Bankwest Future of Business: Focus on Agriculture

2019 release
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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.

The Australian agricultural sector had a challenging year due to the presence of drought throughout much of the broadacre crop growing regions. The nation’s sector produced 30.4 million tonnes from 2018 winter crops, the lowest crop production year in the last decade. Rainfall was also substantially below the median throughout the nation.

New South Wales, which is typically a leader in agricultural production, experienced winter rainfall 45.5% below the median and winter crop production 60.3% below the previous year. In Western Australia, however, it was a very different story. With rainfall above the historical median, WA recorded the state’s second highest winter crop production on record, producing 17.7 million tonnes from winter crops in 2018.

Despite drought challenges on the east coast, the livestock industry performed well, fuelled by Chinese and Asian export demand. The value of Australian livestock production rose by 17.7% in the 2017-18 period. While forecasts for 2018-19 are for production values to remain unchanged, poultry and wool is expected to experience modest rises.

Western Australia continues to be a large player in the agricultural sector. In 2018-2019 it is expected that WA will produce the largest quantity of agricultural goods, representing 58.3% of all agricultural crops nationwide. Strong production levels were fuelled by innovation in cropping, with new crop strains resulting in higher yields.

Globally, emerging markets are lifting people out of poverty and into the middle classes. As the middle class expands overseas, this is likely to drive demand for beef and lamb. Australia is well positioned to capitalise on this trend, as currently 76.2% of all Australian exports are to Asia.

The agricultural industry faces challenges such as climate change and overseas competition. However, investment and development in the industry, coupled with increased demand from Asia, should see the industry prosper in the long run.

1 ABARES 2018
2 ABARES 2018
3 ABARES 2018
Industry overview

The 2018-19 production year result differed widely across states. Low east coast rainfall resulted in low crop productions in New South Wales and Queensland, impacting the sector’s national performance. Winter crop production in NSW and Victoria was down 60.3% and 51.1% respectively in 2018-19. Western Australia was the only state to register a rise in agricultural crop production, rising by 21.2% relative to the previous year.

Industry snapshot, Year to June 2018

<table>
<thead>
<tr>
<th></th>
<th>Revenue ($b)</th>
<th>1 year revenue growth</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Livestock</td>
<td>40.8</td>
<td>-6.4%</td>
<td>115,577</td>
</tr>
<tr>
<td>Crops</td>
<td>14.7</td>
<td>-17.3%</td>
<td>42,483</td>
</tr>
<tr>
<td>Other</td>
<td>40.0</td>
<td>-4.7%</td>
<td>72,856</td>
</tr>
<tr>
<td>Total</td>
<td>95.5</td>
<td>-7.6%</td>
<td>230,916</td>
</tr>
</tbody>
</table>

Source: IBIS 2018

A subdued Australian dollar helped maintain profitability in some agricultural sectors. Based on estimates from December 2018, the gross value of livestock products grew by 17.7% in 2017-18. However, overall, the farming sector is forecast to register a 3.0% decline in production value during the 2018-19 period.

How is 2018-19 shaping up?

Prolonged drought conditions are expected to hamper crop production on much of the east coast, with production volumes falling as much as 60.3% in New South Wales. However, in 2018-19, WA’s winter bumper crop production reached 17.7 million tonne, offsetting the poor east coast production. This resulted in a 19.9% decline in crop production nationally.

Australian winter crop production:

- 2017-18: 37,963 kt
- 2018-19: 30,406 kt
- Five year average: 40,386 kt

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2018–19 Forecast value of agriculture commodities (billions) and growth rate (%)

- $11.1 -17.2% Grains and oilseeds
- $20.1 +2.4% Livestock
- $11.3 +5.9% Horticulture
- $9.5 -0.2% Livestock products
- $3.7 -26.2% Industrial crops

Source: ABARES 2019

4ABARES 2019; ABARES crop data is gathered on non-standard years, varying from crop to crop. For the purposes of this report, data is compared year to year using the appropriate ABARES periods
5ABARES 2019
Spotlight on Australia

The Western Australian agricultural sector performed well in 2018, enjoying its second largest winter crop on record of 17.7 million tonnes. The introduction of new crop varieties such as high-yield barley and weed-resistant canola hybrids bolstered production. It is estimated that WA will produce more than half (58.3%) of all crops Australia-wide during the 2018-19 period.

