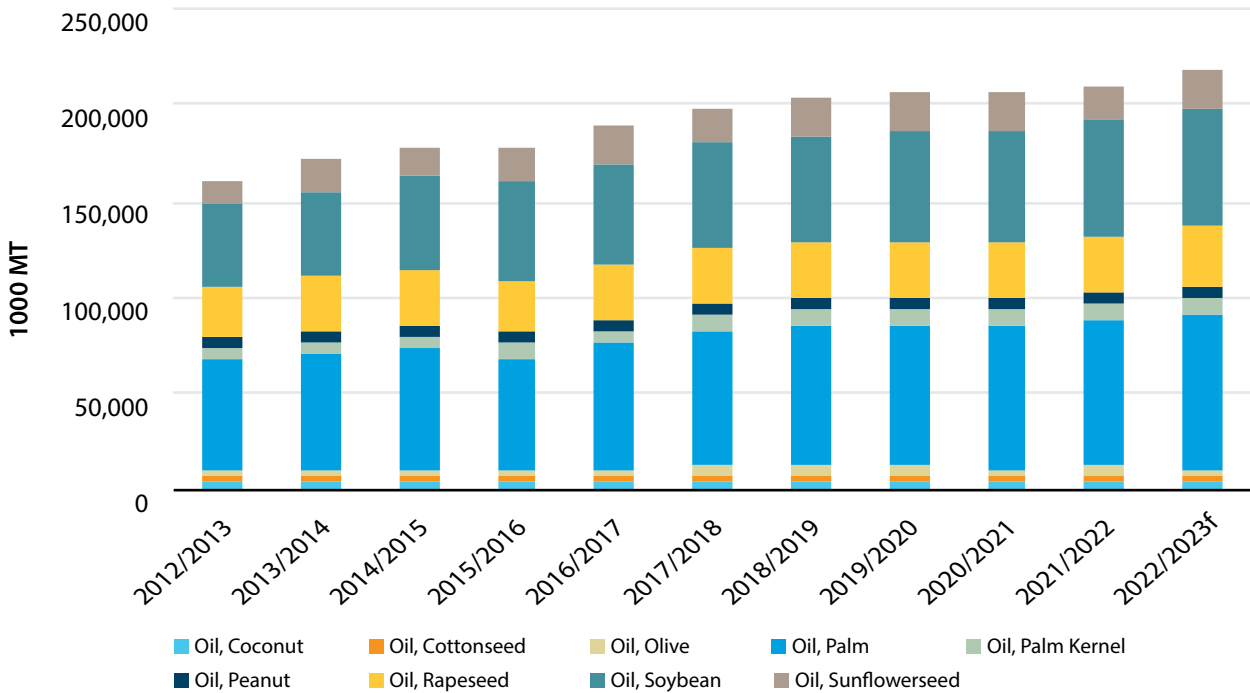
As a result, the price of palm oil has fallen by 42 per cent since early May. Indonesian palm oil producers are reporting a surplus of stock, prior to harvest season.

## FAO VEGETABLE OIL PRICES



Source: FAO, ANZ

## GLOBAL VEGETABLE OIL PRODUCTION



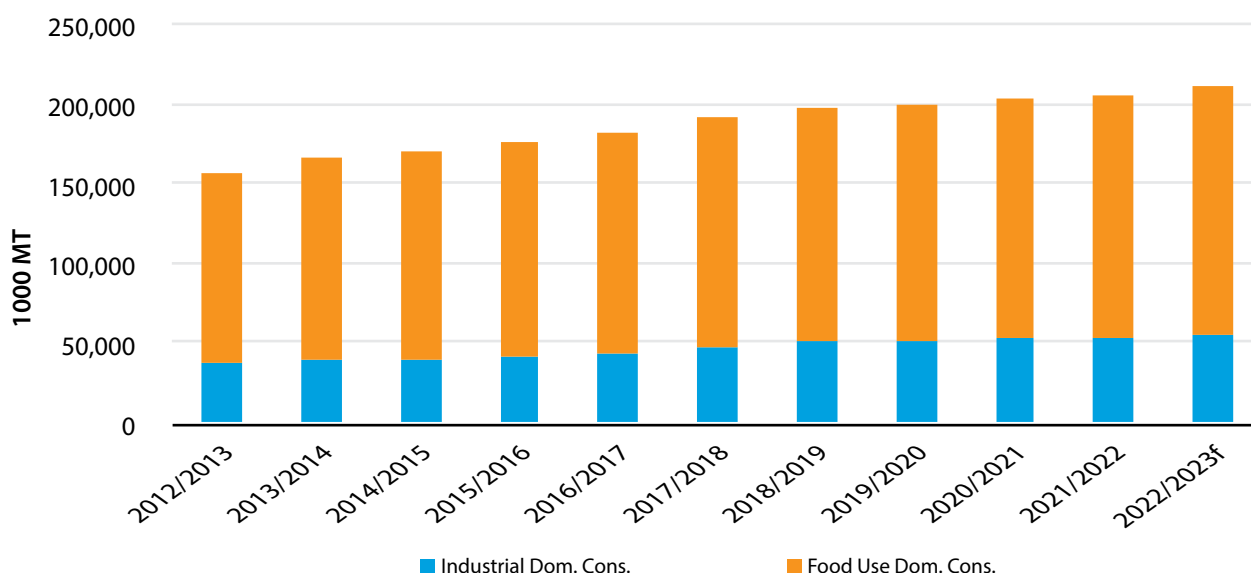
Source: USDA, ANZ



While the global supply of oilseeds has been tight over the past year with global production falling in 2021/22, the United States Department of Agriculture is forecasting global production to jump over 7 per cent in 2022/23 despite a significant fall in sunflower oil production out of Ukraine. Canola or rapeseed production is expected to bounce back in northern America with production increasing 59 per cent and 31 per cent in Canada and the United States respectively. Brazilian soybean production is also expected to increase markedly by 23 million tonnes. To offset this, Ukrainian sunflower oilseed production is forecast to fall by 46 per cent to 8 million tonnes.

On the consumption side, strong growth is expected to continue for both food and biofuel use with total global vegetable oil consumption rising 3.2 per cent for the year. While still constituting the smaller part of global consumption of vegetable oil, biofuel usage is expected to increase strongly in 2022/23 by 4.8 per cent, while food consumption is forecast to increase by 2.7 per cent for the year. This comes after 2021/22 showed relatively flat consumption of vegetable oil primarily due to skyrocketing prices, but also as a result of soft soybean oil consumption in China as a result of ongoing lockdowns and slow economic growth.

## GLOBAL VEGETABLE OIL CONSUMPTION



Source: USDA, ANZ

Much of this might seem to suggest that domestic canola prices will return to 'normal' in 2022/23 as production improves in northern America and a surplus of palm oil is exported from Indonesia. There is one main factor, however, that influences the global oilseeds market unlike other cropping produce – namely the global oil price. With vegetable oil widely used as a biofuel and substitute for oil, the price of vegetable oil closely mirrors the crude oil price. With the US Energy Information Administration forecasting that the Brent Crude Oil price "will average \$101/b in 2H22 and then fall to \$94/b in 2023" compared to the 2021 average of \$71/b – the global price for vegetable oil is likely to remain elevated for the 2022/23 year.

The Australian Oilseeds Federation (AOF) has forecast that the total area sown to canola in 2022/23 has increased 12 per cent to 3.3 million hectares with increases in all major canola producing states. However it has also forecast that total production will actually fall 17 per cent on the back of a return to normal season. The AOF is still forecasting the second most valuable crop on record, while seasonal conditions across most canola growing areas have been favourable.



## BEEF INSIGHTS



### OVERVIEW

- The sharp drop in the Eastern Young Cattle Indicator (EYCI) since June has seen the market drop to just under its 5-year trend price;
- While concerns over the risk of Foot-and-Mouth entering Australia have been a factor, other underlying factors have also made the market vulnerable to shifts in sentiment;
- The historically low number of cattle being processed and in the saleyards has meant that FMD concerns have resulted in greater volatility in the EYCI;
- The drought in the United States has seen an influx of US beef on the international market, competing heavily with Australian beef;
- Australian beef exports continue to struggle with no signs of recovery in major markets.

Is the fall and bounce-back in Australian saleyard prices only a result of fear of Foot-and-Mouth Disease (FMD) and Lumpy Skin Disease (LSD), or are there other factors at play?

**IN SHORT, WHILE THE FEAR OF A BREACH IN AUSTRALIAN BIOSECURITY HAS BEEN A FACTOR IN TAKING THE STEAM OUT OF DEMAND IN THE SALEYARD, THERE ARE A NUMBER OF OTHER FACTORS WHICH HAVE MEANT THAT VOLATILITY HAS BEEN MORE PRONOUNCED THAN WE MIGHT HAVE EXPECTED.**

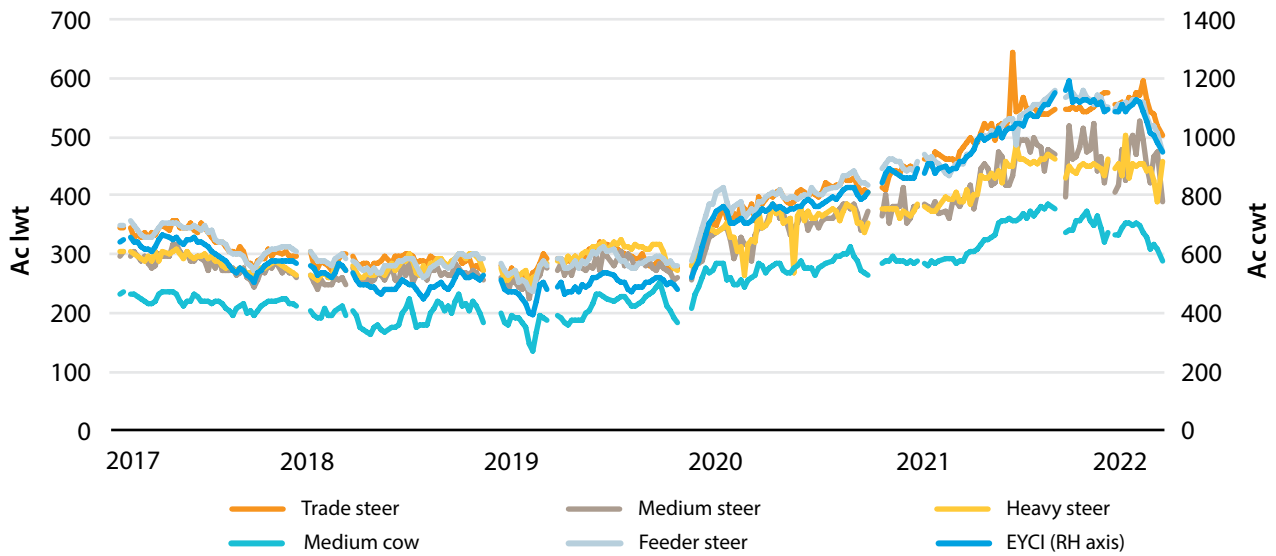
The fall in the Eastern Young Cattle Indicator (EYCI) in mid-year has been one of the largest drops felt in recent times. By early August, the fall had amounted to around a 20 per cent drop from early June, although it has since recovered strongly to around 1,000c. While a 20 per cent fall in any commodity price might have many producers

break into a sweat, in the context of the market cattle producers having been living with since 2020, a 20 per cent drop in cattle prices is less drastic.

