



Rural Price Index

Increased rainfall driving lower prices

Construction of the index

The BankSA Rural Price Index informs the state's farmers and farm industries how prices are faring for South Australia's farm products, rather than merely how prices are faring across Australia as a whole. The index aggregates price movements across 17 products, which make up more than 80% of South Australia's farm output.

There are three groups of products – grains (such as wheat and barley), livestock and related products (dominated by wool, milk and beef), and horticulture (dominated by grapes).

The index shows prices in Australian dollars (thereby reflecting the prices received by South Australian farmers), as well as in terms of the prices paid by foreign buyers (that is, prices in foreign currency).

A better backdrop

The business backdrop for the state's farmers lifted of late, but only a little. Great rain has been a mixed blessing, but is mostly a positive despite some lower world prices. And although the Australian dollar has remained relatively high since mid-2016, it hasn't risen further – thereby limiting the damage to the competitiveness of Australian producers.

Australian dollar steady of late

Other things equal, a lower Australian dollar makes domestic producers more competitive in global export markets.

As the Australian dollar is off the lows it hit in the latter half of 2015, local producers have lost some competitiveness across 2016.

The early 2000s saw China and other emerging economies boom. That pushed up both

world commodity prices (including for farm commodities) and the Australian dollar. The lift in prices (and the rapidly expanding scale of markets such as China) convinced farmers of the potential for continuing good news.

These booming economies have subsequently slowed. However, when global prices fell at the end of the investment boom, the Australian dollar fell even more.

That gap – the Australian dollar fell more than global food prices did – considerably cushioned the blow for South Australian farmers.

These effects can be seen in Chart R1, where the slow downturn in world prices for farm products alongside a large fall in the Australian dollar led to a net benefit for South Australian farmers.

“Indeed, the long run trend in the prices in Australian dollar terms has actually been a surprisingly steady climb – with prices close to doubling since 2000, an average increase of about 4% per year.”

That is, the news was bad globally, but the Australian dollar more than buffered the local impact.

That broadly good news strengthened even further of late, with world prices edging up at a time when the Australian dollar has been

BankSA Rural Price Index

Index base : January 2000 = 100	Level	August 2016 % change since		
		Feb 2016	Aug 2015	Aug 2014
AUSTRALIAN DOLLAR INDEX				
Grains	175.2	-7.8%	-13.4%	-7.0%
Livestock and Livestock Product	229.3	+6.6%	+5.2%	+24.8%
<i>Livestock Only</i>	237.8	+8.3%	+6.0%	+25.3%
Horticulture	122.0	+7.7%	+13.6%	+6.7%
TOTAL (\$A Based)	189.5	+1.5%	-0.8%	+10.1%
SDR INDEX				
Grains	200.4	-3.8%	-7.7%	-18.4%
Livestock and Livestock Product	262.4	+11.2%	+12.0%	+9.5%
Horticulture	139.6	+12.4%	+21.0%	-6.4%
TOTAL (SDR Based)	216.9	+6.0%	+5.6%	-3.5%
TOTAL (TWI Based)	213.9	+4.5%	+2.9%	-3.3%

broadly steady.

Indeed, the long run trend in the prices in Australian dollar terms has actually been a surprisingly steady climb – with prices close to doubling since 2000, an average increase of about 4% per year (thereby rising faster than Australian inflation).

Differing performance across categories

The performance of the three key commodity groups within the broader South Australian agricultural sector is shown in Chart R2. The performance of commodities over time can differ dramatically, with the 'crops and grains' component the most volatile, and horticulture prices the most stable.

Of the above three commodity groups, the crops and grains sector is affected the most directly by short-term changes in weather conditions. As a result, periods of drought (globally or in Australia) will cause sharp spikes in prices. On the other hand, crops and grains naturally travel particularly easily between markets and therefore participate in a global market. These factors contribute to the particularly volatile nature of the crops and grains commodity group.

Last year saw above average production for wheat, barley and oats in South Australia, but below average production for canola.

