December 2021

Rural Price Index

bankSA

Record vintage provides relief for winemakers

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 together account for more than 70 per cent of South Australia's farm output. There are three groups of products – grains (such as wheat and barley), livestock and related products (dominated by sheepmeat, 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).

Some changes have been made to the Index this year to ensure the results reflect the most up-to-date information available for the South Australian agricultural industry. New data sources have been incorporated and the Index has been rebased to July 2016. As such, the results from this Index cannot be directly compared to previous issues.

Australian dollar eases off recent highs

Export competitiveness was hampered in the first half of the year due to the strong Australian dollar, which makes Australian products comparatively more expensive for international buyers. The currency reached a peak of almost 80 US cents in February 2021. These movements were driven primarily by record iron ore prices, as well as depreciation in the US dollar due to the country's declining COVID-19 situation.

However, the dollar has softened in recent months, dropping below 75 US cents. This was largely driven by similar factors. The iron ore price has fallen about 60 per cent since its mid-year peak. Additionally, the domestic COVID-19 situation took a turn for the worse with extended lockdowns in New South Wales and Victoria in the second half of 2021.

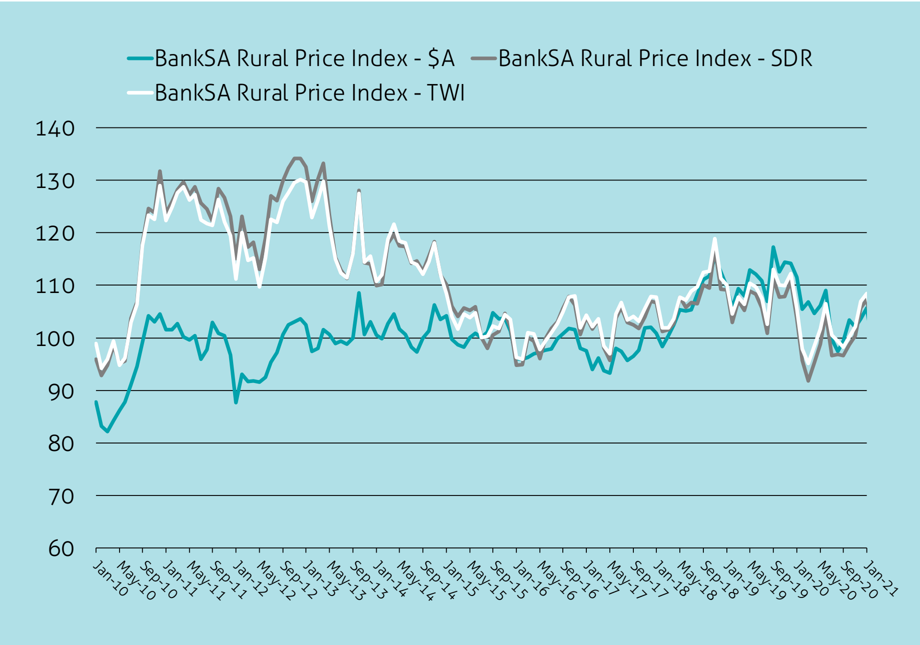
Despite the lower dollar, challenges remain for exporters. The price of a standard 40-foot shipping container averaged less than $2,000 before the pandemic, using the Drewry composite index measure. Today, the same container costs more than $9,000.

The Australian dollar ($A) line in Chart R1 indicates the price that South Australian farmers receive, while the SDR[1] and TWI[2] lines indicate what foreign buyers pay. A larger gap between the $A line and these two lines indicates a problem for the competitiveness of South Australian produce. All three indexes have been closely aligned over the past several years, indicating the impact of currency movements has been neutral relative to its variable history. Prices experienced a sharp decline through the middle of 2020 as COVID-19, combined