WA agricultural production, 2017-18 vs 2018-19

<table>
<thead>
<tr>
<th>Grain Type</th>
<th>2017-18</th>
<th>2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>10,150</td>
<td>7,597</td>
</tr>
<tr>
<td>Barley</td>
<td>5,195</td>
<td>3,801</td>
</tr>
<tr>
<td>Canola</td>
<td>1,900</td>
<td>1,450</td>
</tr>
</tbody>
</table>

Source: Grain Industry Association 2019

2018 WA grain highlights

17.7 million tonnes produced
$7 billion in production value
2.2 t/ha Wheat yield
2.7 t/ha Barley yield
1.5 t/ha Canola yield

Source: GIWA 2019, ABARES 2019

WA broadcare rainfall

Compared to the historical median:

- June 21.6% ↓
- July 9.3% ↑
- August 26.5% ↑

Source: ABARES 2019

Despite underwhelming rainfall in June, above average rainfall in July and August saw WA’s grain production exceed previous forecasts, led by wheat production of 10.1 million tonnes.

Source: Grain Industry Association 2019

7ABARES 2019
What does the future hold?

The vast majority of Australia’s agricultural products are exported to destinations across Asia, with the demand driven by the size and proximity of these economies. The agricultural sector will benefit from population growth and an expanding middle class across Asia. This is likely to drive demand for greater quantity and quality of food, particularly animal products such as beef.

Australian agricultural exports 2018

Looking ahead, management of international agreements and consumer preferences towards agricultural products have the potential to impact demand for Australian agricultural products. Possible risks include:

Trade

- Trade agreements with China regarding the exporting of Australian barley.

Live exports

- A growing focus on more humane treatment of animals, particularly in the live export industry.

Australia’s agriculture industry is forecast to reach $100 billion by 2030, but not without substantial investment in agricultural technologies. Top priority skills in the years ahead include carbon farming, permaculture, protected horticulture and irrigation technology.  

Source: ABARES 2018
Ag-tech still developing in Australia

Agricultural technologies are constantly improving. Recent years have seen significant capital investment into smart farming equipment, precision sensors and crop/livestock protection. Since 2014, global ag-tech investment has increased by as much as 90%. However, despite agriculture contributing towards a relatively high proportion of GDP, ag-tech investment remains low. In the United States, ag-tech investment per capita is $5.80 USD, almost 50 times greater that Australia’s $0.12 USD per capita ag-tech investment.¹¹

Where do the opportunities lie?

Globally, the demand for high quality food has been rising. Higher beef prices, due to an increasing demand for quality, has seen beef cattle revenues rise by 45.8% in the five years to June 2018⁹. Investments into the sector are enabling further production and maximising opportunities in this growing market.

Prominent local businessman, Andrew Forrest, recently announced an investment of $50 million in a new cattle feeding base in the wheatbelt region of Western Australia. The investment aims to deliver 60,000 cattle per year, as well as improve animal welfare and product quality.

Australian livestock exports 2013–2018

The organic food industry is booming and experiencing record revenue growth:

- Revenue increased by 331.2% in the five years to 2018
- Consumers are increasingly demanding healthier and more environmentally sustainable food
- By 2024, industry revenue is forecast to have doubled to a forecast $1.6 billion¹⁰

¹¹USSC 2018
⁹IBIS 2018
¹⁰IBIS 2018
What’s driving industry growth?