Many in the industry are rightly pointing to the value of the current EYCI in comparison to 5 or 10-year averages. Despite the quantum of the drop, cattle prices across saleyard categories remain up to 27 per cent above the 5-year average and up to 58 per cent above the 10-year average. Having said that, the drop in prices has been enough to push the EYCI just under the 5-year trend figure before it recovered.

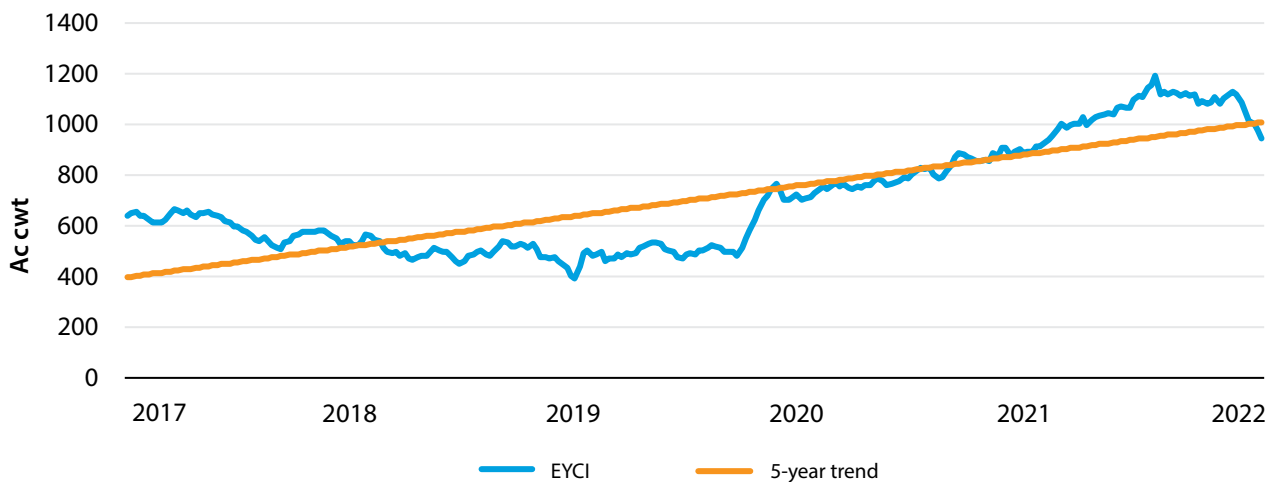


## EASTERN STATES SALEYARD INDICATORS



Source: MLA, ANZ

## 5-YEAR EYCI - TREND



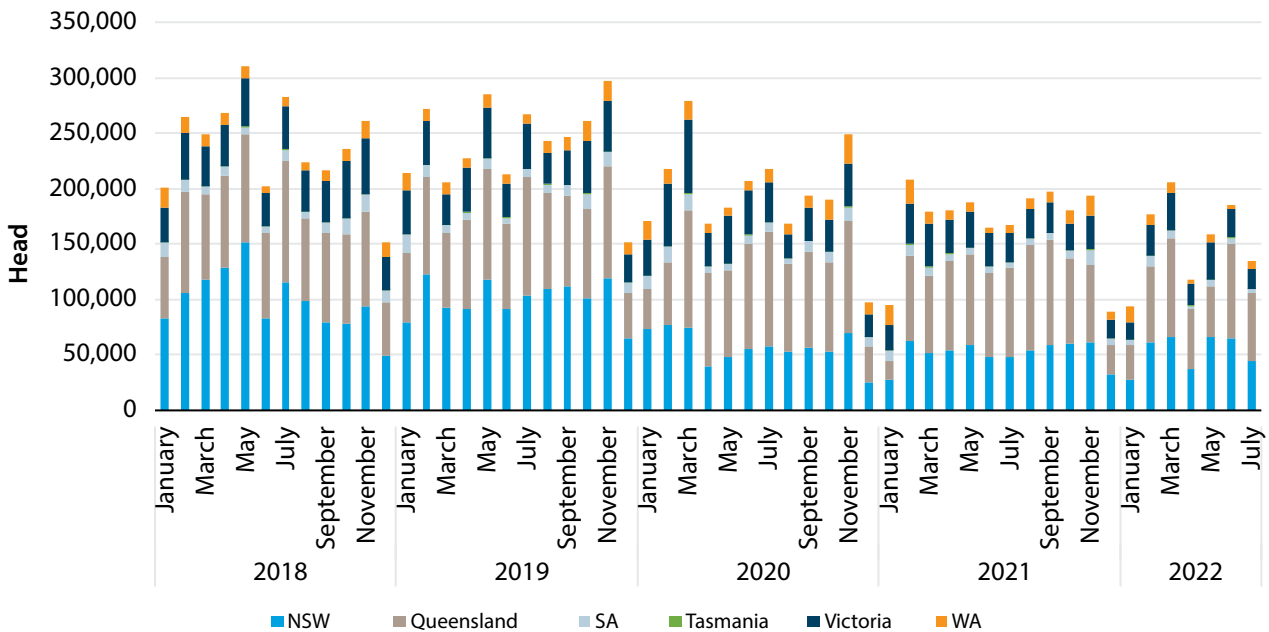
Source: MLA, ANZ

While it's clear that subdued buying activity around the fear of FMD entering the country has played a role in the drop in the EYCI, there are other factors in play which have exacerbated the impact.

Firstly, the number of cattle entering saleyards and being slaughtered is one of the lowest in recent history. To put this in perspective, for the first three months of 2022, the total cattle and calf slaughter numbers were the lowest on record since 1974.

Slaughter numbers in the first three months of 2021 were the 4th lowest on record. Perhaps as a flow on effect from the lack of processor demand, yardings for the calendar year to date are down 7.5 per cent on 2021, which in itself was 17 per cent down on 2020. So what does this mean in practice? Essentially, it means that both demand and supply are thin – and in this setting, small movements in either factor result in noticeable changes to price.

## NATIONAL CATTLE YARDINGS



Source: MLA, ANZ

Lack of processor demand at the sale yards, driven by a lack of labour in processing plants and the previously high saleyard prices, has meant that winter stock presenting for sale are having a hard time mustering high prices. Restocking activity is still continuing to a certain extent, albeit after being impacted by both winter conditions and producer concerns over FMD.

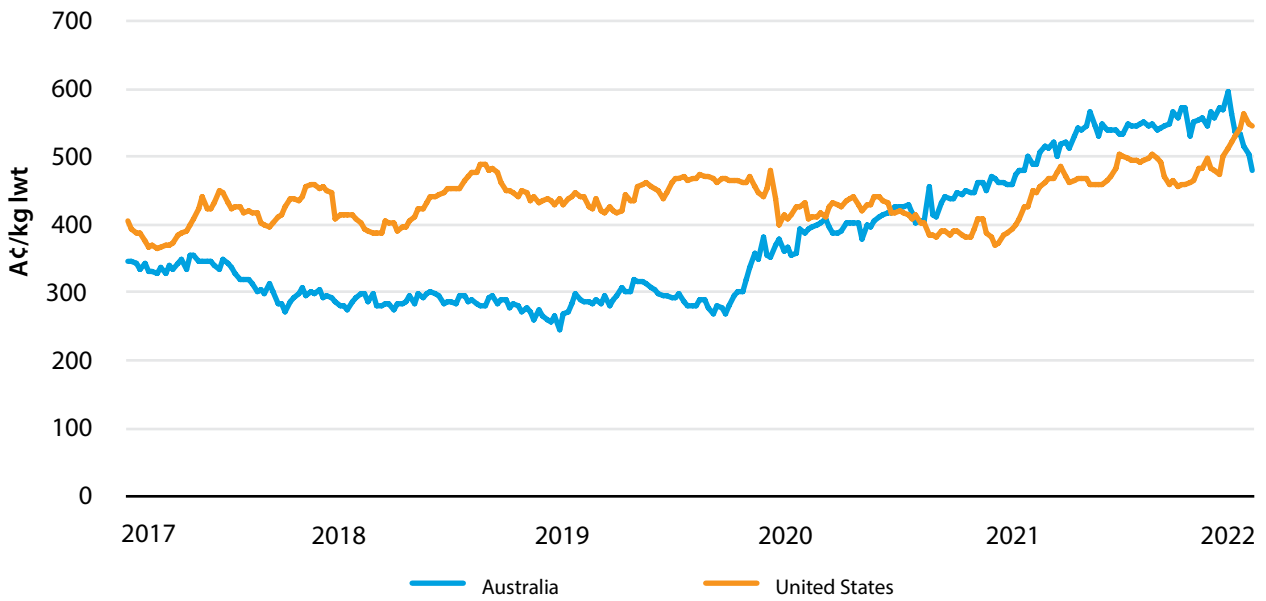
Also impacting the total number of cattle in the country is the almost complete cessation of the live-export trade to Indonesia. Meat and Livestock Australia are forecasting that for 2022, live exports will fall by 33 per cent. So where are those cattle going? With the number of cattle on feed also increasing nationally to a new record in the first three months of 2022, as well as the continuing high feed grain prices, it will be interesting to see how many are redirected to feedlots, how many stay on farm and how many can be processed by the growing processing sector in the Northern Territory. The continuing growth of the feedlot sector is something to take note of, as the first

quarter of 2022 saw both the number of cattle on feed, and feedlot capacity, reach new record levels, despite not being in drought conditions, which is usually when feedlots expand.

Outside of the local market, the Australian industry is heavily reliant on export markets. One of the issues facing the industry on a global stage had been the relative cost of Australian beef compared to other nations' exports. The recent fall in Australian prices and an increase in US cattle prices in light of an increasing cost base has seen US cattle become more expensive for the first time since mid-2020. That's clearly not the end of the story when it comes to the US – the severe drought across much of the south and east of the United States has seen an influx of US beef hitting the international market. It's also clear that this won't last however, as the US position is verging on herd liquidation – with huge numbers of female cattle being sent to market, the US herd will likely take many years to recover which may restrict their export position in coming years.



## AUSTRALIAN AND UNITED STATES CATTLE PRICES



Source: MLA, ANZ

In general, Australia's beef exports continued to struggle in June, now sitting around 30 per cent lower than at the same time two years ago. Declines have been felt in almost all export markets including Japan, South Korea, China, the United States and Europe. Given that Australia's

beef exports have been depressed for almost two years, combined with the influx of US beef on the international market, and subdued global economic growth, there are no real signs of dramatic rebound in export numbers in the near future.



