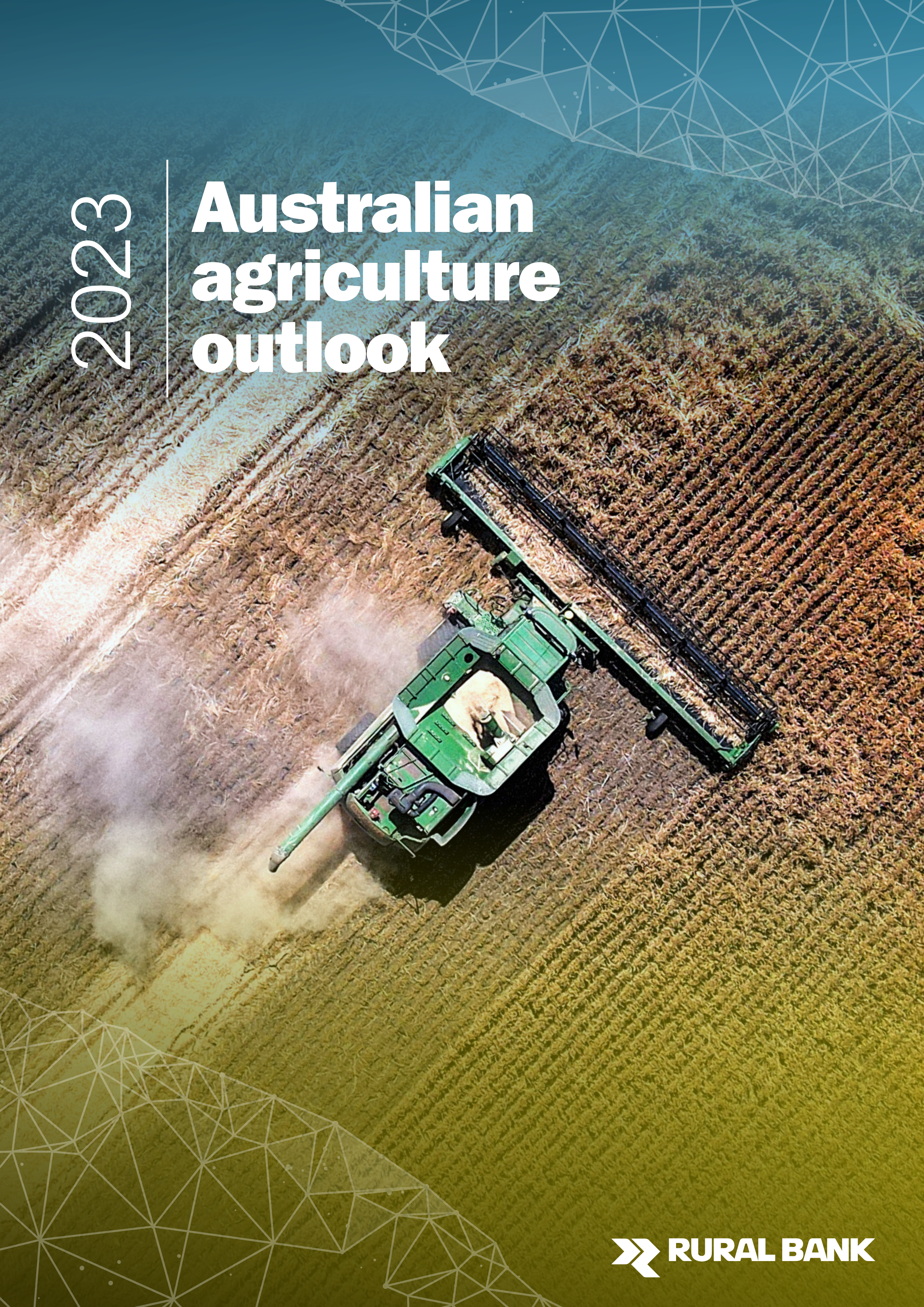
2023

Australian agriculture outlook



RURAL BANK

Executive summary

Cattle

Increased beef production and some opportunities for growth in demand provide a positive outlook, despite softer pricing.

Cropping

Above average production, strong export demand and high global prices will provide a continued positive outlook for cropping.

Dairy

Uncertain global demand and marginally increased global supply will be offset by a smaller domestic pool and near record local farmgate prices.

Horticulture

Improved supply combined with weaker consumer demand will place pressure on prices, though they will remain above longer-term averages.

Sheep

Lower prices are on the horizon, but increased supply and export opportunities provide plenty of optimism.

Wool

Australian wool producers are expected to see increased wool supply and discounted prices amidst falling export demand.

Uncertainty and volatility have become more prevalent in agricultural markets which makes understanding the fundamental factors driving the outlook take on even greater importance. These themes are expected to continue into 2023 following a challenging finish to 2022 for many farmers.

Rural Bank's Australian Agriculture Outlook 2023 provides an in-depth perspective on supply, demand, and price outlooks for Australia's major agricultural commodities. By analysing historical trends and considering future scenarios, the Outlook presents a detailed view on what lies ahead for Australian farmers to help them make informed business decisions in the first half of 2023.

The Australian agricultural industry navigated a range of challenges through the end of 2022 as damaging rainfall and flooding events on the east coast brought about by a third consecutive La Niña impacted producers across a range of agricultural sectors. The industry is facing a mixed outlook heading into the first half of 2023 following bumper seasons over the past couple of years.

There are three key themes highlighted throughout this report that will impact Australian agriculture in the first half of 2023 – seasonal conditions, trade conditions and global economic headwinds.

Current forecasts from the Bureau of Meteorology (BOM) indicate a return closer to average weather conditions heading into the first half of 2023 with the current La Niña and positive Indian Ocean Dipole expected to dissipate by February. Wetter than average conditions across much of the country have again driven above average cropping production this season, though substantial rainfall and flooding events on the east coast have impacted quality. Horticulture production forecasts also remain above average despite key production regions in Victoria having been affected by excessive rainfall with seasonal vegetable planting also impacted. Livestock producers are expected to see increased lamb and calf numbers following the rebuilding of the national sheep flock and cattle herd over the past two years. As a result, increased beef, lamb, and wool production is forecast for the first half of 2023, this increased output is a key factor driving lower price forecasts.

Trade conditions are expected to improve in 2023, but challenges will remain. Global freight rates and container shortages are forecast to continue easing as a slowdown in economic activity softens freight demand. Australian exporters will also continue benefiting from an increasingly diverse range of export markets. The Australia-India Economic Cooperation and Trade Agreement (AI-ECTA) is expected to come into effect in early 2023 with sheepmeat, almond, wool, lentil, and wine producers to see the largest benefits from improved access to the Indian market. Likewise, the Australia-United Kingdom Free Trade Agreement (A-UKFTA) will also provide benefits once it takes effect later in 2023. Russia's ongoing invasion of Ukraine is expected to continue driving volatility across grain and oilseed markets as uncertainty regarding exports from two of the world's largest grain producers continues into 2023. This global uncertainty is supporting global grain prices at present. Trade relations with China could potentially move in a more positive direction following recent high-level talks, though punitive tariffs remain in place for the time being.

