JULY 2019

Rural Price Index

bankSA

Grain prices on the wane

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 sheep, wool and beef), and horticulture (dominated by grapes).

The index shows prices in Australian dollars (reflecting the prices received by South Australian farmers), as well as in terms of the currencies used by the typical customer for Australian exports (that is, prices paid by foreign buyers).

Weaker dollar provides some support to competitiveness

The Australian dollar has brought good news for domestic producers. Since early last year, the Australian dollar has depreciated against the US dollar and other major currencies.

Continued low interest rates have made investing in Australia less attractive, which has decreased demand for our currency.

This has largely offset the upward pressure on the Australian dollar that is coming from strong demand for some mining commodities from renewed industrial production in China, and iron ore shortages globally.

The combined impact sees the Australian dollar relatively weak against major currencies in relation to historic averages.

This has had a positive impact for local producers as it decreases the relative cost of Australian exports to foreign buyers. This is also true when focusing on countries where Australian farmers export a greater proportion of their agricultural produce. The Australian dollar has depreciated against both the Indonesian rupiah and Chinese yuan as well as against Japan's yen, improving the competitiveness of our produce abroad.

Additionally, the main competitors for Australia in the wine industry (a key contributor to South Australia's exports) are Chile and New Zealand. With the Australian dollar easing against these currencies, export activity levels (and competition against imports) have been protected for now. That may not be a sustainable source of advantage, so producers cannot afford to be complacent in looking to improve their offer and efficiency.

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The Australian dollar line in Chart R1 indicates the price that South Australian farmers receive, whilst the other two lines indicate what foreign buyers pay. A larger gap between the two lines indicates a problem for the competitiveness of South Australian produce. However, the gap between the lines has remained largely unchanged across the past three or so years – suggesting currency movements have had only minor impacts on exports. That followed a steady easing in the Australian dollar across the first half of the decade, where exports regained much of the competitiveness that was eroded when the Australian dollar spiked during the peak of the mining boom.

BankSA Rural Price Index

Index base : January 2000 = 100	Level	March 2019 % change since Sep 2018	Mar 2018	Mar 2017
AUSTRALIAN DOLLAR INDEX				
Grains	236.7	+2.3%	+33.0%	+72.0%
Livestock and Livestock Product	201.4	-0.8%	+1.9%	+2.1%
Livestock Only	*192.3*	*-0.2%*	*+2.3%*	*-2.1%*
Horticulture	149.6	+1.6%	+3.7%	+11.3%
TOTAL ($A Based)	**189.7**	**-0.5%**	**+5.3%**	**+11.9%**
SDR INDEX				
Grains	256.8	+1.1%	+28.6%	+56.5%
Livestock and Livestock Product	218.4	-2.0%	-1.4%	-7.0%
Horticulture	162.3	+0.4%	+0.3%	+1.4%
TOTAL (SDR Based)	**205.8**	**-1.7%**	**+1.9%**	**+1.9%**
TOTAL (TWI Based)	**205.0**	**-3.2%**	**+2.3%**	**+2.3%**

CHART R1
THE BANKSA RURAL PRICE INDEX - JANUARY 2000 = 100

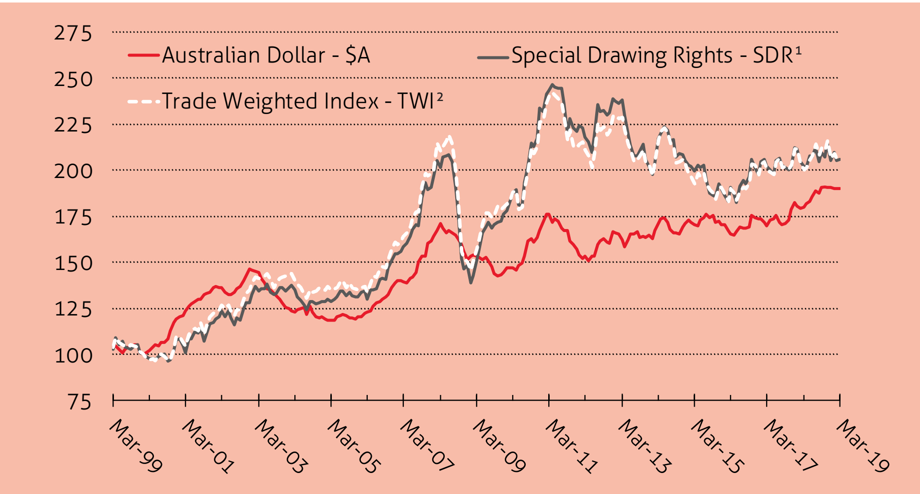
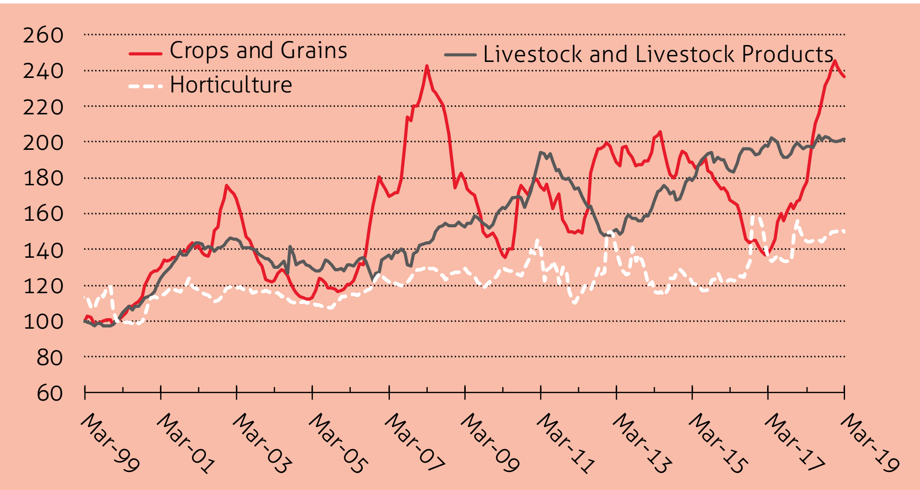