## GRAINS INSIGHTS



### OVERVIEW

- While the first ship of grain has now left Ukraine, ongoing uncertainty will keep upward pressure on prices
- Forecasts of poor crop conditions in the Northern Hemisphere will mean continuing strong demand for Australian grain exports
- Australia's share of overall barley and canola exports continues to rise, emphasising the global importance of the local crop
- While there are still some months until harvest, forecasts continue for Australia to produce a near-record for the third year running

### AUSTRALIA'S IMPORTANCE AS A GLOBAL GRAIN AND OILSEED EXPORTER

The conflict in Ukraine has permanently impacted the global landscape for the grain and oilseed sector. Most notably, the massive disruption to global grain availability to the world market saw a rapid change around the certainty of food security, with the short-term impact of prices reaching record levels. However, longer term, the entire grain supply chain, from production, to domestic consumption, to exports, and particularly storage will continue to see much faster and more profound change than before. Importantly, these changes are also likely to impact the Australian grain industry at every point of the chain.

One aspect of the global trade landscape which has been emphasised as a result of the Ukraine conflict has been to highlight Australia's share of the major global grain and oilseed exports – particularly wheat, barley and canola – and just how fundamental Australia's production is in keeping a lid on even stronger surges in world grain prices than might otherwise have been.

Taking this a step further, the fact that Australia not only delivers major volumes of quality grain onto the world market but does this at the opposite end

of the season from the major Northern Hemisphere exporters, highlights the role of Australian exports in contributing to a degree of food certainty and security across the global food complex.

This situation has seen domestic industry policy and supply chain discussions highlighted. These have included whether Australia's unique position should be seeing a greater price premium for Australian producers, as well as well ongoing grain supply chain infrastructure debates should be re-examined in light of the global importance of Australia's exports.

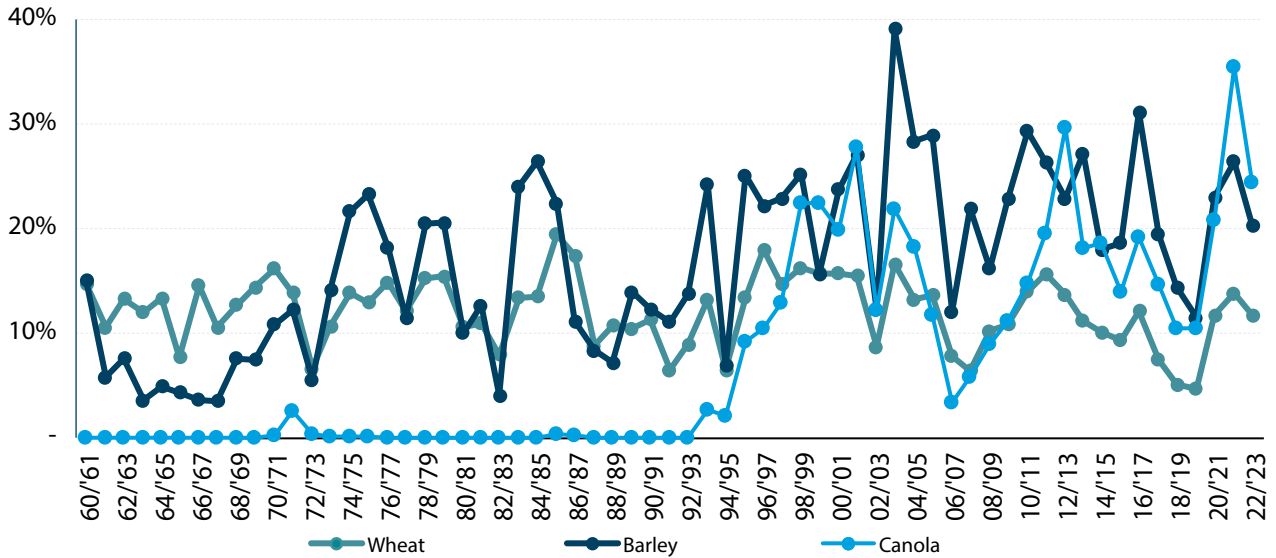
In addition, it is also likely to mean that global investors will look at opportunities in grain production and supply chains in a new light.

---

**IN LOOKING AT THIS ISSUE, IT IS NECESSARY TO BREAK DOWN THE WHEAT, BARLEY AND CANOLA TRADE LANDSCAPES, AND BRIEFLY EXAMINE AUSTRALIA'S GLOBAL EXPORT SHARE IN EACH ONE.**

---

## AUSTRALIA SHARE OF GLOBAL EXPORTS - WHEAT, BARLEY & CANOLA



Source: USDA, ANZ

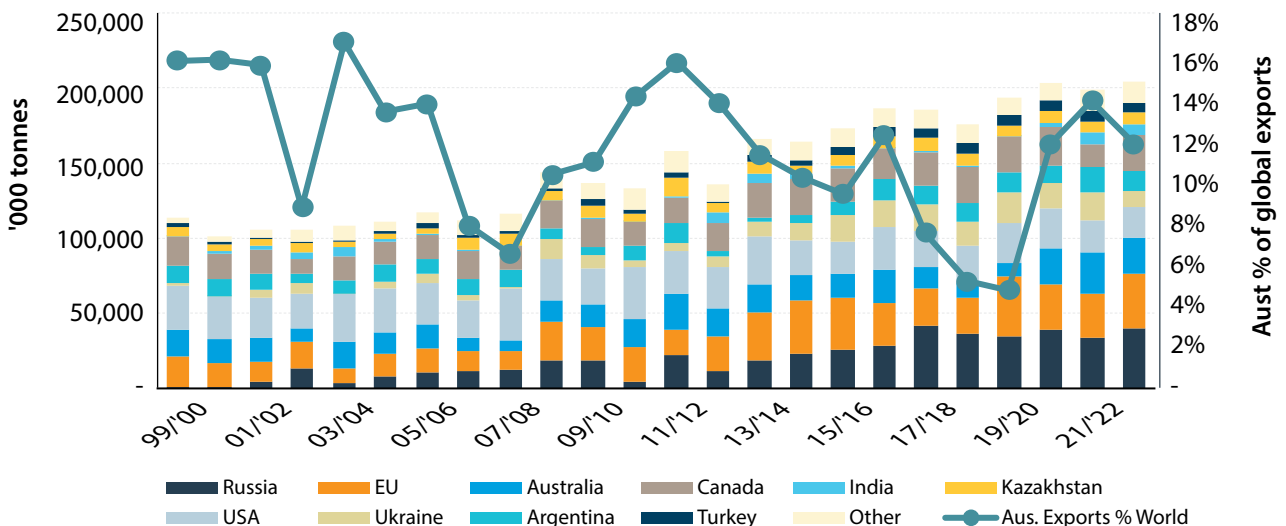
The impact of the loss of grain exports from Ukraine and Russia onto the global trade landscape has drawn closer attention to Australia's position amongst the major global grain exporters. In terms of wheat exports, Australia's share of global exports has remained within a relatively narrow band, even looking back over the past sixty year. As the chart illustrates, despite fluctuations in production levels in Australia, as well as by other major exporters, Australia's share of global wheat exports has not moved too far from the sixty-year annual average of twelve percent, or an average over the past decade of ten percent. Importantly, this has also meant that after Russia and the

EU, who have each averaged around seventeen percent of global wheat exports over the past decade, Australia has sat roughly even with the US and Canada as the world's third largest exporter.

The forecast strength of the upcoming crop, accompanied by the bumper crops of the previous two seasons, have seen Australia recover from the drought-induced slump, to return to this strong position.

One other point to note is that the second largest wheat exporter in the Southern Hemisphere, Argentina, averaged around only six percent of global exports.

## KEY GLOBAL WHEAT EXPORTERS



Source: USDA, ANZ



Given that Australia is not only a major global wheat exporter, but that it is also by far the largest exporter in the half of the year when only Southern Hemisphere crops are harvested, it feeds into the ongoing industry discussion of whether Australian wheat exports are achieving the price premium they should be, given their strategic importance in terms of scale and timing. The discussion has been particularly animated in 2022, with some in the industry arguing that given the spike in concerns around global wheat shortages as a result of the Ukraine crisis, Australian growers should have received higher prices for their wheat. The contrasting point of view has highlighted the fact that most wheat had been pre-sold before the market saw its peak levels, and as a result, few growers were positioned to take advantage of peak prices.

Looking ahead over coming years, regardless of the outcome of the conflict, and the timing of any changes to the rate of wheat exports from the Black Sea Region, it seems almost inevitable that the growth in food insecurity will see a number of major grain imports lift their wheat storage levels. One result of this could be a faster rate of exports following the Northern Hemisphere harvests, as importing countries seek to procure supplies faster than before. This run-down in stocks for export could well see a new period of demand for Australian exports and put a level of upward price pressure on Australian crops, more intense than that seen over previous decades.

#### **AUSTRALIA'S SHARE OF BARLEY AND CANOLA EXPORTS**

While the potential benefits for Australian wheat prices over the longer term are good, they appear even more promising for Australian barley and canola prices.

In 2022/23, Australia is forecast to account for around 20 percent of all global barley exports. This is only marginally below the ten-year average of 21 percent and given that this puts Australia behind only the EU in terms of share of global exports over the past decade, highlights Australia's fundamental importance as a barley exporter. Given that the recent growth in global food insecurity is likely to see a surge in demand for meat and dairy products, as well as grain, global feed demand is likely to see strong growth rates, with barley a major focus.

Once again, given that Australia's only major competitor for barley exports at the time of southern hemisphere harvest, Argentina, accounts for only around ten percent of global barley exports, it is likely that many importers will increasingly seek to retain higher barley storage levels. In particular, a growth in demand from China for increased storage levels of barley for both feed and malting requirements, albeit from other exporters, should still indirectly push up Australian barley export price and benefit producers.

Finally, of Australia's three largest crops by volume, it is canola which stands out the most in terms of Australia's importance in terms of global export share. Canada continues to account for the lion's share of global canola exports, averaging 60 percent of the global trade over the past decade. When taking into account that this figure has been significantly reduced in 2021/22 due to poor crop conditions and is still forecast to be in recovery mode for 2022/23, it emphasises not only Canada's strength across canola exports, but the vulnerability of global canola supplies to any disruption to the Canadian crop.

The second striking feature of the global canola export landscape is the market concentration across the three major exporters. Given that over the past ten years, Canada has averaged 60 percent of exports, Australia 19 percent and Ukraine 14 percent – covering 93 percent of total canola exports - this has emphasised both the concentration risk and the resultant vulnerability of any impacts on these exporters.