Global economic growth prospects are facing several headwinds in 2023 which are expected to impact demand for premium agricultural products as rising interest rates and high inflation drive weaker consumer sentiment. It's not all bad news though, with a generally weaker Australian dollar in comparison to the first half of 2022 assisting the overall competitiveness of Australian agricultural exports. Unfortunately, high input costs will remain a key issue in 2023 as tight global fertiliser supply combined with high fuel and labour costs weighs on grower margins.

The combination of strong production estimates and high commodity prices counterbalanced by quality issues, global economic challenges and elevated production costs have resulted in a mixed outlook for Australian agriculture over the first half of 2023. The analysis included in the Outlook report gives farmers the insight to look towards the first half of 2023 and understand the key driving forces affecting agricultural markets.

Economic outlook

The Australian economy continues to be buffeted by a number of global factors including the war in Europe, China's ongoing COVID zero policy and recent surges in energy prices, but it also is being influenced by the major domestic drivers of inflation. Disruptions from floods and the lack of access to workers (with delays in working visas adding to tight labour markets) have fed into domestic inflation by adding to supply shortfalls. Demand for workers has been very strong, thanks to a fifty year low in the unemployment rate. As a result, headline Consumer Price Index (CPI) has risen above seven per cent and core inflation is at its highest level in three decades at 6.1 per cent.

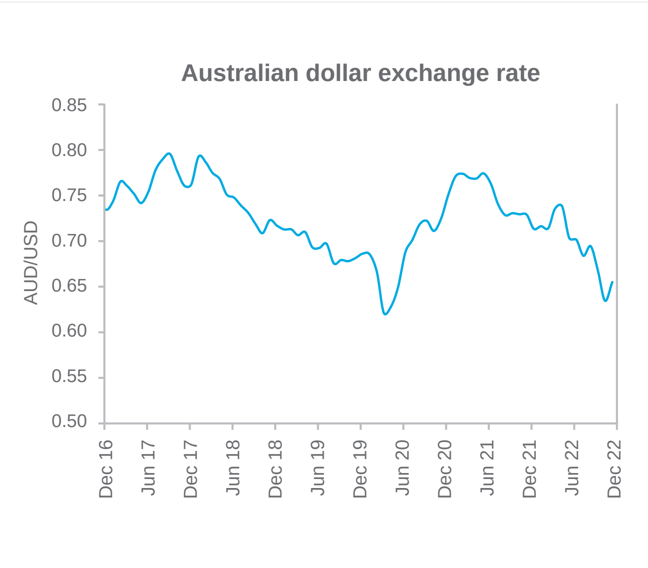
While many of the factors driving inflation come from overseas the Reserve Bank of Australia (RBA) has had no choice but to tighten monetary policy to try to achieve a better balance between (low) supply and (robust) demand. The RBA have increased rates in eight successive months, something they have never done before. This equates to a three per cent increase in official rates since May – and while an official cash rate in the low threes is still well below its historical average (and meets the definition of a 'neutral rate' based on RBA calculations) it is the pace of these increases that is most challenging to our economy.

In 2023 the inflation rate should start to fall (as is being seen already in some countries overseas) having peaked in the fourth quarter of 2022, although core inflation is not likely to be back in the target 2-3 per cent target band until 2024 at the earliest. Given this outlook the RBA are likely to maintain a tightening bias for some time, so while some market economists are forecasting rate cuts in the second half of 2023 as the economy slows, a more likely scenario is for rates to plateau rather than fall from the mid threes. This more stable outlook versus most other advanced economies reflects our likely economic out-performance.

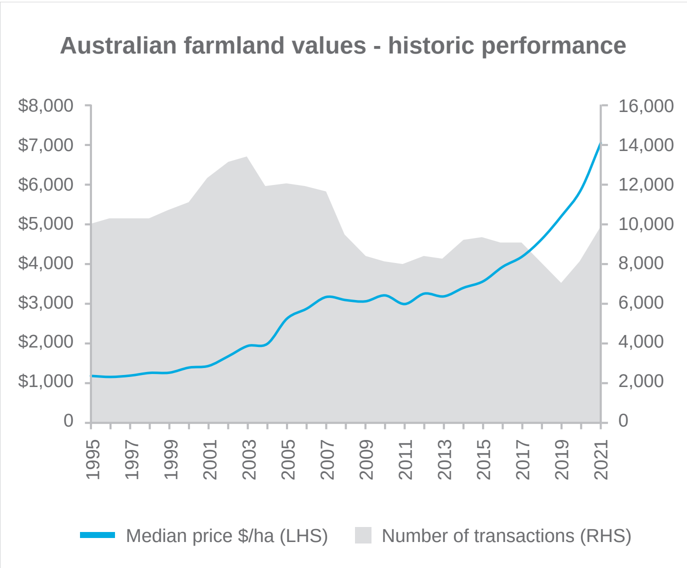
Rising interest rates aim to discourage discretionary spending and to encourage saving, so Gross Domestic Product (GDP) growth is likely to fall below two per cent next year as household spending falls back to pre-pandemic levels. The return of international tourism and the strong trade surplus that Australia is enjoying should help to soften the blow of higher rates, but property values have started to fall, and the unemployment rate is likely to be back above four per cent by mid-2023. Residential property values have fallen 7.5 per cent from their April peak in capital cities on average and are down 5.7 per cent from their regional peak. The peak to trough falls in house prices is expected to be a record in percentage terms but it does need to be put in the context of the remarkable circa 30 per cent rise over the pandemic period.

The Australian Dollar had fallen sharply due to the safe haven appeal of the US Dollar during the last six months, although it now appears to have found a base around US 62 cents. Assuming our base case scenario of Australia avoiding recession (albeit with only 1.5 per cent GDP growth next year) but with the US, UK and Euro-zone all falling into recession, some appreciation of the exchange rate is expected. The recent fall however has been welcome for exporters, as has the general rise in commodity prices. Our major trading partners also appear to have coped better with the recent spike in inflation and energy prices than North Atlantic economies providing further positive news for exporters.

In summary, our economy continued to be heavily influenced by key factors driving inflation. We should see inflation begin to fall in 2023, with interest rates expected to plateau as a result and the Australian dollar expected to appreciate in 2023. The economy will adjust to the RBA's quickfire rate hikes which are expected to stabilise in 2023, with reduced consumer spending to weigh on GDP growth despite our strong trade surplus.



Source: RBA



Source: Pricefinder, Rural Bank

Cattle

> Australian cattle prices are likely to see a marginal fall in the first half of 2023 due to pressure from rising supply. However, a favourable rainfall outlook in cattle regions means restocker demand is likely to remain firm as herd rebuilding continues whilst there is good pasture availability.

Mark Pain
Senior Agribusiness Relationship Manager, Queensland

Cattle

Supply

Australian beef production to rise in the first half of 2023 following herd rebuilding and wet conditions.

Price

Australian cattle prices will marginally ease across the first half of 2023 under the weight of increased supply.

Demand

Demand outlooks are mixed across key markets, but lower US supply should create opportunities for Australian beef.

Outlook

Increased beef production and some opportunities for growth in demand provide a positive outlook, despite softer pricing.

Supply

Australia's beef production is expected to rise by five per cent during the first half of 2023 but will remain well below average levels. This comes on the back of favourable seasonal conditions providing good pasture availability and an advancing herd rebuild set to drive an increase in slaughter levels. Increased beef production will provide a greater surplus of beef to be exported. A key risk to the recovery in beef production is labour availability which could limit the potential pace at which slaughter rates could rise.

