

Rural Price Index

Horticulture booms on the back of wine exports

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. 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).

SA bouncing back

It's been a fine year on the farm in South Australia, partly because kinder and gentler

weather has led to striking gains in the past year's crop harvests. In addition, fears of a 'wine lake' – threatened oversupply among the state's wine producers – have eased over the years thanks to rising Asian prosperity and a relatively low dollar.

Yet there are challenges too. A rising Australian dollar is bad news for domestic producers, as it makes them less competitive in global export markets. While the Australian dollar isn't particularly high, it has been picking up recently, lifting from a level of around 70 US cents late last year.

These results are part of a much longer story. In the early 2000s, China and other Asian economies began to boom, demanding more commodities from around the world, and pushing up prices for both mineral and farm commodities. Farmers grew increasingly

convinced of the potential for demand for Australian products and prices to remain solid, but the demand also boosted the value of the Australian dollar, which cut into local competitiveness.

These booming economies have since slowed, easing pressure on demand, global prices and the Australian dollar.

“On the upside, when global prices fell at the end of the investment boom, the Australian dollar fell even more.”

The larger fall in the Australian dollar compared to global food prices provided a net benefit to South Australian farmers, which is shown in Chart R1.

The Australian dollar line shows the prices local farmers *receive*, whereas the other lines are measures of what foreign buyers *pay*. The bigger the gap, the bigger the problem for South Australia's competitiveness.

So while the bad news was spread globally, falls in the Australian dollar from 2012 onwards compensated local farmers enough for them to benefit via higher prices locally despite the slowdown in these economies.

Yet recent trends snapped that stick. Prices in Australian dollar terms have moderated of late, in part due to the strengthening of the Australian dollar in comparison to six or even 12 months ago.

BankSA Rural Price Index

Index base : January 2000 = 100	Level	Feb 2017 % change since		
		Aug 2016	Feb 2016	Aug 2015
AUSTRALIAN DOLLAR INDEX				
Grains	164.2	-4.4%	-13.6%	-18.8%
Livestock and Livestock Product	221.3	-4.1%	+2.9%	+1.5%
Livestock Only	226.7	-5.4%	+3.3%	+1.1%
Horticulture	139.2	+15.1%	+22.9%	+29.6%
TOTAL (\$A Based)	185.4	-1.8%	-0.7%	-3.0%
SDR INDEX				
Grains	196.8	+0.1%	-5.5%	-9.4%
Livestock and Livestock Product	265.3	+0.5%	+12.5%	+13.3%
Horticulture	166.9	+20.6%	+34.4%	+44.6%
TOTAL (SDR Based)	222.2	+2.9%	+8.6%	+8.2%
TOTAL (TWI Based)	220.8	+3.6%	+7.9%	+6.2%

Crop prices suffering, others showing more resilience

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 typically the most volatile – although not always.

The crops and grains sector is affected more directly by short-term changes in weather conditions than the livestock and livestock products sector. Droughts or floods (globally or in Australia) therefore cause sharp spikes in prices. Horticulture products are more affected by specific local conditions – so there is less scope for events to affect prices (although the impact can be dramatic when they do affect them).

The 2015-16 financial year saw above average production for wheat, barley and oats in South Australia, while production for canola slipped below recent averages. Production for all four of the state's major winter crops is expected to be above average in 2016-17 following a season of strong rainfall.

The Federal Government's official farm forecaster, ABARES, expects a 51% increase in wheat production in South Australia (and a 56% rise Australia wide). Partially as a result of the improving prospects, wheat prices in Australian dollar terms have been falling gradually since early 2015 and are expected to continue to slip.

Indeed, this pattern of 'production up but prices down' is evident in coarse grain markets more generally.

The story for barley is similar to wheat; while cropping area remains roughly the same, yield lifted enough to generate gains in production of 50-60% in 2016-17.

And while production for canola was below the five year average in 2015-16, it is expected to have been 35% above average in 2016-17. Average yield from growing canola has increased, and while production is expected to increase by some margin, the area planted is expected to fall by 2% in the same year.

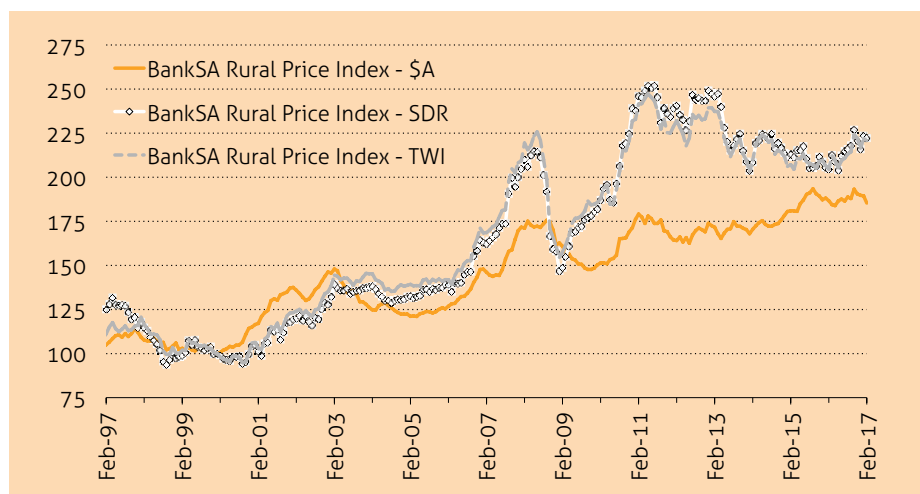
The livestock and livestock products commodity group remains the biggest contributor to South Australia's farm incomes. As highlighted in our last Rural Price Index in November last year, prices rose over 5% over the year to August 2016. The good news is still evident, but it is now more moderate: over the year to February 2017, prices have risen 2.9%.