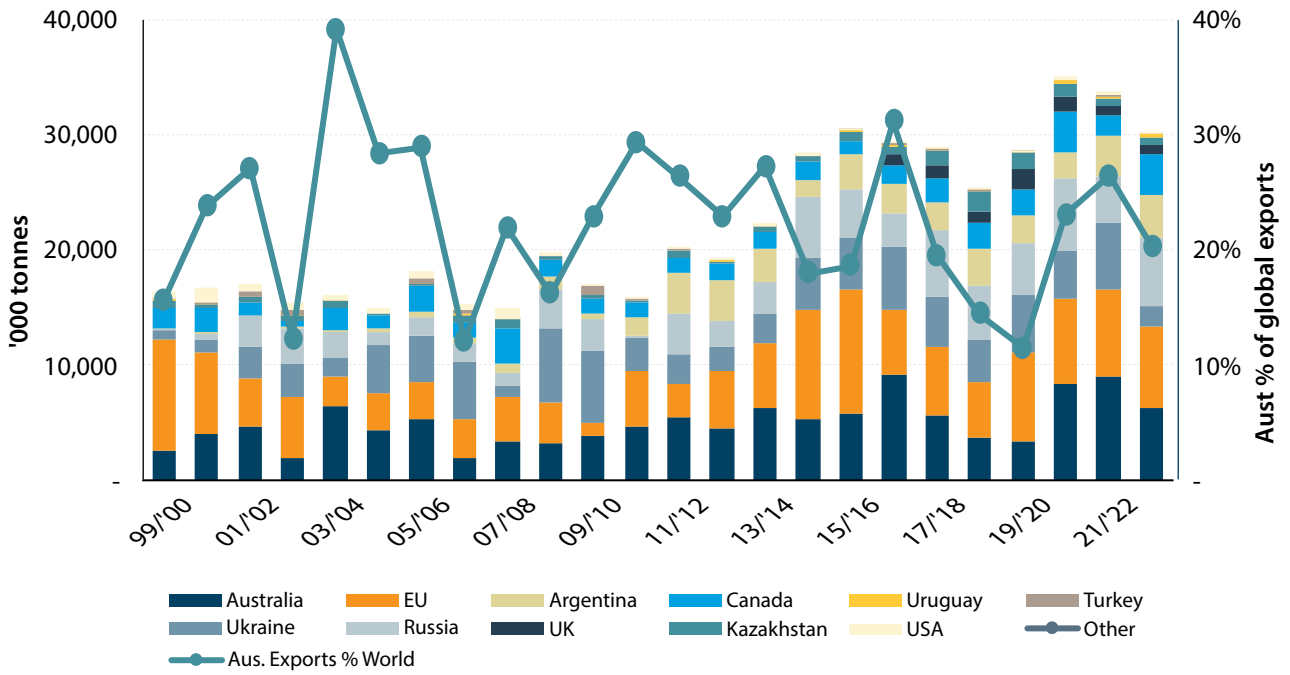
---

**AS SUCH, AUSTRALIA'S IMPORTANCE AS A LARGE VOLUME, RELIABLE EXPORTER OF QUALITY CANOLA SHOULD CONTINUE TO PUT STRONG UPWARD PRICE PRESSURE UNDER EXPORTS FOR SOME YEARS TO COME AND IS LIKELY TO PLAY A MAJOR ROLE IN SEEING CANOLA ACREAGE IN AUSTRALIA CONTINUE TO CLIMB STRONGLY.**

---

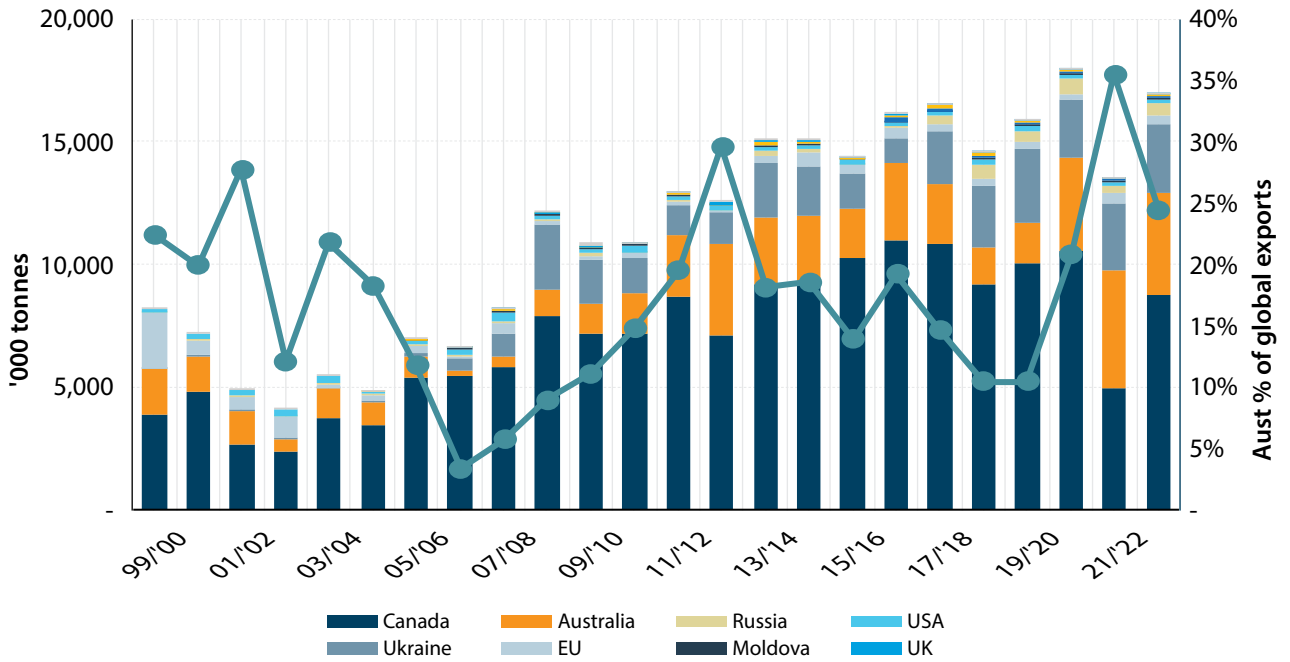


## KEY GLOBAL BARLEY EXPORTERS



Source: USDA, ANZ

## KEY GLOBAL CANOLA EXPORTERS



Source: USDA, ANZ

## SHEEP AND WOOL INSIGHTS



### OVERVIEW

- Lamb prices have continued to decline over the past two months with the benchmark Eastern States Trade lamb Indicator (ESTLI) down 20 per cent through the month of July, before bouncing back strongly in early August.
- Prices hit their lowest since 2020, when post drought restocking and strong exports fueled demand.
- Exports to China remain subdued however total lamb exports are up 5 per cent on 2021, supported by strong growth in the US market.
- Ongoing export demand is predicted to remain strong, supporting the likelihood of price recovery through the second half of the year.
- Wool prices remain down on 2021 levels and large volumes hit the market prior to the annual recess, dampening any potential price rises.
- Australian wool production is tipped to grow to its highest level in five years in 2022/2023.

### SHEEP

Sheep and lamb prices have continued to decline over the past two months. Notably, the benchmark Eastern States Trade Lamb Indicator (ESTLI) fell 20 per cent in July alone, hitting 634 c/kg by the start of August before climbing back to sit over 700c and higher than 2020 levels at this time of year. Even more stark was the fact that this was over 30 per cent down on the same point in 2021. After the surge in prices on the back of post-drought restocking, combined with strong export demand, lamb prices have recently fallen to their lowest levels since that time. Although the rebound seen in early August suggests that the large price drop was an anomaly, rather than proof of weak fundamentals.

When comparing the 2022 ESTLI price with the past five years, a slide in prices around this time of year is not unusual. Producers will often be selling their older lambs before the spring flush arrives, as well as reducing their stock numbers as pastures are depleted through the colder winter weather. In addition, with many producers having experienced

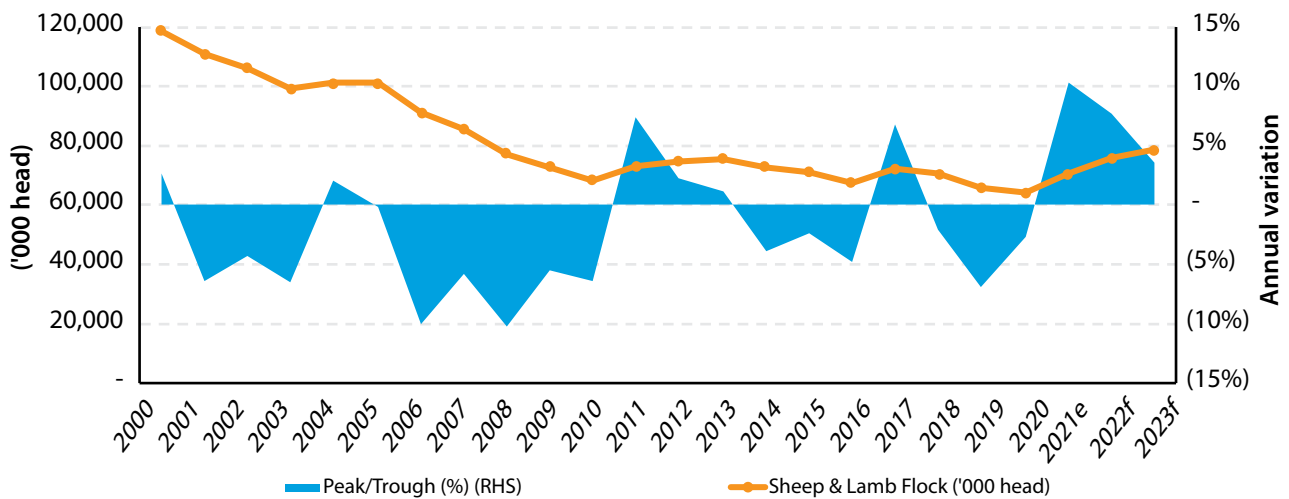
better than average lambing percentages in last year's good season, a reasonable number of lambs were held back, with many of these hitting the market only now.

It has also been suggested by industry observers that ongoing disruptions in the processing sector are resulting in reduced capacity, which in turn has resulted in reduced buying for slaughter. Indeed, it has been the return of the processors to the saleyards seeking to secure supply, as well as the return of restockers which has seen the price rebound in the first half of August.

While this price fall was notable, it is also important to remember that spring is imminent, and the arrival of new season lambs onto the market, as well as the upturn in consumer demand with the warmer weather, is likely to see a reasonable price recovery. Early August has seen this recovery come, perhaps a little earlier than anticipated.