Global beef production is forecast to remain relatively stable in 2023 as falls in US and European production are matched by gains in Australia and Brazil. Brazilian beef production is forecast to increase by around one per cent due to strong global demand and the ongoing expansion of the industry. The US is expected to record a decline in beef production during 2023 as the cattle herd has declined following high levels of culling in 2022. The timing and size of the decline in US production will be pivotal factors impacting the performance of global beef markets.

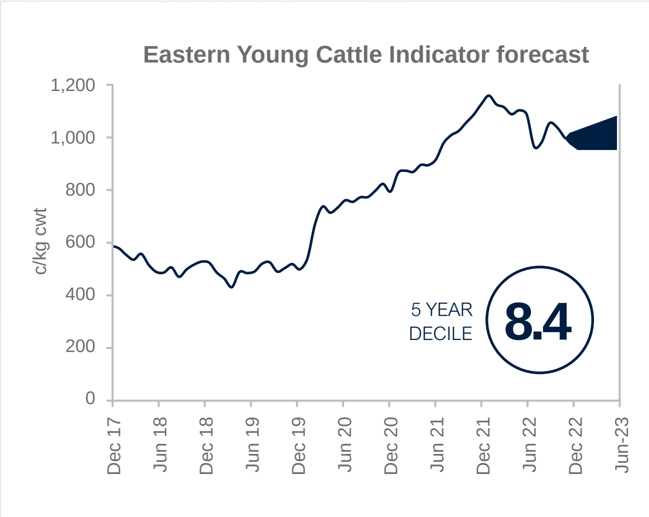
Demand

Domestic demand for Australian beef is expected to remain robust in the first half of 2023. Inflationary pressures are likely to soften discretionary spending for consumers which may affect some higher-end beef products. However, this may be partially alleviated as a rise in Australian supply could see beef prices ease. Restocker demand is expected to be stable as the favourable rainfall outlook in key cattle regions will keep herd rebuilding progressing as there is good pasture available.

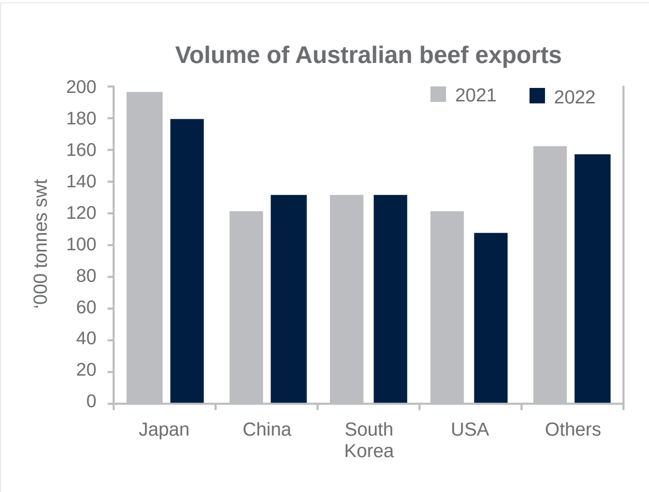
Global beef demand is expected to be mixed across Australia's major export markets. US demand for imported beef is expected to rise during the first half of 2023 as high US culling rates decline. China is also expected to see a marginal decline in import demand due to a rise in domestic supply. Additionally, China is also likely to continue to prefer purchasing from Brazil as bans remain in place on several Australian processers. Demand from Japan and South Korea is likely to see a slight increase as consumption growth will continue to outpace domestic production in these markets. Opportunities for Australian beef should also expand into Japan and South Korea as US export volumes decline throughout the year.

Price

Australian cattle prices are expected to marginally decline throughout the first half of 2023. Rising supply levels are likely to decrease the competitive pricing market for cattle as higher yardings occur from the advancing herd rebuild. Global beef prices will gain support from declining US supply and the opportunities in export markets that it presents.



Monthly average EYCI values forecast at 68 per cent confidence interval.
Source: Meat and Livestock Australia (MLA), Rural Bank



January to October 2022 beef exports show year-on-year declines to all major markets except for China.
Source: Department of Agriculture, Fisheries and Forestry

Cropping

"With harvest now well underway following a delayed start in many regions, growers' top priority remains getting this season's crop off in a safe and timely fashion. With wet paddocks throwing up challenges for harvesting and logistics, this season is expected to be a drawn-out affair. Heavy weed burdens will see a busy summer spray program before growers turn their attention to next season's seeding. Strong export demand and tightening global supplies are expected to keep Australian grain prices at a historically high level which will see growers confident in putting in a full cropping program heading into next season."

Greg Kuchel

Regional Manager Agribusiness, Western Victoria

Cropping

Supply

Australian winter crop production is forecast to be equal second highest on record. Quality to be impacted by excessive rain.

Price

Some downward pressure on prices as harvest progresses. Overall exptected to remain above average through to the second half of 2023.

Demand

Global consumption is forecast to outpace production. Demand for Australian grain to stay strong.

Outlook

Above average production, strong export demand and high global prices will provide a continued positive outlook for cropping.

Cereals

Supply

Winter cereal production in Australia is forecast to be the second highest on record this season. Wheat production will surpass 30 million tonnes for the third consecutive year, which is an unprecedented run. While the current estimate of 36 million tonnes is six per cent below last year's record crop, it remains 43 per cent above longer-term averages. All states are set to produce above average yields. However, crop quality has been impacted by flooding and disease due to record growing season rainfall across east coast growing regions. In Western Australia the large crop and lower applications of nitrogen due to high prices has led to a lower protein wheat crop which is weighted towards a high proportion of Australian Standard White (ASW) wheat. The quality profile of the 2022/23 harvest will see a mix of low protein wheat, along with significant supplies of feed quality wheat. The trend in reduced barley area continued this season with planted area down one per cent on last year. As a result, barley production is estimated at 12.8 million tonnes, an eight per cent decrease on last year.

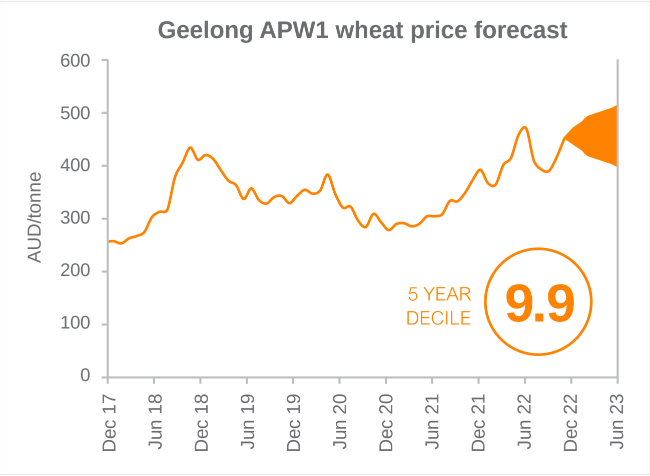
The United States Department of Agriculture (USDA) reports global wheat production is projected to reach a record 782.7 million tonnes in 2022/23. Global consumption continues to outpace production and is forecast to reach 791 million tonnes. This has seen annual global ending stocks decline by three per cent to 268 million tonnes. This fall in ending stocks is seen across most major exporting nations, including the United States (-15 per cent), European Union (-29 per cent) and Argentina (-31 per cent), which is leading to elevated grain prices.