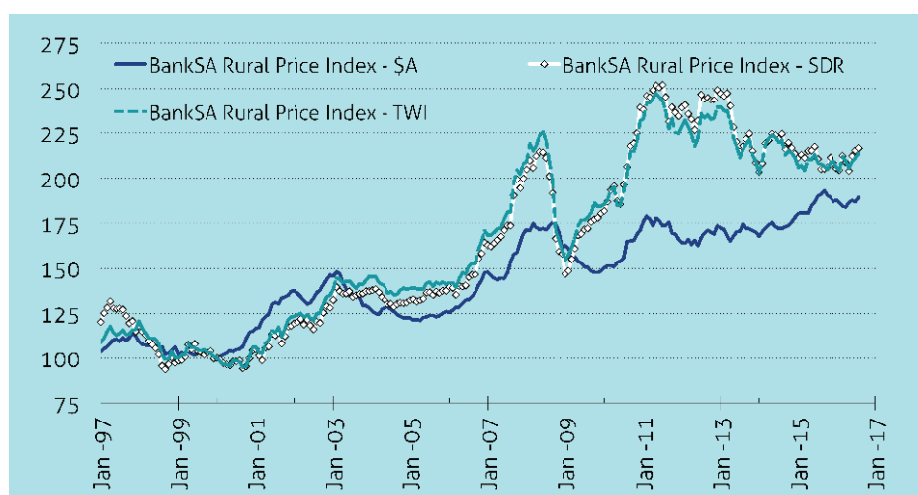
Indeed, wheat production was above its five year average in 2015-16 and – thanks to reasonable rainfall – it is expected to increase

in 2016-17. On the other hand wheat prices in Australian dollar terms have been falling gradually since early 2015.

That same story – production up, prices down – has been evident in barley markets too. In South Australia, the picture is broadly similar for barley as it is for wheat. Production in 2015-16 was slightly above the five-year average, and is expected to increase further in 2016-17.

And there's some good news too on the canola front. South Australia's production of canola was below the five-year average in 2015-16, but it's also forecast to lift in 2016-17. Expected returns and average yield from growing canola have increased and, as a result, the area planted has risen by about 2%.

CHART R1
BANKSA RURAL PRICE INDEX – JANUARY 2000 = 100



Livestock price gains

The livestock and livestock products commodity group remains the biggest contributor to South Australia's farm incomes, and the good news is that prices rose a further 5% over the past year.

But whereas production is on the rise across grain crops, good rain means that farms are rebuilding herd numbers. That's leading to a fall in Australian supplies of beef, and that's happening amid lower demand for Australian beef in some markets.

The chart shows that, across a longer stretch of years, prices for horticulture have lagged well behind those for grains and livestock.

But that noose loosened of late, with prices for wine grapes, fruits and vegetables all lifting substantially over the past year. At the same time, climate conditions have given a favourable start to the season, strong export demand and expected increases in the production of key crops.

Wine grapes are the largest horticultural crop in South Australia, and the wine industry has seen another year of growth in prices. This is the third consecutive year of increase in the price of wine grapes in the local market – ending a long period of decline that saw average prices fall 50% between 2008 and 2011.

As usual, there are no guarantees on price and quality, as there's a very fine line between good rainfall and too much rainfall. But, to date, conditions have stayed on the safe side of that



line.

Rainfall and prices

Earlier, we touched on the fact that crops and grains tend to be more sensitive to harsh weather conditions. As such, prices for these commodities tend to spike dramatically during droughts. Similarly, but not quite to the same extent, prices tend to drop when rainfall is good (either globally and/or locally).

That’s an important consideration for local farmers, as movements in prices for crops and grains drive much of the movement in the BankSA Rural Price Index (as can be seen in Charts R1 and R2).

There are trade-offs here, in that global weather drives prices more than local weather does, but it is local weather that drives crop yields.

That combination says the state’s farmers do best when global supply is weak and local output is strong.

