Bankwest Future of Business: Focus on Agriculture
2018
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Understanding factors impacting your industry, and how other businesses in your industry are performing, can be a great gauge for how your business is tracking.

The Bankwest Future of Business: Focus on Agriculture Report is designed to give you a snapshot of the current and expected future state of your industry, which could help you plan and spark ideas. The report covers Australia’s agricultural sector, summarising trends based on statistics from IBIS World, the Australian Bureau of Statistics and other reputable sources.

Australia’s climate aided farming in 2017, and allowed for a record $63.4 billion in revenue for the nation’s agricultural sector. Crops remain the dominant form of agricultural revenue, accounting for 55.3%, although strong prices for livestock throughout the 2017 financial year led to stronger profits without much change in production levels.

Western Australia maintains its position as the dominant crop producer across Australia, producing 18 million tonnes in the year to June 2017, the highest production nationwide. WA’s agricultural sector also contributed the highest proportion of the state’s GDP growth of all industries in the year to June 2017, contributing 0.5 percentage points.

With mining commodity prices forecast to sit well below historical highs, agriculture is an industry of growing importance for WA’s economic future. Accessing the global marketplace represents the biggest growth opportunity. The state’s largest export destinations are Indonesia ($940.8m), China ($912.4m) and Vietnam ($833.5m).

Nationwide, agricultural exports grew by 8.7% to $48.7 billion in the year to June 2017 and contributed 0.4% to Australia’s 2.0% growth. The nation’s largest export destination, China, will see its middle class more than double to 3.5 billion by 2030, bringing with it vast opportunity for export of premium agricultural products.”

Agricultural technology will play an increasingly important role in the future and with greater adoption of drones, soil mapping and driverless tractors both at home and abroad, small to medium sized farms will be able to adopt and integrate them with lower risk. But as always, climate volatility and commodity prices will continue to have the greatest impact on farming bottom lines.
A favourable climate and strong demand from international markets saw Australia’s agricultural sector enjoy revenue growth of 15.6% in the year to June 2017.

Increased crop production was a strong driver of higher revenue growth, with the total value of Australian crops rising by 25.9% in the year to June 2017.

Gross value of farm crop production, 2016–2017

- Crops: 55.3%
- Livestock: 32.0%
- Livestock products*: 12.6%

*Includes: milk, wool, eggs, honey and beeswax

Source: ABARES 2017

Strong income growth outpaced the rise in costs in 2017, with farmers enjoying a record bottom line in the year to June 2017.

Net Income
Increased by 21.9%

Costs
Increased by 5.1%
Western Australia's agriculture sector accounted for 2.4% of gross state product in the year to June 2017, and contributed 0.5% to WA's growth – more than any other industry. WA's agriculture sector experienced a 30.7% increase in gross value added (GVA) in the year to June 2017, the second largest growth behind only New South Wales, in which GVA rose by 35.7%.

Net income and production, 2013–2017

<table>
<thead>
<tr>
<th></th>
<th>2017 ($b)</th>
<th>1-year increase</th>
<th>5-year increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross value of agricultural production</td>
<td>$13.4</td>
<td>18.1%</td>
<td>39.4%</td>
</tr>
<tr>
<td>Intermediate input costs</td>
<td>$7.6</td>
<td>9.8%</td>
<td>30.3%</td>
</tr>
<tr>
<td>Agricultural net income</td>
<td>$3.0</td>
<td>69.8%</td>
<td>156.2%</td>
</tr>
<tr>
<td>Gross agricultural value added at producers' prices</td>
<td>$6.0</td>
<td>30.7%</td>
<td>52.7%</td>
</tr>
</tbody>
</table>

Source: ABS 5220

Big season for WA crop growers

A favourable climate leading into WA’s 2017 harvesting season saw crop production increase by 27.0% to 18 million tonnes, the highest nationwide.

WA production for major crops:

- **Wheat**
  - 10,000 kt
- **Canola**
  - 2,200 kt
- **Barley**
  - 4,200 kt
- **Oats**
  - 750 kt
What does the future hold?

Australia’s agricultural sector will benefit from a growing middle class within major agricultural export destinations, particularly Asia. Asia’s middle class is projected to increase by 152.9% in the 15 years to 2030 to 3.5 billion people. Rising incomes in Asia should drive increased demand for Australia’s premium quality agricultural products.