Demand

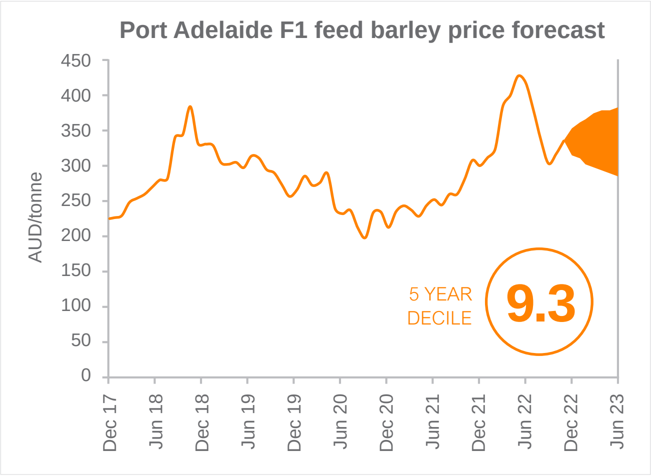
Domestic demand for feed grains is projected to strengthen in the coming six months with cattle production forecast to continue rising. The feedlot industry continues to demonstrate strong performance with numbers on feed consistently coming in at more than one million head. Major feedlots are expected to continue utilising wheat as their main feed grain. As a result, domestic consumption of wheat for feed is forecast to increase five per cent from the previous year.

Demand for Australian wheat, especially high protein milling wheat is anticipated to remain strong with total wheat exports of 26 million tonnes forecast for the 2022/23 marketing year. The ongoing uncertainty surrounding grain exports from the Black Sea combined with the increasing risk involved in exporting from the region will see Australian wheat exports to the Middle East and Africa remain strong. The drought impacted Argentinian wheat crop has tightened the global production picture further with export estimates for the 2022/23 season now as low as seven million tonnes. Argentina, the world's seventh largest wheat exporter, is a direct competitor with Australian exports into the Asian market. This reduced export outlook will see more export demand shift towards Australian wheat.

Barley exports are forecast to fall seven per cent to around 7.5 million tonnes in 2022/23. Australia's recent diversification for malt barley exports into Mexico, Ecuador, and Peru are expected to fall with some export demand reverting to Canada. Barley production estimates for Canada are up 43.5 per cent from last season's drought affected crop. This sees their barley exports forecast at three million tonnes versus last year's two million tonnes. Early export demand from the Middle East is being seen for Australian feed barley which will continue to support Australian barley exports through the 2022/23 marketing year.



Monthly average Geelong APW1 wheat values forecast at 68 per cent confidence interval.
Source: Profarmer Australia, Rural Bank



Monthly average Port Adelaide feed barley values forecast at 68 per cent confidence interval.
Source: Profarmer Australia, Rural Bank

Cropping

Price

The delayed harvest and continued uncertainty surrounding the quality of this year's wheat crop has created some pent-up demand with growers reluctant to sell. Local Australian Prime Wheat (APW) prices have risen around 20 per cent in the past six weeks to now be trading at parity with international futures prices. As harvest starts to ramp up, we will see wheat come under selling pressure. With a near record crop and significant carryover from last season, local prices will fall back below global levels during the key harvest period of December to the end of January. Once through this harvest period, we forecast prices will rise as Northern Hemisphere supplies dissipate. APW wheat prices currently remain elevated at near record decile 9.8 levels. Although this is likely to ease with prices forecast to average $400 per tonne for the first half of the year. The unknowns surrounding Black Sea grain supplies will continue to have a big bearing on wheat prices, with any negative or positive news causing large price swings.

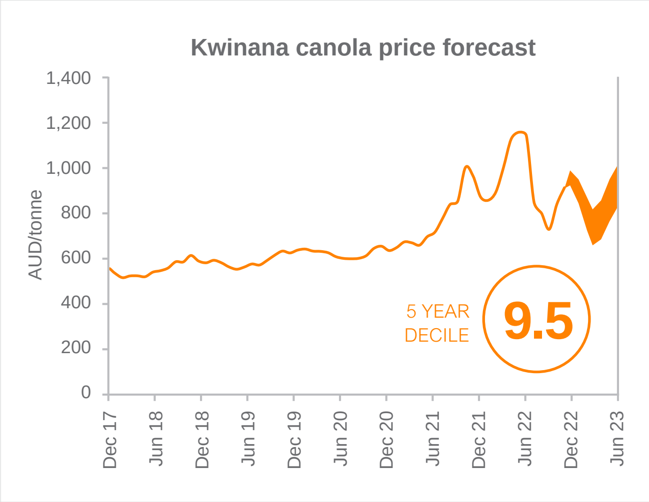
Barley prices have gained support from recent moves in wheat and are now back above decile 8 levels. Prices are also finding support from tightening global coarse grain balance sheets. On the domestic front, barley will likely face growing competition from another season of above average feed wheat production, though will remain viable and competitive into the feed export markets of Asia and the Middle East with global feed grain prices continuing to rise. This will see barley continue to trade above median prices into 2023 and stay within decile 8 to decile 9 values. In dollar terms this equates to a range of $300-350 per tonne.

Oilseeds

Favourable seeding conditions and high prices saw growers increase area planted to canola by 11 per cent this season. In Western Australia, the area planted to canola surpassed that of barley for the first time. Australian canola production estimates of seven million tonnes falls short of last year's record crop by two per cent following crop losses to flooding in Victoria and New South Wales. The USDA is forecasting global canola production to increase by 15 per cent on last year, largely driven by Canada returning to average production after last year's drought affected crop. This rebound in production will see global ending stocks increase 64 per cent to 7.2 million tonnes as supply outstrips demand.

This season is likely to see Australian export market share to India, Asia and Middle East decline as they return to Canadian supply. Offsetting this is strong export demand from traditional European Union biofuel customers. Demand from Europe could be further enhanced with proposed changes to biofuel mandates in the European Union next year.

Global oilseed production is looking positive for 2022/23 with output forecast to rise seven per cent to 645 million tonnes. For the most part this rise is driven by an increase in soybean production, but canola has also contributed. Australian canola prices are not expected to reach the records they saw in 2021/22 due to rising global oilseed supply and easing trade disruptions. However stable demand from the European Union will put a floor in prices. These supply and demand factors will see Australian canola trade at $680-$810 per tonne during the first half of 2023.



Monthly average Kwinana non-GM canola values forecast at 68 per cent confidence interval.