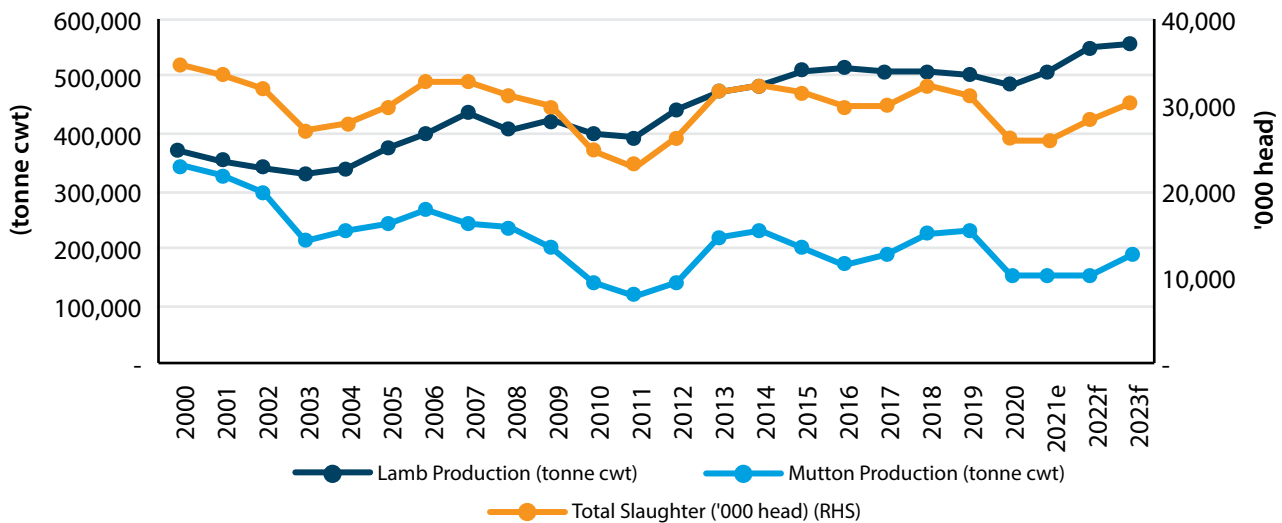
While the Australian sheep industry endured its fair share of challenges through the drought, and current prices have taken a downward turn,

## AUSTRALIAN SHEEP & LAMB FLOCK



Source: MLA, ANZ

## SHEEP SLAUGHTER VS. TOTAL SHEEP MEAT PRODUCTION



Source: MLA, ANZ

2022 has continued to see the industry growing in strength, with the domestic sheep and lamb flock continuing to grow, particularly driven by favourable weather conditions.

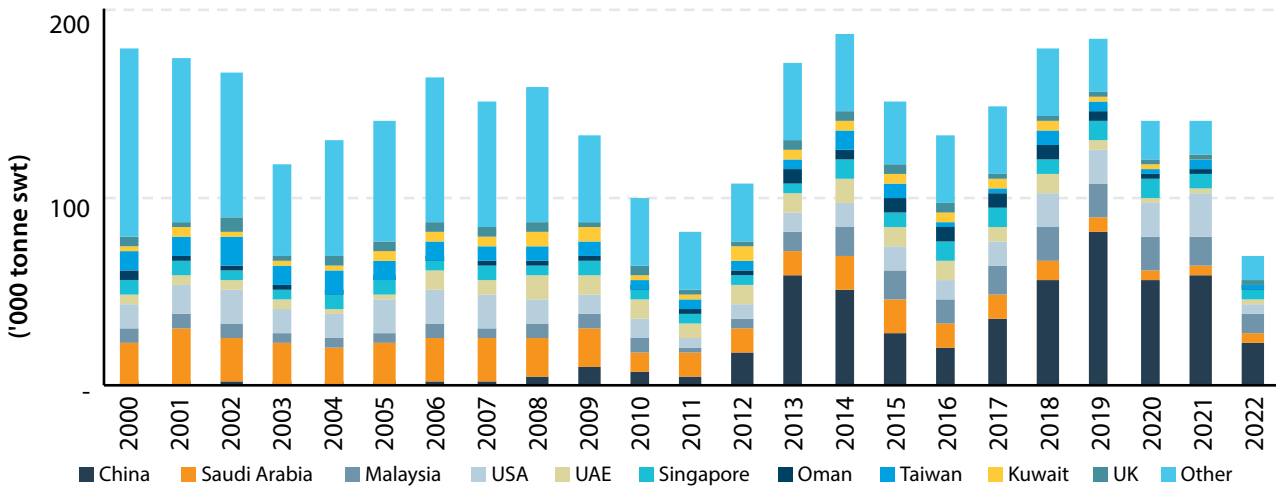
After a long-term period in decline, 2022 is forecast to see Australia's sheep flock climb to 76 million head. Impressively, this would represent a decadal high and an 8 per cent increase from the previous year. Notably, the national flock continues its strong recovery from the drought-driven low of 63.5 million head in 2020. At the time, this was the lowest the national sheep flock had been since 1903, at the peak of the devastating Federation Drought. Looking further ahead, the outlook continues to be positive, with forecasts out to 2023 anticipating even further growth to around 79 million head, a figure which would represent the

highest point since 2007.

On the back of this strong outlook, lamb production is forecast to reach record levels in 2022 and 2023, climbing to 549,000 tonnes and 557,000 tonnes respectively. This trend continues an ongoing climb in Australian lamb production which, while it has been climbing for decades, has seen heightened growth since around 2000. For a sector which traditionally was seen as being dominated by mutton production, this change has been driven by a startling increase in lambs as a percentage of the overall national flock, as producers not only produce more lambs, but retain them and grow them out to heavier weights prior to sale.

This structural change can be attributed to two major factors. Firstly, the volatility and disruption

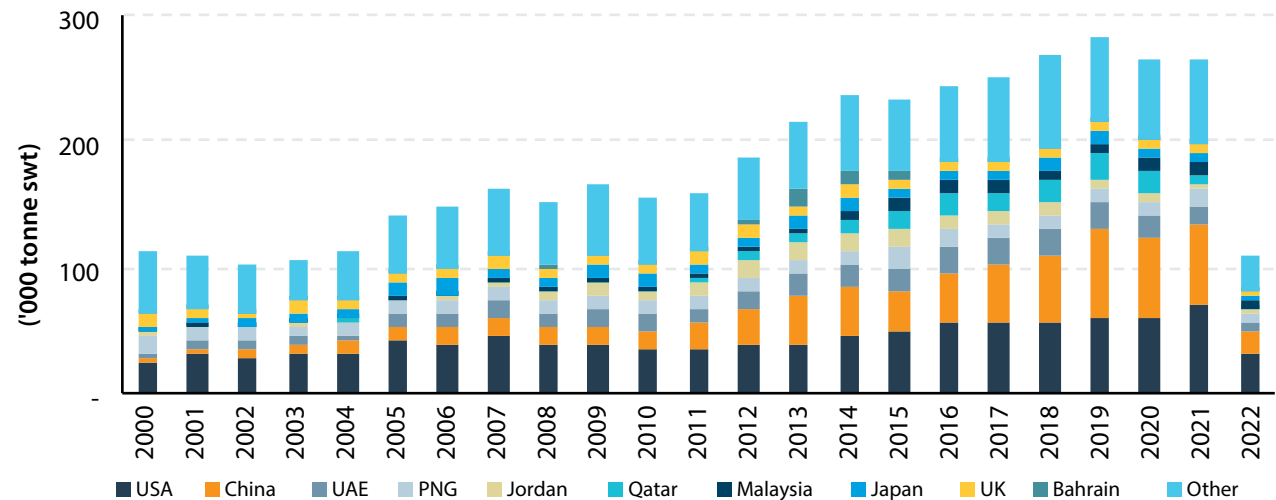
## AUSTRALIA MUTTON EXPORTS BY DESTINATION ('000 TONNE SWT)



Source: MLA, ANZ

Note: 2022 data is available only till June 2022

## AUSTRALIA LAMB EXPORTS BY DESTINATION ('000 TONNE SWT)



Source: MLA, ANZ

Note: 2022 data is available only till May 2022

in the wool industry, particularly through the abolition of the Wool Reserve Price Scheme and the gradual sale of the wool stockpile caused many sheep farmers to strongly re-evaluate their farm strategies, and increasingly move more toward meat production. At the same time, the increasing demand for lamb from both domestic and export markets, as well as the relatively lower price volatility for sheep meat compared to wool, provided further impetus for farmers to focus increasingly on lamb production.

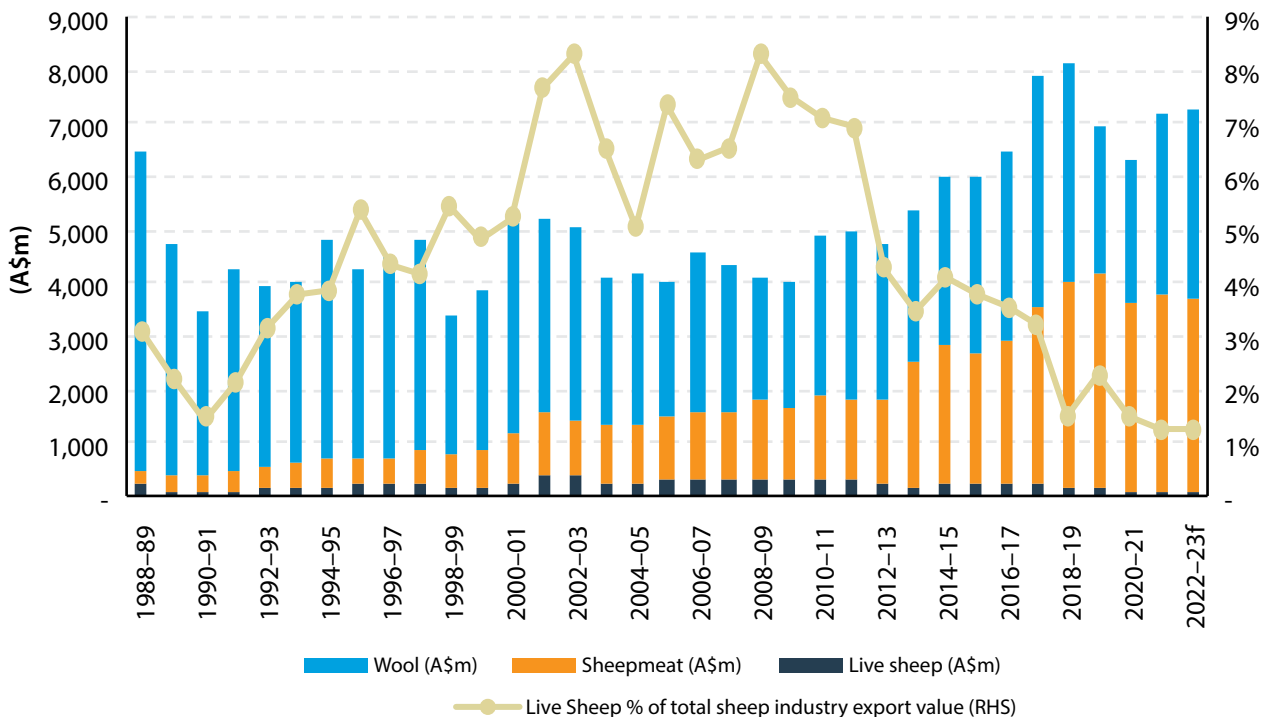
In addition, over the past two years, overall lamb meat production figures have been further boosted

by increased slaughter volumes and higher carcass weights which were aided by the availability of abundant feed in most areas.