Global middle class population by geographical area*, 2015 - 2030

What does the future hold?

Corporate investment

Falling commodity prices have brought a shift in focus from mining to agricultural investment, particularly beef. The purchases of S.Kidman & Co and Harvey Beef highlight the consolidation in the industry, as larger corporates look to increase scale and drive productivity improvements in the sector.

Looking ahead, agriculture is set to attract greater corporate investment as the sector provides diversification against traditional asset classes.

However, the experience in Canada and the United States suggests family businesses will remain just as relevant in agriculture. Currently, 99% of Australian agricultural businesses are family owned, accounting for 88% of the nation’s agricultural land.

Source: ABARES, National Farmers Federation

*Middle class is defined as those earning $US11-$US110 per day in 2011-2012 terms
Source: Department of Foreign Affairs & Trade 2017
Where do the opportunities lie?

The rising consumer consciousness is driving growth in Australia’s niche organic farming industry. Australia is home to an estimated 53.0% of the world’s organic farmland, with consumer preferences locally and abroad playing a role in the industry’s expansion throughout Australia.

The organic farming industry’s revenue has grown at an estimated annualised rate of 7.4% in the five years to June 2018. Australians are most preferring organic products in:

- 50% Dairy
- 46% Fruit & Veg
- 44% Non-alcoholic beverages

Technology will continue to drive productivity improvements in the sector with those expected to see increased take up in the next five years including:

- Driverless tractors
- Drones used to test soil
- Improved soil mapping

Unlocking the potential of an international market will hinge on the sector’s ability to cater their products to foreign tastes and preferences.

Free trade agreements

Brokering free trade agreements (FTAs) with major countries importing Australian agriculture has the capacity to unlock more buyers for the industry. Recent FTAs with China, Korea and Japan have unlocked new revenue streams for parts of Australia’s agricultural sector. FTAs are also being negotiated with:

- Indonesia
- European Union
- United Kingdom

Increased grain growing in Brazil and the Black Sea will create a growing need for free-trade agreements to offset lower price competitors.
The majority of Australian agricultural revenue was derived from international buyers (76.8%) in the year to June 2017. Exports from Australia have grown by 8.7% to reach an estimated $48.7 billion. Australia has also benefited from a 15.8% decline in its trade weighted index during the five years to December 2017, making exports more competitive on the international stage.

### Value of agricultural exports, 2012-2018

*FOB (Freight on board) value; the cost of movements of goods is borne by the seller

<table>
<thead>
<tr>
<th>Year</th>
<th>Wheat</th>
<th>Barley</th>
<th>Canola</th>
<th>Livestock</th>
<th>Crop</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>$38.3 billion</td>
<td>$15.7 billion</td>
<td>$22.6 billion</td>
<td>$22.6 billion</td>
<td>$16.5 billion</td>
</tr>
<tr>
<td>2013-14</td>
<td>$41.4 billion</td>
<td>$19.0 billion</td>
<td>$22.3 billion</td>
<td>$22.3 billion</td>
<td>$18.7 billion</td>
</tr>
<tr>
<td>2014-15</td>
<td>$44.2 billion</td>
<td>$21.6 billion</td>
<td>$21.6 billion</td>
<td>$21.6 billion</td>
<td>$21.6 billion</td>
</tr>
<tr>
<td>2015-16</td>
<td>$44.8 billion</td>
<td>$22.5 billion</td>
<td>$22.5 billion</td>
<td>$22.5 billion</td>
<td>$22.5 billion</td>
</tr>
<tr>
<td>2016-17</td>
<td>$48.7 billion</td>
<td>$22.0 billion</td>
<td>$21.0 billion</td>
<td>$21.0 billion</td>
<td>$21.0 billion</td>
</tr>
<tr>
<td>2017-18f</td>
<td>$47.1 billion</td>
<td>$23.4 billion</td>
<td>$23.4 billion</td>
<td>$23.4 billion</td>
<td>$23.4 billion</td>
</tr>
</tbody>
</table>

*Source: ABARES 2017

### Which countries are driving Australia’s agriculture exports?

Asia remains critical to Australia’s agricultural exports industry and its importance continues to grow. In the year to June 2017, export revenue from key Asian markets rose, while declining in the US.