Source: Profarmer Australia, Rural Bank

Cropping

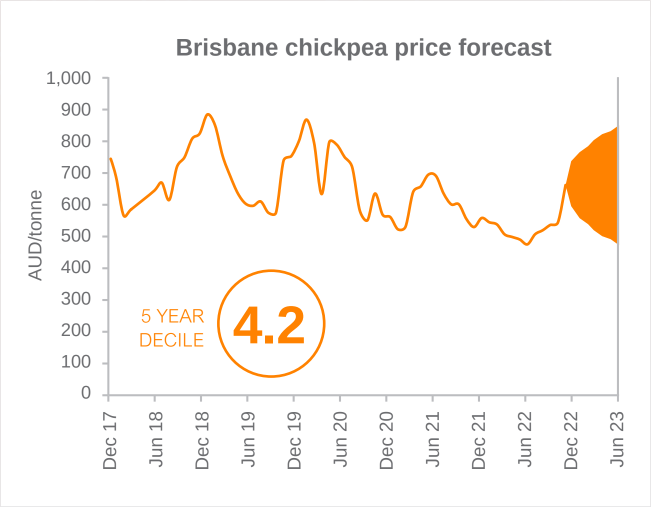
Pulses

Production of pulses is forecast to decrease two per cent down to 2.5 million tonnes this season. Year-on-year decreases to lentils (-12 per cent), chickpeas (-29 per cent), lupins (-33 per cent), field peas (-9 per cent) and faba beans (-15 per cent) are the result of a combination of decreased planted area, lost crops to flooding, combined with decreased yield from waterlogging and disease due to the wet growing season.

International pulse prices are firming against deepening worries about the yield and quality potential of the Australian crop on account of unusually wet conditions in parts of the country. Pulse exports for the new season will find some extra support from improving container rates, reliability, and availability. Offsetting these fundamentals for increased pulse prices is an Australian dollar that is expected to appreciate over the next six months.

India is forecast to face tight supplies of domestic kharif (summer) pulses in 2022/23 after summer pulse production came in two million tonnes below government estimates at 8.4 million tonnes. It is estimated India will import 700-800 thousand tonnes of red and green lentils to make up the shortfall. This will lend support to local lentil prices. However, upside potential will be capped with key competitor Canada having exportable surplus supplies.

Domestic prices for faba beans have firmed in the past month in response to the mixed outlook for the new crop. Faba bean prices are likely to find continued support from the stock feed industry on concerns of a lack of protein sources as prospects for high protein hay have suffered from flooding with much of the New South Wales and Victorian crop grown on river flats. Supply for the export market is also starting to look tight. Current export estimates are down 26 per cent on last year to 400,000 tonnes. This should see prices supported in the coming months with a possible 10 per cent upside.



Monthly average Brisbane chickpea values forecast at 68 per cent confidence interval.

Source: Profarmer Australia, Rural Bank

Dairy

> Ongoing structural adjustment in the dairy industry combined with the impacts of flooding will see lower total milk supply in 2023 than last year. This should see high prices sustained in the coming season, but the elevated cost of inputs will keep margins for farmers slim. In such challenging conditions, it is vital farmers have up to date, relevant market information and understand their cashflow drivers and production margins to ensure profitability and maximise returns.

Paul Hewitt

Senior Agribusiness Relationship Manager, Warrnambool

Dairy

Supply
Australian milk production to decrease and global supply will increase marginally but remain constrained.

Price
Despite anticipated easing of global dairy prices, a smaller domestic milk pool and high input costs will see close to record farmgate prices maintained.

Demand
Global demand is expected to soften slightly while domestic demand will remain relatively flat.

Outlook
Uncertain global demand and marginally increased global supply will be offset by a smaller domestic pool and near record local farmgate prices.

Supply
Australian milk production is forecast to be 6-8 per cent below average in the 2022/23 season. The dairy industry continues to contend with elevated input costs and difficulty accessing labour, while high beef prices continue to encourage destocking of dairy in favour of beef cattle. A marginal decline in production was already expected before the impacts of flooding interrupted production, transport, and processing activities. The trend of smaller producers exiting the industry or diversifying farming operations into beef and sheep will persist but is tempered by larger farmers expanding operations or increasing herd sizes. Cow numbers are expected to fall marginally to around 1.3 million head in 2022/23 but increased yields per cow due to positive seasonal conditions are expected to offset reduced head numbers. With little indicating significant growth, Australian milk production in 2022/23 is forecast at 8.1 to 8.3 billion litres with further production declines of between 3-5 per cent anticipated in the 2023/24 season.

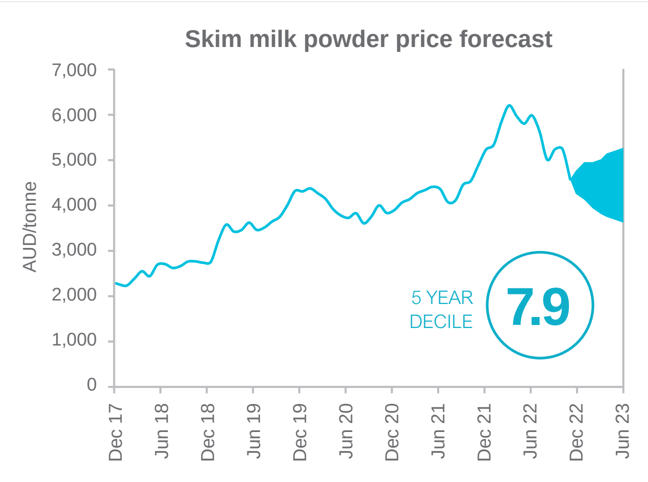
Global milk production is likely to lift slightly in 2022/23 due to improved seasonal conditions in some dairy regions across the EU, New Zealand, and US. However overall seasonal conditions remain challenging so global production will remain below average and global supply will remain constrained. Longer term growth will continue to face headwinds in the form of high input costs, farm exits, environmental regulations, and emissions reduction strategies.

Demand
Domestic demand is expected to remain flat over the next six months. Inflationary pressures and increased cost of living are seeing the volume of cheese and higher end processed products like flavoured milks decline. However, milk is considered a staple item and consumers are choosing cheaper private label products over premium brands rather than reducing overall purchases.

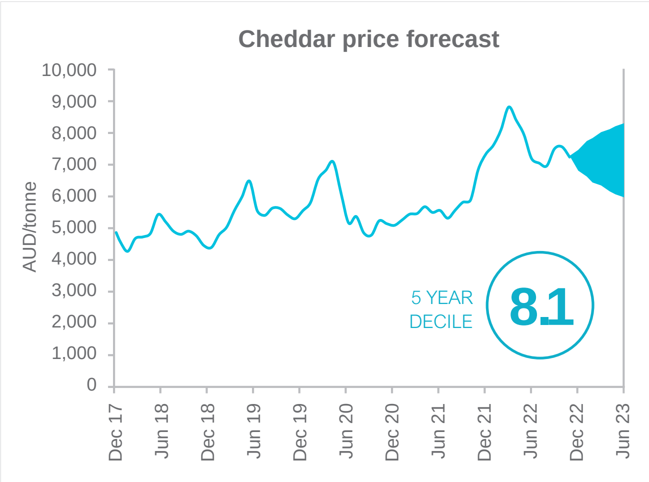
Global demand is expected to weaken slightly in coming months. This is primarily attributed to uncertain demand from China, where increased domestic production has driven an oversupply of whole milk powder while China's COVID zero policy subdues demand. A potential squeeze on skim milk powder in 2023 has potential to see some increased demand should EU and US production falter through winter and spring. Export demand for milk fats is seeing similar consumer dynamics to domestic demand, in that overall demand is expected to remain steady, but will shift to cheaper products like processed cheeses and anhydrous milk fats.

Price
Farmgate milk prices are currently set at record highs of an estimated $9.30/kg MS with processor prices ranging from $8.85-$10.00/kg MS. Opening prices in 2023 are forecast to maintain near record levels for the coming season. Downwards pressure on local prices caused by uncertain and fluctuating global demand and pricing will be offset by ongoing tight global supply, high production costs and the lowest domestic milk pool in over ten years which will see processors competing to secure supply.