While there has been some degree of flattening growth, the sheep meat industry continues to experience strong export demand levels. On the supply side, this has partly been driven by higher flock numbers allowing for increased exports. At the same time, demand remains strong from the major export markets, driven by a varying range of factors.

For the US market, Australian sheep meat has continued to grow as a niche product over recent

## AUSTRALIAN SHEEP SECTOR EXPORTS



Source: ABARES, ANZ

years, with an encouraging focus on mutton imports. For China, the increase in Australian sheep meat imports over the past two years was partly to make up for the shortfall in red meat supplies caused by the decimation of the country's pig herd due to African Swine Fever. For a number of Middle Eastern countries, where sheep meat has long been the most commonly consumed meat, exports also remain strong.

In the current year from Jan-May, Australia exported around 111 thousand tonnes (shipped weight - swt) of lamb, an increase of five per cent from the same time in 2021. Exports to USA, the biggest market by volume, increased by 13 per cent. Other key markets such as Papua New Guinea, Malaysia, Japan, the UK, and Jordan recorded double digit lamb export growth in comparison to the same period previous year. Exports to China saw a 28 per cent decline, as the country's pork production continued to gradually recover.

Between Jan-Jun 2022, 68 thousand tonnes (swt) of mutton were exported, an 8 per cent increase from 2021 levels over the same period. China remained the biggest export partner at 24 thousand tonnes (swt), although this was 7 per cent fall in export volumes compared to the same period in

the previous year. The USA, Australia's other major mutton export market, also recorded a slump in the first half of the year, down by 38 per cent to 5.4 thousand tonnes (swt). However, Asian and Middle Eastern markets such as Malaysia, Taiwan, UAE, Saudi Arabia, and Kuwait recorded stronger growth. This range of export trends further highlighted the importance of diverse export markets, to balance out differing demand trends for Australian sheep meat.

Aside from sheep meat exports, live sheep exports currently account for one per cent of the overall Australian sheep exports (including meat and wool), down from an average of three per cent over the past decade.

The Middle East and North African region account for most of this demand, with Kuwait alone accounting for 65 per cent of the total exports for the calendar year to May 2022. During the same period, Israel, UAE and Oman accounted for fourteen per cent, twelve per cent and seven per cent respectively.

Looking toward future markets, the Free Trade Agreement (FTA) between Australia and the UK which is scheduled to come into effect towards the latter part of 2022 will provide a further opportunity for growth of sheep meat exports. As of 2021, the UK accounted for around three per cent of Australia's

lamb and mutton exports respectively, importing modest volumes of 31,000 tonnes of lamb and 17,000 tonnes of mutton in the past five years.

Once in effect, this FTA will provide Australia with immediate access to a duty-free quota of 25,000 tonnes of sheep meat, rising in equal instalments to 75,000 tonnes by year ten.

## WOOL

Similar to sheep meat prices, wool prices have also been down on last year, but to a far lesser degree, and with very mixed results by micron. As the wool auctions headed into their annual recess, a large end-of-season offering dampened any potential for strong price rises, although finer wools, up to 17 micron, bucked the trend and rose at season's end.

While so much of the focus of the industry is increasingly on the sheep meat side, and its growth as the major component of the industry, it is also important to follow the trends for national wool production volumes and value, particularly in comparison to the sheep meat sector over the same period.

Looking toward the bigger picture, Australian wool production is forecast to grow in 2022/23, back to its highest level in 5 years of around 400,000 tonnes. This is roughly the same level of production

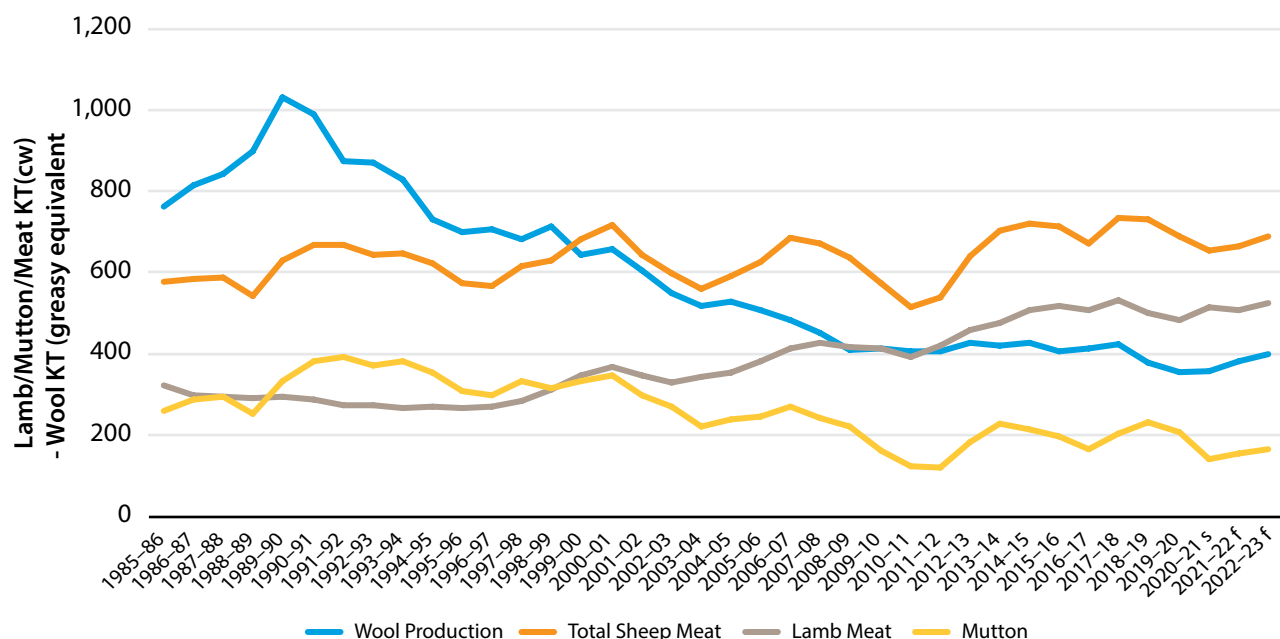
as the industry hit in 2008/09 when it finally arrested a 20-year decline, having fallen over 60 percent in that time from its 1988/89 peak of over one million tonnes.

This slight forecast growth is encouraging, but it remains to be seen whether national wool production will show substantial growth in coming years, or whether it has stabilised in its position as a secondary product to sheep meat, albeit a vitally important one.

Importantly, wool's value as an export has shown more impressive growth, forecast to rise to the same level as sheep meat. After the value of wool exports fell to a ten year low in 2020/21 of A\$2.6 billion, they are forecast to see impressive growth in 2022/23 to A\$3.5 billion. This is on the back of not only increasing supply, but general global consumer recovery in the wake of Covid. Clearly, wool's value figures as an export are partly explained by its minimal domestic sales figures, in comparison to the large domestic market for sheep meat production.

Despite this, and while the current global economic uncertainties may take some time to play out, it is clear that despite its challenges and challengers, Australian wool remains a sought-after global premium product, with a long and strong future ahead.

## AUST WOOL VS SHEEP MEAT PRODUCTION



Source: ABARES, ANZ





## DAIRY INSIGHTS



### OVERVIEW

- Australian farmgate prices continue to hit record levels, pushed by strong processor demand against tightening supply levels
- Despite this, the national dairy herd, and dairy acreage continue their decline, impacted by factors including scarce labour, high input costs, and attractive land price offers from beef producers
- The Australian industry has launched a new advertising campaign in Asia, to re-emphasise the premium characteristics of Australian dairy products
- The market continues to watch whether economic uncertainty will result in reduced consumer demand for dairy exports, particularly in Asian markets

The Australian dairy industry continues to evolve in quite a different way to the other major livestock sectors in Australian agriculture. On one hand, prices received by farmers for milk continue to rise, buoyed by strong demand and tight global supply. On the other hand, the dairy farming sector itself continues to shrink, having done so now for two decades.

On their own, farmgate prices have never been better. In July 2022, farmgate prices broke through the milestone \$10 per kilogram milk solids figure, as processors competed to attract supply in a tight domestic production market. With each increase in farmgate prices, different processors continued to highlight not only their ability to further increase their offers if required, but also to tailor their pricing structure to best suit individual producers.

At the other end of the supply chain, the biggest retailers of milk in Australia, Coles and Woolworths, lifted the price of their generic milk brands. Given the discussion and debate which had been focussed in the past on the supermarkets' "\$1 per litre" milk strategy, the latest price rise reflects the impact of inflation, as well as a quiet move away from highlighting cheap milk prices as a marketing strategy. In the two major supermarkets, milk prices

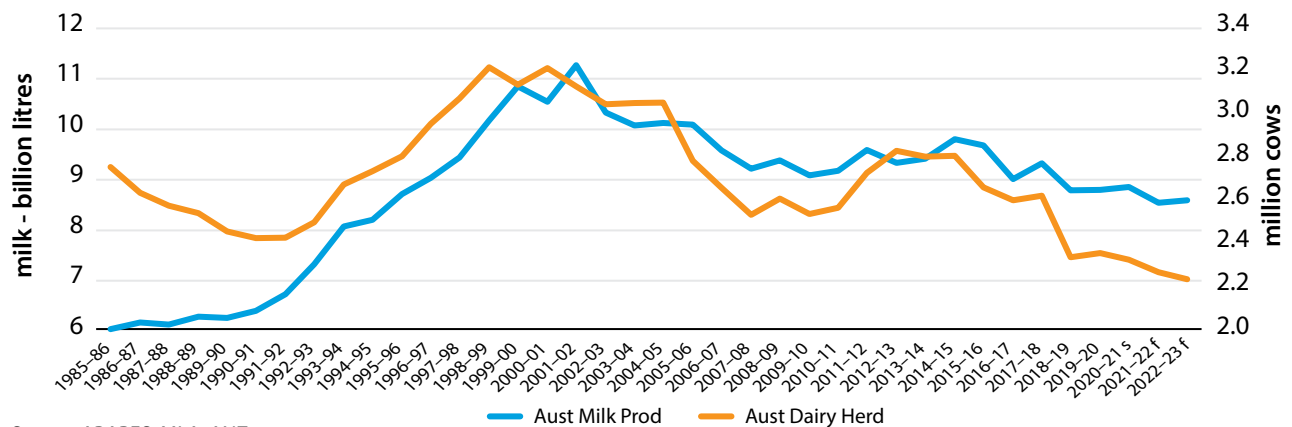
rose by over ten percent, from \$1.35 to \$1.60 a litre for the generic supermarkets' brands.