<table>
<thead>
<tr>
<th>Country</th>
<th>Export Revenue Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>12.9% increase to $10.1 billion</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10.4% increase to $3.5 billion</td>
</tr>
<tr>
<td>Japan</td>
<td>8.4% increase to $4.7 billion</td>
</tr>
<tr>
<td>Korea</td>
<td>4.5% increase to $3.4 billion</td>
</tr>
<tr>
<td>United States</td>
<td>22.3% decrease to $3.5 billion</td>
</tr>
</tbody>
</table>

A strong production year also contributed to the 2017 result. Production rose most substantially across Australia’s grain industries, which experienced revenue growth despite lower prices. Prices for Australian agricultural commodities rose by 1.8% in the year to June 2017 despite a 4.8% rise in the trade weighted index during the same period.

### What’s driving domestic growth?

A strong production year also contributed to the 2017 result. Production rose most substantially across Australia’s grain industries, which experienced revenue growth despite lower prices.

### What’s driving industry growth?

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### Which countries are driving Australia’s agriculture exports?

Asia remains critical to Australia's agricultural exports industry and its importance continues to grow. In the year to June 2017, export revenue from key Asian markets rose, while declining in the US.
Agriculture businesses are turning to technology and seeking capital to drive productivity. Agricultural employment fell by 8.3% in the year to August 2017 despite revenue growth, suggesting technology is increasing efficiency.

Some of the agtech being adopted includes:

- Silicon soil saviours
- Precision pest elimination
- Sensing technologies

Farming businesses increasing scale

Scale is becoming increasingly important for farm businesses. Across Australia the number of farming businesses with turnover of $2 million or more grew by 17.0% in the year to June 2016. In comparison, the number of businesses with revenue below $200,000 declined by 6.0% during the same period.

Change in number of farming businesses by revenue, 2015–2016

<table>
<thead>
<tr>
<th>Farming Business</th>
<th>More than $2m</th>
<th>Less than $2m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy cattle farming</td>
<td>-4.5%</td>
<td>45.0%</td>
</tr>
<tr>
<td>Grain growing</td>
<td>-4.5%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Sheep &amp; beef cattle farming</td>
<td>-1.9%</td>
<td>18.1%</td>
</tr>
</tbody>
</table>

Source: ABS 8165
What challenges does the industry face?

Corporate agriculture and foreign investment has caused some farmers to invest in technology to drive cost savings and labour efficiencies. Innovations such as farm management software, satellite mapping systems, soil sensors, yield monitors and automated machinery are helping farmers remain cost competitive through productivity and production gains. However, climate volatility, including sufficient rainfall for crops and livestock pastures, remains the greatest challenge for farmers.

Rainfall in WA broadacre industry, 2011-2016 (mm)

Source: Planfarm Bankwest Benchmarks 2017

Agriculture’s two enduring challenges are climate and market volatility. Technologies to protect against unfavourable climates and financial instruments to protect against commodity price swings will be critical in overcoming these challenges.
Forecasted industry growth

Increased competition from abroad will see WA agricultural businesses striving to increase productivity to keep prices low. Advancements in technology will continue and the impact on bottom lines will depend on how well the technologies are integrated into operations, particularly for small to medium businesses.

Winter crop production: 2017, 2018 forecast & 5 year average (kilotonnes k/t)

Price expectations remain strong

Price rises look to offset declines in crop production in the year to June 2018.

Feed barley 33.9% increase to $A232/tonne

Malting barley 35.4% increase to $A254/tonne

Wheat 10.5% increase to $US218/tonne

Price rises are also forecast in parts of Australia's livestock industry in 2018:

Lambs 5.6% increase to 625c/kg (cw)

Sheep 6.0% increase to 440c/kg (cw)

Cattle 13.1% decrease to 465Ac/kg (cw)
Sources


Australia Bureau of Statistics 8165.0 (February 2017) Counts of Australian Businesses including entries and exists June 2012, Table 1, available at: http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8165.0Jun%202012%20to%20Jun%202016


Reserve Bank of Australia, Weights for the TWI 2011-2017, 2017

Pitts, N., Cameron, A., Xia, C., Hughes, N. Australian grains outlook for 2017-2018 and industry productivity, Australian Government Department of Agriculture and Water Resources, Canberra, 2017
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