While global prices are anticipated to remain volatile in the face of murky direction from tight supply and uncertain demand, they are likely to be maintained at above average levels. The trend of milk powder and butter prices easing slightly on softer demand, then gaining value as buyers take advantage of lower prices is expected to continue the trend of volatile but gradually easing global prices.



Monthly average global dairy trade (GDT) skim milk powder prices forecast at 68 per cent confidence interval.
Source: Global Dairy Trade, Rural Bank



Monthly average GDT cheddar prices forecast at 68 per cent confidence interval.

Horticulture

> “Improving seasonal conditions across most of the east coast will drive strong horticultural production in the first half of 2023 following a challenging end to 2022. While prices are expected to ease over the coming six months, high production costs are continuing to squeeze grower margins which will keep fruit and vegetable prices above long-term averages. Cost of living pressures are expected to weigh on domestic demand, though improving trade conditions and greater market access will hold horticultural exports in good stead.”

John Reilly

Regional Manager Agribusiness, Western Australia South

Horticulture

Supply

Improving conditions will drive strong horticultural production, though high input prices may impact yields.

Price

Fruit and vegetable prices are expected to spike in the first few months of 2023 before easing, but remain above long-term averages.

Demand

Cost of living pressures are exptected to weigh on domestic demand though improved market access will hold horticultural exports in good stead.

Outlook

Favourable growing conditions will be offset by reduced domestic demand and lower prices. High production costs will continue to weigh on grower margins.

Overview

Low irrigation costs and improving growing conditions will drive strong fruit and nut production in the first half of 2023. Vegetable producers are expecting some short-term supply shortfalls following a challenging spring and summer planting period that was heavily impacted by flooding and rainfall events. The Bureau of Meteorology's summer outlook has forecast above median rainfall for the east coast through to March with only central and northern regions of Western Australia currently forecast to receive below median rainfall through summer. Localised regions across the east coast remain at risk of damaging weather events into 2023, though this risk will reduce as the year progresses. Fruit and vegetable prices are forecast to remain well above average across most varieties, though strong production will see prices ease from recent highs as the year progresses. Another substantial almond crop will keep prices below average and largely in line with last season. Horticultural producers generally will see margins squeezed further over the next six months with high packaging, fuel, freight, fertiliser, and labour costs expected to remain a factor well into 2023.

Fruit

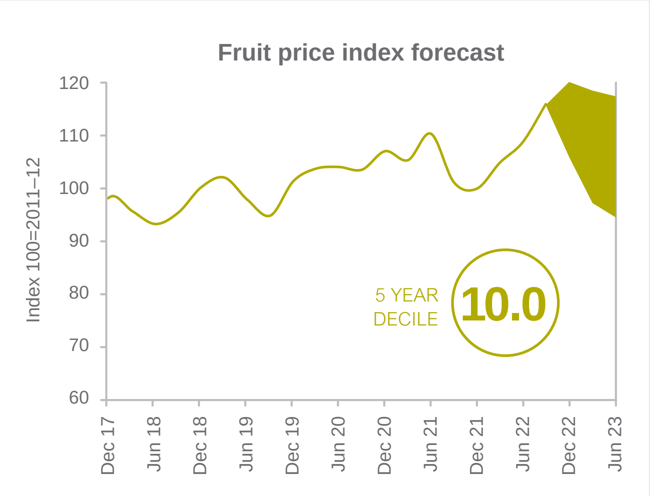
A wetter than average spring combined with low irrigation costs will drive strong fruit production volumes in the first half of 2023, though recent damaging weather events throughout Victoria will keep volumes of certain seasonal varieties constrained, with quality also expected to be an issue into early 2023. Inflationary pressures and falling consumer sentiment will weigh on domestic demand for fresh fruit, although improved export market access and reduced global freight disruptions will help to offset this decline in domestic demand, particularly for export-oriented produce.

Fruit prices are widely forecast to ease from recent highs, though they will remain above long-term averages with high input costs and a tight labour market continuing to squeeze grower margins. The labour market remains challenging with visitors on working holiday visas totalling just a third of pre-pandemic levels. While this should continue improving in the first half of 2023, it is not forecast to return to pre-pandemic levels anytime soon which will keep labour costs elevated. These factors will see wholesale fruit prices remain elevated despite strong domestic production forecast during the first half of 2023.

Table grape production is forecast to significantly increase this season, though the likelihood of above average rainfall across key production regions including Sunraysia and southern New South Wales early in the year poses a risk to quality thanks to humid conditions. Increased output is being driven by the maturation of recent vine plantings and low irrigation costs with favourable weather also assisting yields. The USDA are forecasting a crop in the region of 210,000 mt. This compares to an approximate harvest of 180,000 mt last season. This increased supply will pressure domestic table grape prices with wholesale prices of White Menindee expected to move back to $2.75/kg with Dark Crimson grapes expected to sit around $2.50/kg . Exports are expected to increase to 130,000 mt with improved shipping container availability and lower freight costs to assist producers. Table grape exports to Vietnam are expected to continue to grow, while the industry is also anticipating a rebound in export volumes to China despite the restrictive COVID zero policy which remains in place.

Apple and pear supply out of major production regions in Victoria is likely to be limited during the first few months of 2023 following damaging weather events throughout key production regions including Goulburn Valley and Shepparton. The regions impacted typically grow over 30 per cent of Australia's apple supply and 80 per cent of Australia's pears. Wholesale prices across both major apple and pear varieties are currently sitting below three-year averages, these are expected to spike and remain elevated into 2023 as a result.

Shepard avocado season is due to kick off in February and run through May with harvest first starting in Northern Queensland before moving south. Flowering of this year's crop has been a little more hit and miss which may see some inconsistent production throughout the region. This will support prices which will be well above the near record low prices that were seen over the last season.



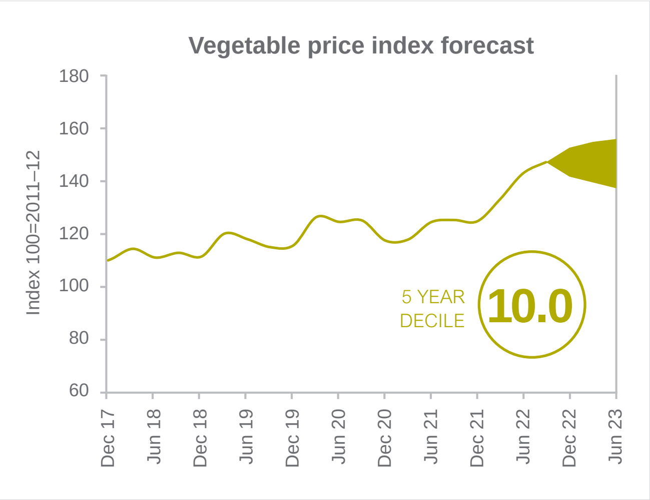
Monthly average fruit price index forecast at 68 per cent confidence interval.
Source: Australian Bureau of Statistics (ABS), Rural Bank

Horticulture

Vegetables

The summer planting period for vegetable producers has been negatively impacted by heavy rainfall and flooding events. Many growers in Victoria and New South Wales have struggled to get equipment out into paddocks for planting as a result of these wet conditions. This is expected to impact vegetable supply and prices in the first quarter of the year. The seasonality of vegetable production will see supply rebound relatively quickly following March. This rebound will be somewhat tempered by a slight reduction in sowing of key vegetable crops throughout much of the country as high production costs impact grower profitability. The outlook for vegetables is further tempered by a reduction in domestic demand as negative consumer sentiment and rising cost of living pressures drive a reduction in demand for higher priced fresh vegetables with consumers expected to utilise cheaper alternatives such as frozen vegetables as a substitute. The poor summer planting period will keep prices elevated into early 2023, though prices will ease as supply chains return to normal with lower consumer demand expected to add further pressure to prices. While prices are forecast to soften, high production costs will keep vegetable prices above long-term averages.