As the dairy industry sought to recover some of the export ground lost through the two years of Covid disruptions, a new advertising campaign has recently been launched, seeking to boost the profile of Australian dairy products in China, Japan and Southeast Asia. These markets are particularly important, given that almost 90 per cent of Australia's dairy exports are destined for Asian markets, including China, Japan, Vietnam, Thailand, Indonesia, Singapore and Malaysia.

The advertising campaign will seek to reinforce the Australian dairy industry's renowned clean and green reputation and emphasise the premium quality of Australian dairy products.

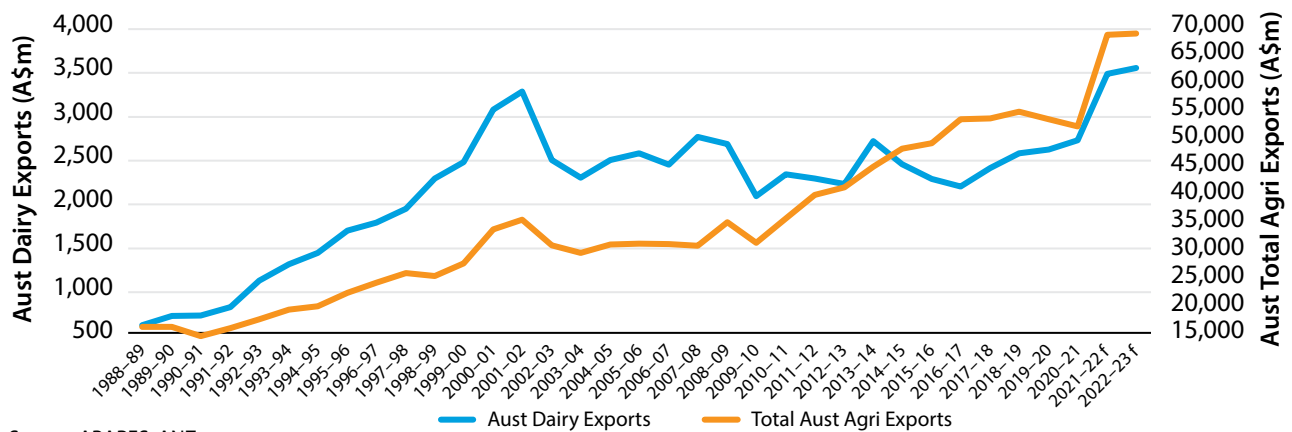
At a global level, while Global Dairy Trade prices eased downwards from their June peaks, they still remained relatively high historically. Across the market, a degree of nervousness is starting to grow that the ongoing tighter economic conditions could impact consumer demand for dairy products, across both developing and developed markets.

## AUST DAIRY HERD AND MILK PRODUCTION



Source: ABARES, MLA, ANZ

## AUST DAIRY EXPORTS VS TOTAL AGRI EXPORTS



Source: ABARES, ANZ

Unsurprisingly, dairy prices are impacted by different supply and demand variables. In terms of global milk export supply, some of the pressure of the previous year has eased, as the US and New Zealand lift their production above last year's levels, although production in the EU and Australia is still below last year. Notably, at the demand level, the shift in China's imports is having a marked impact on the market. On a three-month rolling basis, China's dairy imports are down 24 percent. In fact, China's reduction in imports is larger than the global decline in milk production. This fall in China's imports has been attributed to a mix of slowing consumer demand, a build-up of inventory, and the ongoing impact of Covid lockdowns.

Within Australia, the dairy farming landscape continues to decline. The Australian dairy herd is forecast to continue its long-term contraction, falling to a multi-decade low of 2.2 million head in 2022/23. This would mean that the herd is around a third down on where it was twenty years ago, and half of what it was fifty years ago. The fall in milk production has not been quite as stark, buoyed by

the ongoing increase in milk yields. Looking ahead, domestic production is forecast to remain flat over the next year, at around 8.5 billion litres. Despite the flattening, this figure would still be down 25 percent on the record high 20 years ago of 11.3 billion litres and would be roughly the same as Australia was producing thirty years ago.

The question will remain as to whether the dairy production industry has yet hit its "structural floor", where numbers are unlikely to fall much further, as those remaining in the industry are keen to develop and build their operations – a similar trend as has been seen in the sheep industry over the past decade.

Alternatively, given the pressures of high input costs and tight labour availability, combined with the attractive land prices being offered by beef cattle growers to dairy operators, there may well be further falls in dairy farmer numbers and the dairy herd. Should this happen, an even tighter milk supply should at least be likely to put upward pressure on prices for the medium term.





# COTTON INSIGHTS



## OVERVIEW

- The challenging economic period will likely impact consumer demand for cotton products, as has occurred in the past, which may push down cotton prices
- However, the market is also aware that this will likely mean both a resurgence in demand in the medium term, as well as a temporary cotton shortage if near-term lower prices reduce global plantings
- Forecasts for the next Australian cotton crop continues remain close to record levels, based on favourable conditions
- Locally, logistics along the supply chain remain a major issue, including harvesting, storage, trucking and shipping

With the Australian cotton industry in the final stages of preparation for the 2022/23 crop, a great deal of the industry’s attention continues to be on the ongoing developments of the industry globally. While a lot of this attention is focussed on the fortunes of cotton crops in other major producers and exporters, the industry is also keeping a close eye on geopolitical and economic developments which could have major impacts on trade, as well as consumer behaviour globally.

The current uncertain economic outlook across many countries is very likely to have some impact on demand for cotton products. As has been seen in the past, this dampening of consumer activity is likely to work its way back up the supply chain from store shelves and racks, and likely to put downward pressure on cotton prices. If rising interest rates and tighter economic times cause consumers to purchase fewer cotton products, then this could also potentially lead to areas of oversupply in the supply chain, including larger inventories of cotton products unsold, more cotton bales in storage with processors and reduced demand from major buyers looking ahead to the next season.

While the economic uncertainty on its own would normally be enough to reduce consumer demand, these events are also occurring at a time when global cotton prices are still historically very high, a factor which has a flow-on effect to prices of cotton products.

At the start of April, global cotton prices peaked at 156 USc/lb, their highest levels since they had briefly broken through the 200 USc/lb barrier in March 2011. At that time, cotton prices had surged to record levels based on a combination of demand and supply factors. As the global financial crisis around the time eased, demand for textiles surged. At the same time, the world was coming off two years of its lowest cotton stock to use ratios in fifteen years. Following this, in reaction to low stock levels and high prices, the world saw a surge in cotton production for the following two years, with the result that global stock to use ratios climbed from 39 percent in 2009/10 to 92 percent by 2013/14.



The current situation for the global cotton market clearly has some similarities, and is likely to see a level of cyclicity over the coming years. In the short to medium term, global cotton prices have fallen by 50 per cent from April to early August 2022, down to 100 USc/lb. This fall had been largely driven by fears of the looming slump in consumer demand, particularly for non-essential clothing, as well as for fabric products. However, given that the market gains more experience with every cycle, prices had already begun to stabilise, as buyers realised that this slowing of production in mills would lead to shortages at some point, and that demand for cotton would inevitably rebound strongly, potentially in the not-too-distant future.

In terms of raw product availability, cotton prices have also been cushioned to some extent by increasing concerns about crops in some of the world's major production areas. In the US, there are worries that drier than normal weather in Texas could see a fall in production, which would flow on to tighter exports and ending stocks.

At the same time, there are also concerns around the Indian cotton crop, where low rainfall early in the sowing season saw a rise in crop infestation from pink bollworms in several major cotton regions. With the potential that this parasite could reduce crop yields by between 30 and 90 percent, there are fears not only that India's cotton crop could be well down, but that India could potentially react by limiting cotton exports to protect its domestic market, just as it did in 2011.

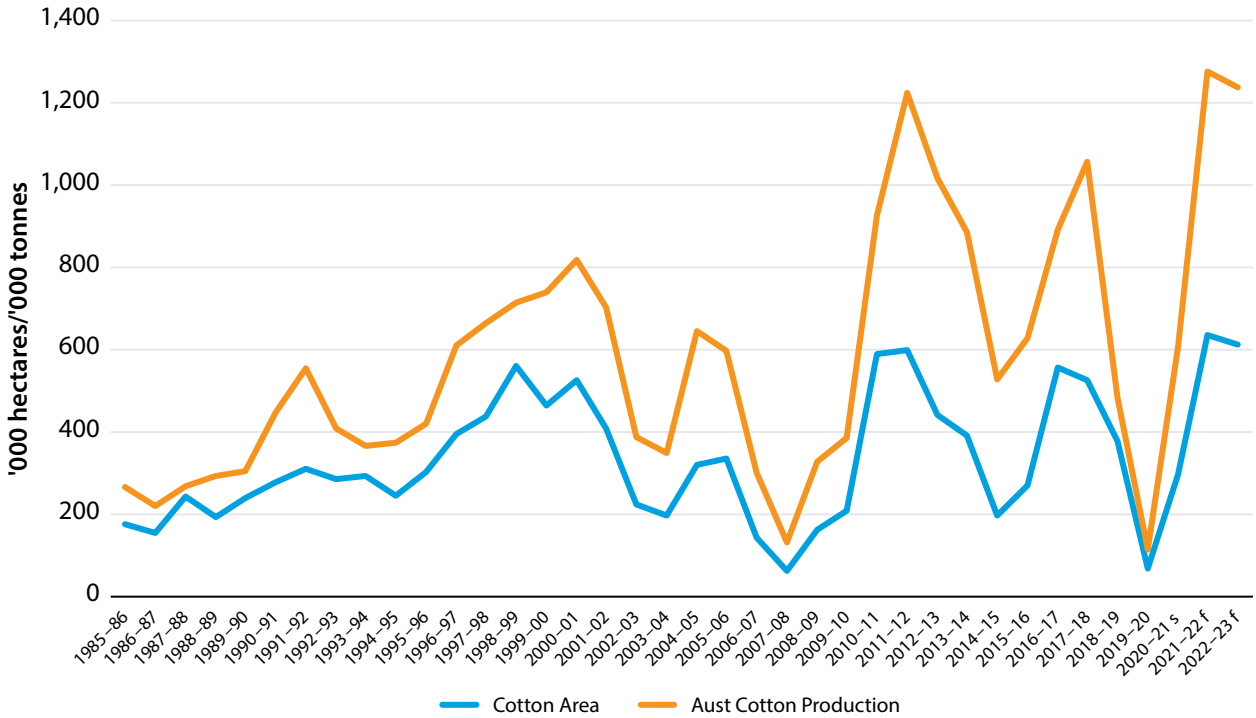
The fact that global supply chains continue to experience logistical disruptions, including around container availability and port access, could also play out both ways – reduced demand from buyers in the knowledge that trade access will be less than normal, but also stronger than expected demand from consumers, as product availability remains relatively tight.