Wheat and barley prices have been trending down since 2015, and that corresponds to a period with above average rainfall in South Australia. Chart R3 shows that rainfall across South Australia has been relatively strong, particularly so in 2016.

That balance is not necessarily a bad thing – if local output rises more than local prices fall, then that’s still a plus.

And that’s how 2016 has played out to date.

CHART R2
COMPONENTS OF THE BANKSA RURAL PRICE INDEX

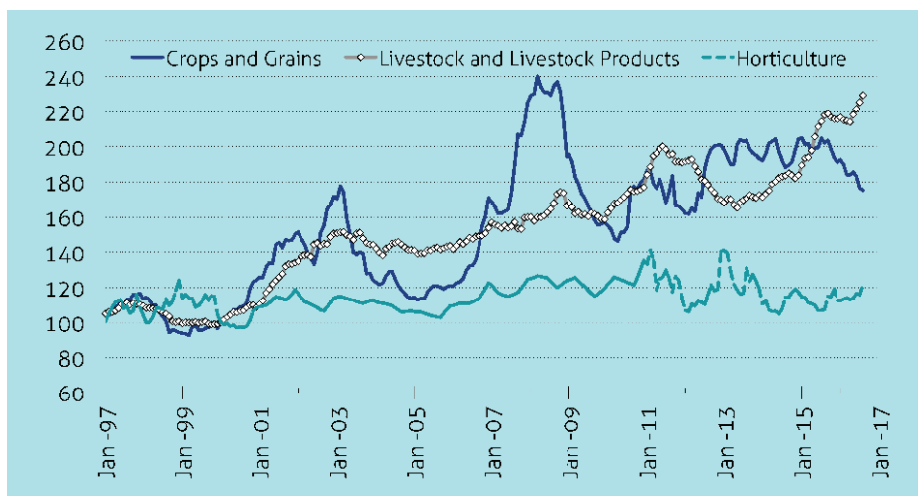
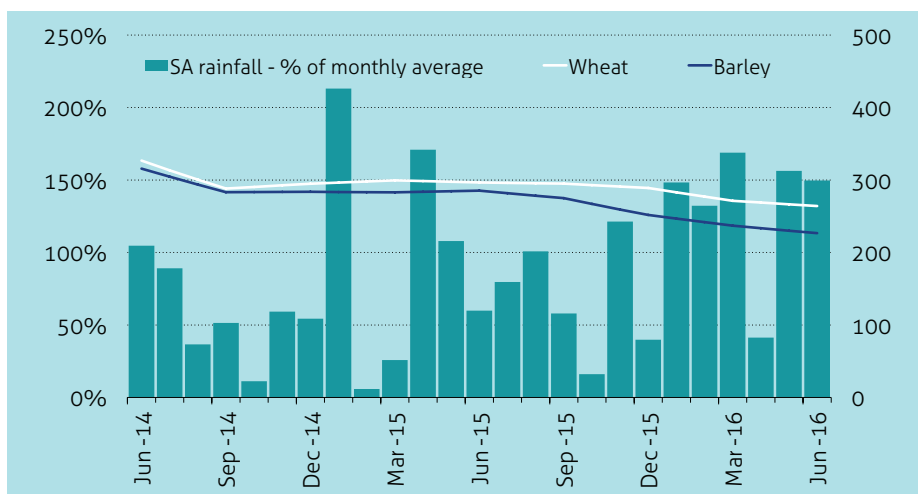


CHART R3
SOUTH AUSTRALIAN RAINFALL AND DOMESTIC PRICES





Get a better yield.

With BankSA's exclusive rate offer* for eligible grain growers you can continue reaping the returns on your investment. To find out more, drop into your closest BankSA branch or call our Agribusiness Specialists on 08 8424 4195.

*Offer ends 31 March 2017 and is only available on selected BankSA accounts. Conditions apply, full details of which are available on request. BankSA – A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL and Australian credit licence 233714. BSA06892 11/16

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