Potatoes, one of Australia's most valuable vegetable crops, have been negatively impacted by flooding and heavy rainfall on the east coast. Planting of crops throughout Tasmania have seen the largest impact with growers throughout Victoria and New South Wales also affected. This will see lower production volumes into early 2023 which, when paired with ongoing supply chain challenges will elevate potato prices. We anticipate production will normalise in February onwards given the seasonality of potatoes with strong growing conditions through South Australia helping to boost supply. This will see prices ease in early 2023 before settling as the year progresses. Onion supply will remain steady in 2023 with most plantings doing well despite the wet and cold conditions seen throughout spring.



Monthly average vegetable price index forecast at 68 per cent confidence interval.
Source: ABS, Rural Bank

Nuts

The outlook for Australian almonds is favourable heading into 2023. Low irrigation costs and ongoing maturation of plantings are helping to offset high input costs and a challenging pollination period for growers where beehives were in short supply throughout key production areas following the Varroa mite outbreak in parts of New South Wales. This is expected to see a small reduction in yields of around 5-10 per cent this season. The maturation of younger almond plantations will help to offset any decline in yield which is expected to be particularly prevalent around the Griffith region. Current estimates have pegged the 2023 almond crop at around 145,000 tonnes, though this figure will become clearer over the coming months. Domestic demand for almonds is expected to remain steady in 2023 while growth in almond export demand is anticipated thanks to strong demand from China, complemented by the ongoing diversification of export markets. This strong Chinese demand is driven by ongoing retaliatory Chinese tariffs on US almond exports. Meanwhile, a softer Australian dollar compared to last year will make Australian almonds particularly attractive to international markets. The Australia-India Economic Cooperation and Trade Agreement will come into force in early 2023 which will see greater export opportunities for almond growers with a 50 per cent cut to tariffs on the first 34,000 tonnes of almond exports into India. Substantial almond end stocks in the US, combined with strong global almond production will keep export prices constrained. While at a local level, strong almond production will keep prices below average, though slightly above last season at $6.80-$7.50/kg.

The 2022 macadamia season production is estimated at 49,340 mt in shell (3.5 per cent moisture) by the Australian Macadamia Society. This is 4.3 per cent below last season's crop as heavy rainfall and flooding throughout the New South Wales and parts of Southeast Queensland had a negative impact upon production. The coming season is shaping up well with plantings continuing to mature. Production is estimated to be well over 50,000 mt in 2023. Demand continues to grow at both a domestic and an international level, though rising production throughout South Africa, China, Vietnam, and South America is also continuing to grow in tandem. This increased global supply will see macadamias prices remain below long-term averages at both an export and domestic level.

Sheep

> “Australian lamb producers will head into 2023 with confidence as a rebuilt flock and wet conditions fuel a period of high production. Although prices will continue to soften under the weight of supply and some weaker consumer demand, they will remain high from a longer-term perspective. Lamb’s broadening demand base and weaker competition should drive long-term confidence in the industry.”

Stuart Bear
Senior Agribusiness Relationship Manager, Ballarat

Sheep

Supply

Australian lamb supply to be higher than a year ago but lower than the surge of supply seen in late-2022.

Price

Australian lamb prices to trend at or below five-year average levels due to increased supply.

Demand

Softer consumer demand due to inflation could be mitigated by improved access to India and the UK.

Outlook

Lower prices are on the horizon, but increased supply and export opportunities provide plenty of optimism.

Supply

A high supply environment is set to continue for Australian lamb into the first half of 2023. A rebuilt national sheep flock led to increased lamb numbers in 2022, of which a larger than expected number will carry over into 2023 due to disruptions getting marketed in late-2022. In addition to an increased volume of lambs to be processed in early 2023, wet conditions and delayed selling will mean lambs will have grown to heavier weights, resulting in a 5-10 per cent increase in lamb production compared to a year earlier. While supply will be higher year-on-year, it is expected to be lower than the surge of lambs seen in late-2022. Producers will likely remain encouraged to expand flocks, however the pace of flock growth will slow compared to the last two years.

Increased Australian lamb supply will encounter marginally weaker competition from New Zealand in export markets. New Zealand lamb exports are forecast to decline by less than one per cent in 2023 off the back of reduced breeding ewe numbers coupled with dry conditions in some regions in 2022. This adds to a larger reduction in New Zealand lamb export volumes during 2022.

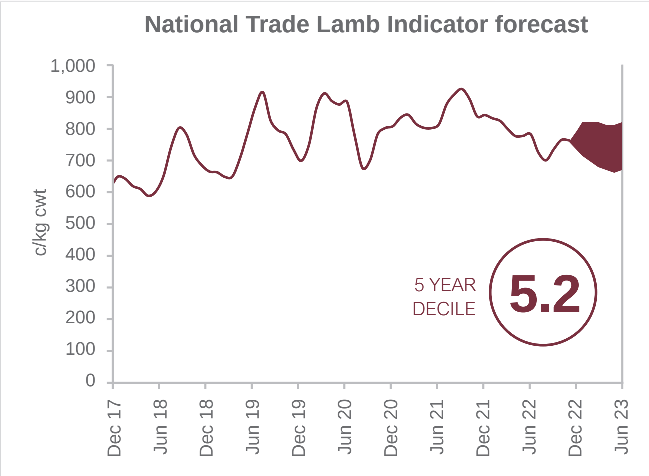
Demand

Demand for lamb will likely soften in both domestic and export markets as economic conditions take their toll on consumer spending. The relatively higher price point of lamb and a greater proportion of consumption through foodservice outlets makes it more susceptible to consumers managing cost of living expenses by substituting for cheaper alternatives and not dining out as frequently. This trend is evident in the slow decline of average export prices in the second half of 2022 and will likely persist into the new year.