In terms of the global crop outlook, USDA is currently forecasting the 2021/22 cotton crop to rise by around 5 percent to 116 million bales or around 25 million tonnes, with a similar forecast again for the following year, as a forecast economic recovery lifts global demand.

In terms of the Australian crop, in what can be a very volatile crop, ABARES is currently forecasting Australia's cotton acreage and production to be relatively unchanged, particularly based on the outlook for favourable seasonal conditions. The current forecast is for the 2022/23 crop area to fall marginally by around four per cent, to 612,000 hectares, the second highest area on record, while 2022/23 cotton production is also forecast to fall even more marginally, dropping three percent to 1.2 million tonnes, which would also be the second highest crop on record.

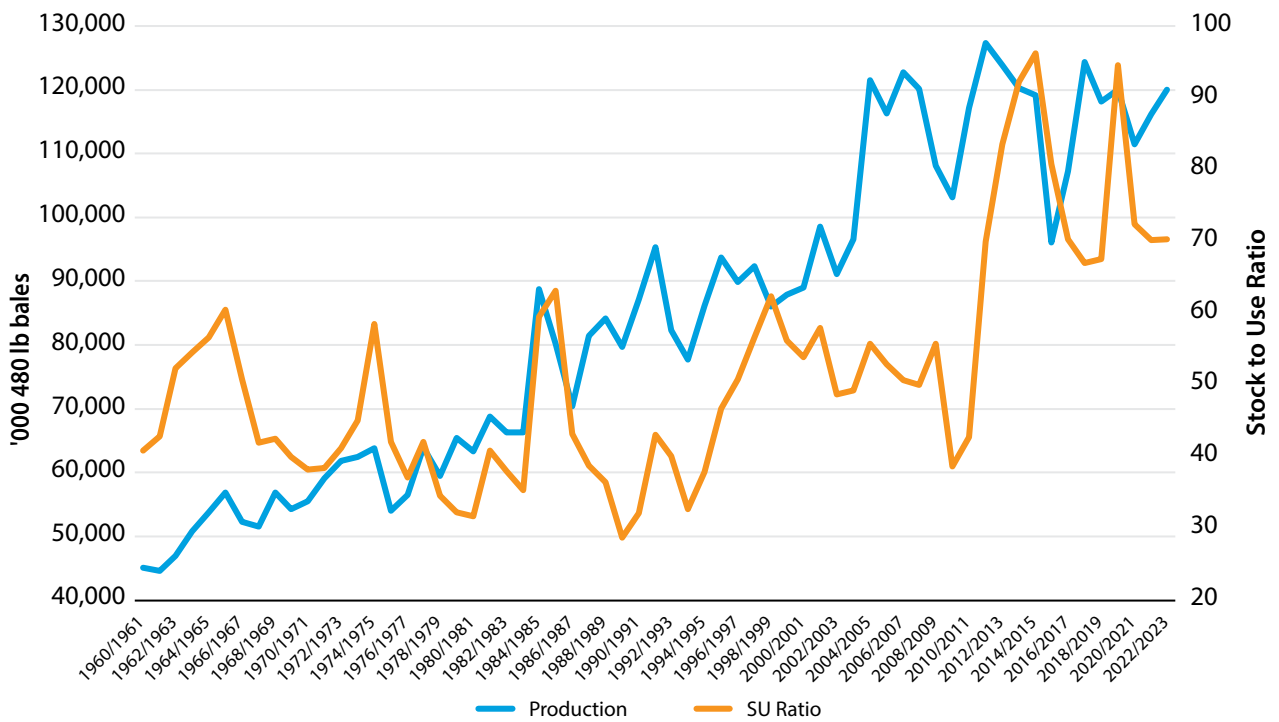
Looking ahead, the Australian cotton industry's outlook will inevitably be impacted to some degree by both a slowdown in global demand, followed by the forecast recovery. However, given the Australian industry's reputation for quality, as well as the outlook for a good season and subsequent reliability of supply, there is every expectation of a good couple of years ahead.

## AUSTRALIAN COTTON AREA AND PRODUCTION



Source: ABARES, ANZ

## GLOBAL COTTON PRODUCTION VS STOCKS TO USE RATIO



Source: USDA, ANZ



---

# AUSTRALIAN ECONOMICS INSIGHTS

---

Interest rates will slow the economy. Eventually.

**The cash rate is going up quickly.** The RBA has increased the cash rate from 0.1 per cent in April to 1.85 per cent in August, and we expect it to reach 3.35 per cent by the end of the year. The current high inflation and this response by the RBA will be the main changes that impact Australia's economic growth over the next two years.

**Inflation will slow from here, but 2-3 per cent is a long way off.** We expect quarterly inflation to slow in the second half of 2022, reflecting easing global drivers, lower commodity prices including crude oil and slower momentum in domestic pressures. But sharp increases in electricity and gas prices, as well as the end of the fuel excise (the discount on government charges for petrol) are some key factors keeping inflation from falling closer to the 2-3 per cent range. We see annual headline inflation falling into the 2s by late-2023. But trimmed mean inflation, an underlying measure which the RBA focusses on, will be slower to come down.

**The labour market imbalance is not going away.** The job vacancy rate is at a record high (3.4 per cent of jobs were vacant in Q2) and unemployment is very low (3.5 per cent in June). We now expect the unemployment rate will fall below 3 per cent by early next year. The latest data suggests that there are 480,000 job vacancies across the economy, which represents a substantial gap between labour supply and demand across many industries and geographies in Australia. As higher inflation and rising rates curtail demand growth, it will take time for this gap to close enough to put upward pressure on unemployment.

**New residents add to both supply and demand.** Newly arrived skilled migrants, temporary visa holders, students and backpackers are adding

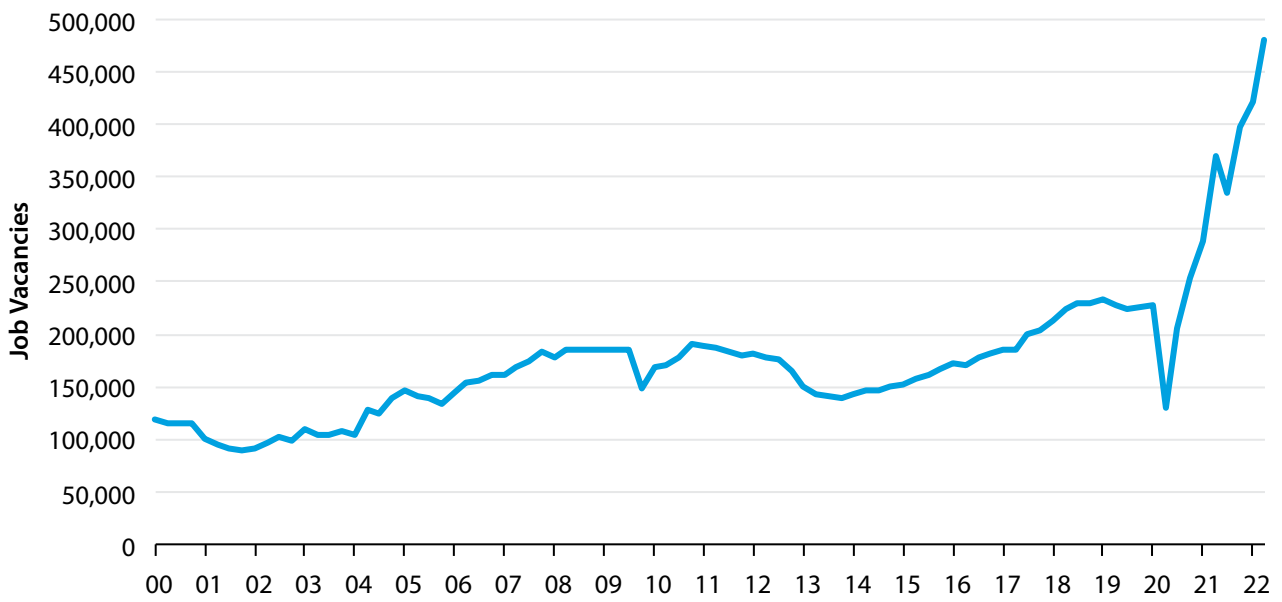
to the supply of workers, but also add to already strong demand. So, while the return of migration improves labour mobility and matching, it doesn't mean the gap between demand and supply is going to close quickly.

**Wage growth will accelerate.** We expect an increase in the wage price index (the hourly rate for the same job over time) of 3.3 per cent y/y by the end of the year. Minimum and award wages have increased by 5.2 per cent and 4.6 per cent respectively, and labour underutilisation is at a 40-year low. Job mobility has risen sharply, inflation expectations are up and businesses are reporting passing on larger wage increases. Household income is expected to increase by much more than the wage price index, partly reflecting job switching and promotions.

**GDP growth in Australia will slow, but we don't expect a recession.** Given the steeper trajectory for the RBA cash rate, we have lowered our forecasts for growth over coming years, and now expect GDP growth of 3.0 per cent (prev 3.2 per cent) in 2022, 1.8 per cent (2.4 per cent) in 2023, and 1.2 per cent (1.8 per cent) in 2024. But we do not expect a recession. New Zealand, which has had higher inflation for longer and is 7 months ahead in the rate hike cycle compared with Australia, is showing resilient spending and business indicators. This is an encouraging sign for Australia's ability to avoid a sharp slowdown in the near term, under higher inflation and rising interest rates.

**AUD appreciation may be limited by global growth concerns.** As global growth concerns continue to mount, we are less confident that recent strength can continue. So, we have downgraded our year-end target to USD0.72.

## JOB VACANCY



Source: ABS, Macrobond, ANZ Research

## AUSTRALIA, FX SPOT RATES



Source: Macrobond, RBA, ANZ Research

## CONTACTS

### MARK BENNETT

Head of Agribusiness & Specialised Commercial,  
Commercial Banking

T: [REDACTED]  
E: [REDACTED]

### GERRY KARAM

Acting Head of Food, Beverage & Agribusiness,  
Australia – Institutional Banking

T: [REDACTED]  
E: [REDACTED]

## AUTHORS

### MICHAEL WHITEHEAD

Head of Agribusiness  
Insights, Institutional

T: [REDACTED]  
E: [REDACTED]

### MADELEINE SWAN

Associate Director Agribusiness Research,  
Commercial Banking

T: [REDACTED]  
E: [REDACTED]

### SWATI THAKUR

Senior Analyst Institutional Client Insights & Solutions

T: [REDACTED]  
E: [REDACTED]

### ADELAIDE TIMBRELL

Economist, ANZ Research

T: [REDACTED]  
E: [REDACTED]

### PREETI RANI

Associate Institutional Client Insights & Solutions

E: [REDACTED]