Poorer than average production of agricultural goods across key exporting countries, such as Australia, the EU and Russia, has contributed to an increase in the price of agricultural commodities. Between 2017 and 2018, the price of wheat rose 16.3% to $229 USD/t.¹²

Constrained global production of lamb, combined with enduring high demand for sheep products from Asia, has contributed to a 14.4% increase in the price received for lamb by Australian farmers.¹³

World price changes for selected commodities, 2017–2018

Drought conditions have constrained east coast production in the agricultural sector. Winter rainfall was substantially below the average throughout the country, with only Western Australia recording above average rainfalls. During the 2018 winter, New South Wales recorded rainfall 45.5% lower than the median.¹⁴

Agricultural technology research and development is a substantial force driving industry growth and operational efficiency. But growth in R&D and integrating these technologies into Australian farms is critical for creating sustainable businesses for the future.

¹²ABARES 2018
¹³ABARES 2018
¹⁴ABARES 2018
Spotlight on Australia

Australia’s agricultural cropping industry recorded 30.4 million tonnes of production from 2018 winter crops\textsuperscript{15}, the lowest production year in the last decade. Low rainfall across the east coast of Australia hampered cropping production, leaving Western Australia as the only state to record a year-on-year rise in cropping production.

**Agriculture exports to China growing**

Chinese consumer demand has fuelled Australian agricultural export growth. In the year to June 2018, Australian agricultural exports to China rose by 16.5\%\textsuperscript{16}.

- **European Union** -13.6\%
- **Japan** 3.4\%
- **China** 16.5\%
- **United States** 5.3\%

Source: ABARES 2018

Higher prices and volume of livestock goods produced is driving the agricultural industry. The value of Australian livestock production is forecast to remain stable in 2018-19 after a 17.7\% increase in the 2017-18 year. The strongest performing commodities are expected to be poultry and wool, increasing by 3.9\% and 2.0\% respectively during the 2018-19 period.

\textsuperscript{15}ABARES 2019

\textsuperscript{16}ABARES 2018

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**Australian agricultural crop production, 2009–2019**

Source: ABARES 2019
What challenges does the industry face?

The agricultural industry is facing increasing production costs. Between 2013 and 2018, the cost of consumable inputs, such as fertiliser, has risen by 5.7%. The cost of capital inputs is also rising; over the past five years, the cost of agricultural machinery has increased by 13.4%. For the industry to remain globally competitive, research and development of agricultural technologies in Australia must be pursued. Investment by agricultural businesses in capital equipment, and integration of new technologies into current production methods, will help to reduce long-term operational costs.

Index of agricultural machinery and equipment cost, 2000–2018

Climate change is perhaps the most pressing concern for the agricultural industry. The agricultural industry in Australia and around the world will be adversely affected by climate change due to increased weather variability and the growing occurrence of severe weather events such as droughts, floods, and storms. In the winter months of 2018, some areas of New South Wales experienced rainfalls up to 94.4% below the median.

Source: ABS 6427

17ABARES 2018
18ABS 6427
19ABARES 2018

Clouds on the horizon

Evolving consumer preferences and possible future policy changes may cause some disruption to the agricultural sector:

- Consumers are demanding healthy, ethical and sustainable products
- Uncertainty regarding water use policies and agricultural production in the Murray-darling basin
- Reforms and increased regulation in response to climate change
Despite challenging weather conditions impacting 2018 east coast crop yields, the outlook for the Australian agricultural industry is positive. Revenue is expected to climb 7.5% over the next five years, with forecasts estimating revenue will reach $102.6 billion in 2023.\textsuperscript{20}

Prices are expected to rise throughout 2019, driven by global restrictions on the supply of crops and grains. Asian demand for Australian livestock, particularly China, is inflating prices, particularly for lamb.

Investment and innovation are necessary to keep industries competitive and to fuel growth in the long run. Since 2005, more than $100 million has been invested into agricultural technologies nationally such as sensor equipment and precision agricultural software.\textsuperscript{21}

\textsuperscript{20}IBIS 2018  
\textsuperscript{21}USSC 2018
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