CHART R2
COMPONENTS OF THE BANKSA RURAL PRICE INDEX



Rural Price Index varies across major categories

Chart R2 shows the performance of three key commodity groups within the broader South Australian agricultural industry. The performance of the groups over the last year is mixed. While grain prices have surged significantly across the past year, overall prices in other areas have been stable or – in the case of horticulture products – marginally weaker.

The increase in grain prices came in the first half of 2018, with rises easing sharply through 2019, although even at the much slower rates of increase they remain much stronger than in the other components across that time. The overall grains index is currently just sitting below the historical peak, which occurred in 2008, when a surge in global demand met drought-ravaged supply. The grains index has decreased since January, mirroring the fall in world prices. This decrease is expected to continue due to downward pressure resulting from increased expected winter crop production in South Australia. The ABARES June Crop Report anticipates an increase in production for all winter crops in South Australia for 2019-20, forecasting wheat, barley and canola production to increase by 46%, 37% and 12% respectively. This result is largely dependent on weather conditions. Below average rainfall resulting in decreased soil moisture levels negatively affect the crop quality. Combating this, crop can be cut for hay. This is not uncommon practise - the ABARES February 2019 Crop Report projected a fall in the 2018-19 winter crop in South Australia largely resulting from crop being cut for hay – and provides another option for farmers when weather conditions are not ideal. The decision to cut for hay, although largely dependent on weather, is also impacted by the crop growth stage, whether grazing is an option and the impact of cutting on soil protection.

Livestock and livestock products have only changed minimally in the last year and six months, moving marginally higher since the start of last year, although edging down more recently. Livestock and livestock products prices are however, currently sitting at the higher end of their historical

spectrum. The recent drought has not had a significant immediate impact on the Rural Price Index, although the effects may still flow through, causing prices to increase more rapidly later in the year. This is dependent on seasonal conditions to follow. A return to average seasonal conditions is likely to result in cattle herd rebuilding and lower female slaughter. Conversely, if seasonal conditions don't improve, it is likely that higher than average female slaughter will continue.

The price level for horticultural products seems to be increasing after a dip midway through 2018. Despite fluctuations over the years, the price of horticultural products has seen a trend increase since 1988. This is despite earlier fears of a wine glut which were predicted to drive prices down.

Farming is all around

The gap between urban and rural South Australia is narrowing. This change comes as agriculture becomes involved in different sectors of the economy. The potential for the use of agricultural waste in a variety of products may see the agricultural sector intertwine with pharmaceuticals and cosmetics. Additionally, the border between residential and agricultural areas is becoming hazy, as Adelaide's urban sprawl creates conflict between farmers and urban development.

"The recent drought has not had a significant immediate impact on the Rural Price Index."

An exciting new opportunity for Australian farmers, and South Australian farmers in particular was launched at the University of Adelaide's Waite Campus in late 2018. The $10.9 million Agricultural Product Development Research is investigating the use of agricultural waste and products not deemed suitable for the supermarket shelf in a variety of value added products. This extends to pharmaceutical, food additives and cosmetics. The goal is that the first commercial products will be ready in the next 12 months. Additionally, the consortium will also research the compounds and molecules in the waste that have the potential in the longer term to become new products. Currently, there is not an industry to extract and prepare the molecules from waste. As such, many of the compounds found in agricultural waste are imported. This research may provide grounds for a new industry as well as another use for agricultural waste in South Australia.

Not only is the farming community branching out into other areas of the economy, but in recent times the urban population has been encroaching on farms. Areas once considered 'rural' have found themselves densely populated. This has been the case for areas north of Adelaide, as well as sections of the Adelaide Hills.

To protect farms from increased urbanisation, two years ago the then State Government introduced the Environment and Food Protection Area (EFPA). The EFPA aims to protect the fertile fringe around Adelaide from urban sprawl. As such, within an 8,000 square kilometres area around Adelaide, it is illegal to subdivide rural land for residential housing. The current State Government supports these restrictions, which took effect in April 2019. There are mixed feelings within the agricultural community about EFPA; many appreciate the protection of their land, whilst others believe they will miss out on future financial opportunities.

1 The Special Drawing Rights (SDR) is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. The value of the SDR is based on a basket of five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

2 The Trade Weighted Index (TWI) is calculated on the basis of the rates for the US dollar and other currencies. The current weights used in the calculation of the index are based on the composition of Australia's merchandised goods and services trade for the 2017/18 financial year. There are 19 currencies included in the index.

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