BankSA Rural Price Index

Index base: July 2015 = 100	February 2021			
		% change since		
	Level	Aug 2020	Feb 2020	Feb 2019
AUSTRALIAN DOLLAR INDEX				
Grains	79.7	0.50	23.87	25.17
Livestock and Livestock Product	101.5	-4.26	13.44	7.56
Livestock Only	*95.5*	*-0.82*	*19.15*	*2.38*
Horticulture	117.0	1.02	-14.61	-8.76
TOTAL ($A Based)	**98.3**	**-0.93**	**7.24**	**7.50**
SDR INDEX				
Grains	81.7	-2.45	9.82	18.95
Livestock and Livestock Product	103.9	-7.07	0.57	2.22
Horticulture	119.8	-1.94	-24.30	-13.30
TOTAL (SDR Based)	**100.7**	**-3.83**	**-4.93**	**2.15**
TOTAL (TWI Based)	**103.3**	**-3.85**	**-5.23**	**1.17**

CHART R1
THE BANKSA RURAL PRICE INDEX - JULY 2015 = 100



with government control measures, played havoc with global supply chains and consumer markets. They have since recovered to pre-pandemic levels, and demand for Australia's agricultural exports is expected to improve further as vaccine rollouts continue and economies re-open.

Rural Price Index varies across major categories

The performance of the three key commodity groups within the broader South Australian farm sector is shown in Chart R2. Livestock and livestock products are recovering from the impacts of the pandemic, crops and grains have stayed relatively flat, while horticulture also recovered from COVID-19 induced falls.

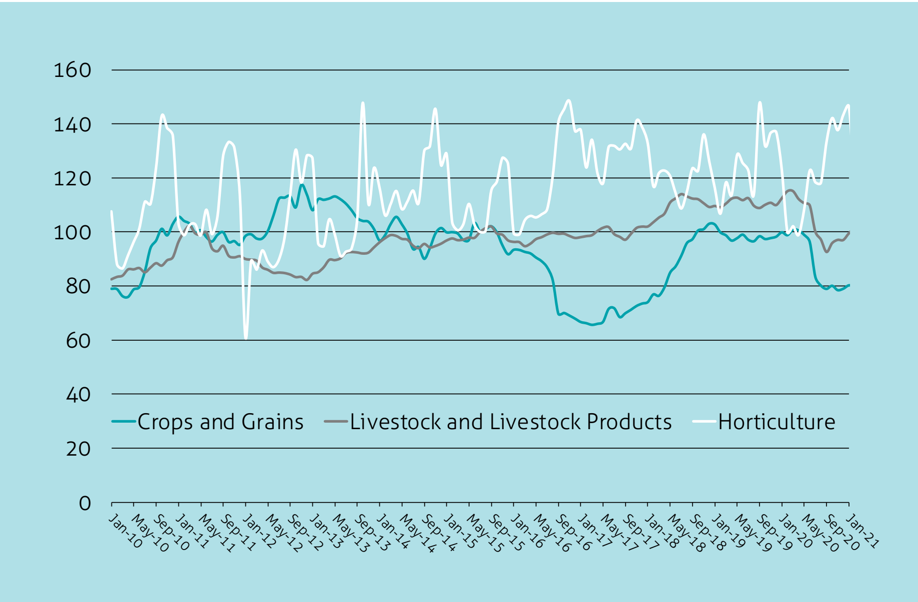
Livestock and livestock products were hit hard by the pandemic. In particular, wool is sensitive to economic conditions. When disposable incomes are low, demand for wool garments generally falls. During 2020, major consumption markets slowed causing a fall in wool prices, as reflected in the Index.

Increased economic activity near the end of 2020 saw increased demand for wool, as well as higher meat prices, which largely resulted from reduced meat production globally. Many countries, for example Brazil, are now rebuilding their cattle herds as farmers took advantage of record beef prices in 2019-20 to sell many of their breeding stock. The same situation is being seen in Australia where the number of animals being sent for processing is at historic lows. This has meant those restocking and meat processors are currently paying record prices. The Eastern States Young Cattle Indicator, a popular market indicator, recently reached 1,000 cents a kilogram for the first time ever. The national sheep flock is similarly in a rebuilding phase post the 2020 drought. Pork prices have moderated as China's herd has steadily rebuilt following outbreaks of African swine fever.