While prices for horticulture typically lag well behind those for grains and livestock, the past year has seen considerable growth in prices for this sector. Prices for wine grapes, fruits and vegetables all contributed to this lift, and favourable climate conditions in South Australia continue to increase yield and hence production. Wine grapes are the largest horticultural crop in South Australia, and the wine industry saw considerable growth in prices last year.

However, the most significant single effect on the index was the spring storms that battered parts of the state, virtually wiping out the potato crop and causing significant damage to berry crops and stone fruits. Not only did the storms cause damage to crops already in the ground, they also delayed summer plantings, further cutting into supply.

The resultant surge in prices – potato prices more than trebled – saw the overall horticulture price index lift by more than 15%.

CHART R1
BANKSA RURAL PRICE INDEX – JANUARY 2000 = 100





Wine production and prices

The rise in popularity and quality of Australian wines through the 1990s led to a surge in investment with significant increases in vineyard plantings, particularly of red grape varieties. Technological developments also lifted yields, leading to further rises in production.

Data from the University of Adelaide shows that between 1986 and 2007, wine production in Australia increased by an average of 6.4% each year. Wine grapes are the largest component of horticulture in South Australia, and the wine industry saw another year of growth in prices in 2016. This continued growth ends a long period of falling prices where average prices fell 50% between 2008 and 2011.

The total value of exported wine from Australia reached \$2.22 billion in 2015-16.

This state is well known for its wine and has several wine regions, including the Riverland (where up to 30% of Australia’s wine is produced), the Barossa Valley, Langhorne Creek and McLaren Vale. Within these regions, Shiraz (or Syrah), Cabernet Sauvignon and Chardonnay grapes are the big sellers. Chart R3 shows how prices have been tracking for these grapes since the turn of the century – and this has mostly been downwards.

Yet even if the longer term trend has been down, prices have started to pick up again over the past couple of years. That is partly due to China’s growing taste for Australian wine, and partly to falls in the Australian dollar since its 2012 peaks.

CHART R2
COMPONENTS OF THE BANKSA RURAL PRICE INDEX

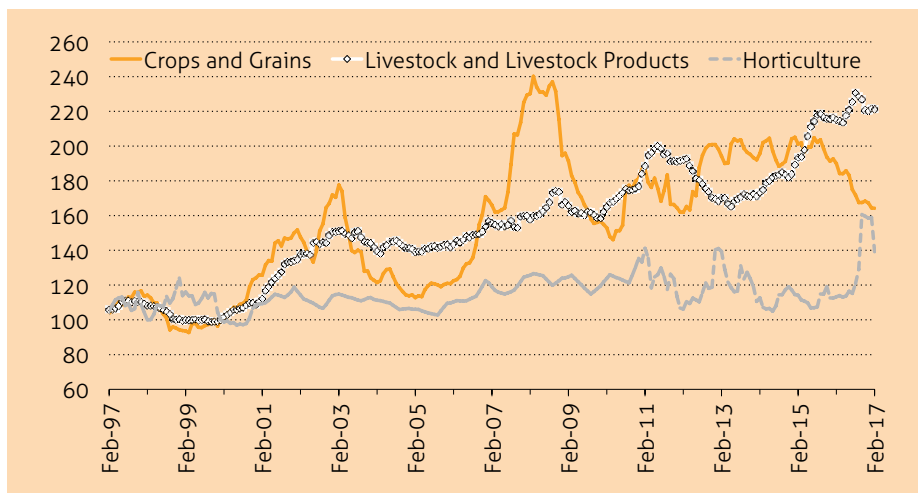
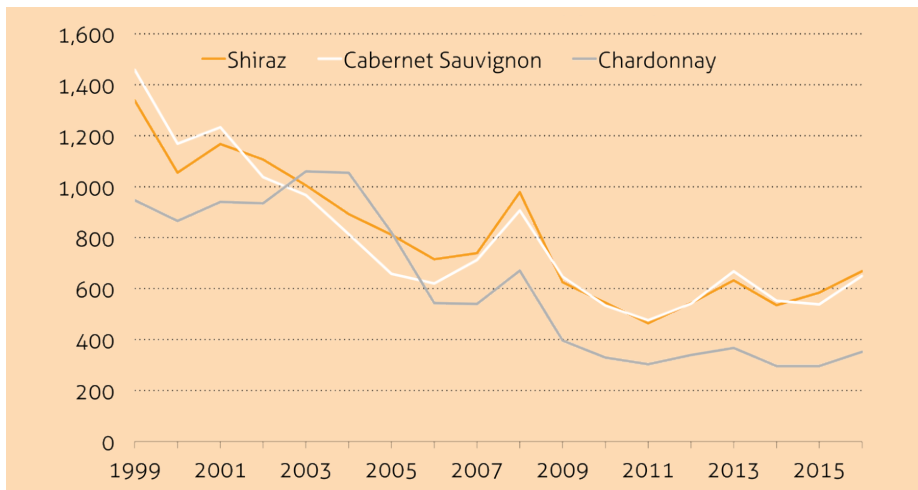


CHART R3
WINE GRAPE PRICES OVER TIME (\$ PER TONNE)



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