The crops and grains index has fallen slightly after remaining flat during 2019-20. More recently, the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) has revised its production estimates significantly upwards, forecasting the gross value of agricultural production to reach a record $73 billion in 2021-22, of which $39.5 billion is crops – a 7 per cent increase. Winter crop conditions were extremely favourable, resulting in high yields. International grain prices have also been pushed higher as northern hemisphere countries have experienced poor growing seasons and supply chain bottlenecks add to input costs.

South Australia has experienced better conditions than originally forecast, but total winter crop production is still expected to decrease slightly. About 70 per cent of the state's winter crop was sown dry. Fortunately, June rainfall was above average, which supported crop establishment, but yields are still expected to be affected – particularly the major crops of wheat and barley. ABARES expects production of these crops in South Australia to decrease by 6 and 8 per cent respectively year-on-year. Canola is less affected due to an increase in the area planted, with production only declining slightly by 1 per cent. These effects are expected to be borne out in future editions of the Rural Price Index.

CHART R2
COMPONENTS OF THE BANKSA RURAL PRICE INDEX - JULY 2015 = 100



The horticultural index has experienced some volatility and fell sharply at the beginning of the pandemic, in line with global food prices. The Index reached a low point in April before recovering as demand returned. Labour shortages continued to pose challenges for many horticultural producers bringing in their harvests. Border restrictions at both state and international levels halted much of the usual flow of migrant and backpacker workers. Supply shocks often result in price increases for fruit and vegetables in wholesale markets. However, these failed to materialise as farmers adapted quickly to new conditions. Growers made more effective use of the resources available by pulling labour from other parts of their business and innovating their harvest processes.

Some relief was provided in South Australia: about 1,200 workers from the Pacific Islands were permitted to enter the state to address the shortage in the horticulture sector. The industry still expects to be well short of labour as the 2022 season approaches, however a new agricultural visa has been announced by the Commonwealth Government to attempt to address these issues.

The hailstorms across Adelaide in late October and early November led to an estimated $350 million damage bill, affecting a variety of horticultural crops, especially in the Adelaide Plains, Adelaide Hills and Riverland regions. While this does not affect the current Index, there is no doubt that there have been significant localised crop losses which will impact growers over the coming months, compounding harvesting issues caused by labour shortages.

Perfect season extends to grape growers

After several challenging years of bushfire, low yields and trade disputes, 2021 delivered a welcome reprieve for winemakers. The industry recorded its largest wine grape crush ever, picking 2.03 million tonnes of fruit nationally: 31 per cent higher than in 2020. South Australia accounted for 52 per cent of total production. In addition to quantity, there was quality: exceptional growing and ripening conditions were recorded across all regions, leading Wine Australia to declare it a 'unicorn' vintage. However, the hailstorms likely put a dampener on the celebrations, with some growers, particularly in the Riverland and Adelaide Hills, sustaining significant damage.

Conditions in export markets have been more challenging with 60 per cent of all wine produced in Australia sent overseas. Volume constraints from previous low yielding seasons combined with the disappearance of the Chinese market have meant both the value and volume of wine exports declined in 2020-21.

China was Australia's largest export destination, and particularly important for premium red wines produced in South Australia. However, the industry found itself at the centre of a trade dispute that resulted in the imposition of tariffs of more than 200 per cent in November 2020. The value of wine exports to mainland China has since fallen by 45 per cent. In Quarters 3 and 4 of 2020-21, the combined value of exports totalled $13 million. The figure for the same period in 2019-20 was $419 million.

Growth in other markets has helped to partially offset this loss. Excluding China, the value of exports grew by 12 per cent. Exports to the UK are at their highest level in 10 years, and this growth has occurred across all price segments. Off-trade sales (those not in restaurants and bars) were particularly strong as Australia has a large presence in retail markets, according to Wine Australia. Growth in the UK looks particularly bright after an agreement in principle to a new Free Trade Agreement. This will remove all import tariffs on 99 per cent of all Australian goods entering the country.

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 based on 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 2020-21 financial year. There are 19 currencies included in the Index.

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