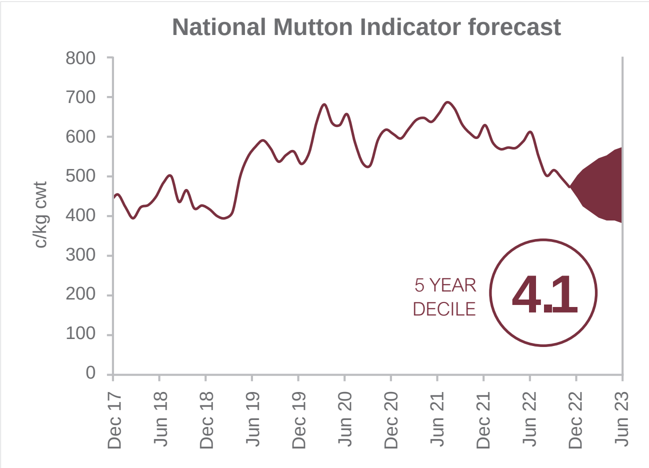
Despite weakening consumer sentiment, Australian exports should be able to capitalise on growing momentum in an increasingly diverse range of markets and a broad demand base. While the US is showing greater signs of softening demand due to inflation, the longer-term growth trend to the US remains strong. Bright spots in 2023 could be further growth to South Korea which has risen to be the third most valuable market for lamb thanks to a doubling in export value across the last two years. Improved access to India and the UK could also mitigate softer demand in existing key markets as free trade agreements come into effect and open new opportunities. A crucial factor to watch will be the ongoing impacts of China's COVID zero policy. Of Australia's top 10 lamb markets, China was the only one to decline in value in 2022 as lockdowns and restrictions on foodservice hampered demand.

Price

Australian lamb prices are expected to improve in early 2023 as the surge of supply carrying over from late-2022 tapers off. However, prices will be lower year-on-year and likely trend at or below five-year average levels under the weight of elevated supply. This should combine to see the National Trade Lamb Indicator operate between 740-790c/kg. Mutton prices will likewise be weaker under the weight of increased supply and relatively softer demand. This will likely see the National Mutton Indicator remain below 500c/kg.



Monthly average NTLI values forecast at 68 per cent confidence interval. Source: MLA, Rural Bank



Monthly average NMI values forecast at 68 per cent confidence interval. Source: MLA, Rural Bank

Wool

> "The floods and extremely wet spring conditions are causing a myriad of headaches and bottlenecks as the logistics of shearing wet sheep in a tight labour market, and even trucking stock to market becomes impossible in some regions. Marketing and shearing decisions are being made simply based on the logistics and workload. Wool volumes are forecast to increase but prices will continue to be impacted by weaker global demand."

Fiona Whale

Senior Agribusiness Relationship Manager, Western Victoria

Wool

Supply

Australian wool supply to rise as the national flock increases.

Price

Wool prices to come under pressure with increased supply and slowing demand.

Demand

Demand to ease due to falling consumer sentiment at both a domestic and global level.

Outlook

Australian wool producers are forecast to see increased wool supply and discounted prices into 2023.

Supply

Australian wool production volumes are forecast to continue increasing in 2023 for a third consecutive year. The Australian Wool Production Forecasting Committee (AWPFC) has estimated production of the 2022/23 sale season to be 340 million kg. This is a 4.9 per cent increase in wool production on the previous year. This growth is driven by producers increasing flock numbers in anticipation of continuing strong seasonal conditions. AWPFC estimates the national flock to reach 75 million head in 2023.

Above average rainfall throughout spring has created strong grounds for another season of above-average lambing rates. Stronger seasonal conditions will improve feed supply in less flood-affected areas and continue to reduce the number of growers relying on grain-feeding. Increased stock numbers and wet weather will continue to put pressure on shearing operations which are already being affected by a labour-supply shortage. The opening of Australia's border with New Zealand in early 2022 has not eased the shearer shortage which will be an on-going challenge for the industry. Progressive Australian Wool Testing Authority testing volumes for New South Wales and Victoria are both lower than the same time last year despite the increased national flock size. This may indicate larger offerings at auction in early 2023 as delays in shearing are eased by drier conditions.

Demand

Demand for wool will come under pressure as consumer spending on luxury goods weakens. Consumer confidence in China has fallen to historic lows as a real-estate crisis and COVID zero policy continue to hinder economic growth. China continues to be the largest buyer of Australian raw wool, buying 79 per cent of all wool exports across the previous selling season. China is a key player in the supply chain of wool garment production. Impending recessionary pressures will weaken demand for wool garments as consumers are faced with a combination of both higher inflationary pressures and interest rates throughout 2023.

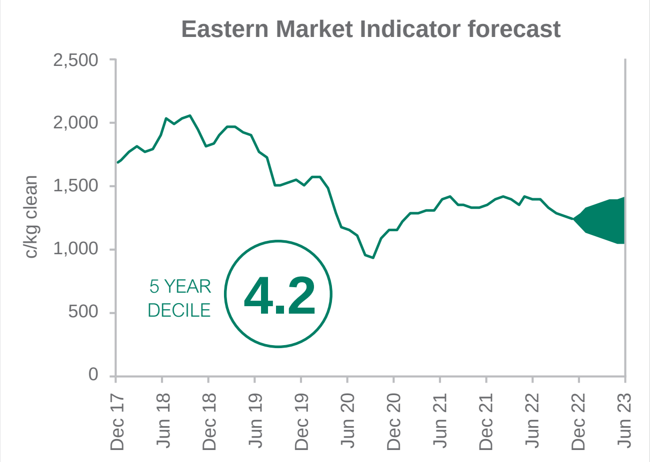
The weaker Australian dollar compared to the first half of 2022 will marginally offset softening demand by creating discounted buying opportunities for overseas markets in the near-term. The Eastern Market Indicator (EMI) in US dollars has only fallen below 800 US c/kg for one period in the last decade and that was at the outset of the COVID-19 pandemic. An appreciation in the Australian dollar over the longer term would make Australian wool more expensive on a global level and likely weigh on export demand.

Price

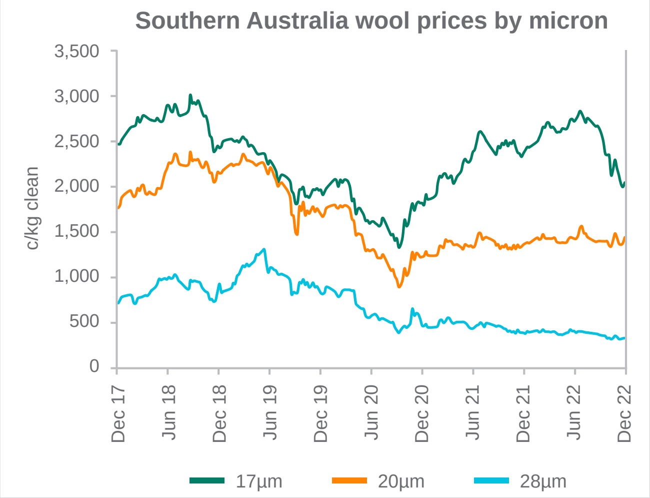
Prices across the Micron Price Guides (MPGs) have come under pressure since June 2022. Fine wool prices are being challenged by discounts not seen for over 18 months. However, fine, and medium wool prices remain above their five-year average, which may indicate there is scope for further pullback in the face of reduced demand. The price differential between medium and fine wool will be maintained throughout 2023 though fine and medium wools are both expected to remain below the heights that were seen in mid-2022.

The price outlook for crossbred wool remains poor as strong supply and weaker prices for lower micron wool will contribute to decreased competition for crossbred types. For eight of the last ten years growers could expect double or triple the current price for 28-micron crossbred wools.

The EMI is likely to fall marginally as demand softens and supply increases. The EMI can be expected to fall to 1,200c/kg to June 2023. Wool that scores highly in the key quality metrics will receive premiums as prices ease across the MPGs. High wool strength, low vegetable matter and mulesing related certifications will be the key drivers in these premiums.



Monthly average EMI values forecast at 68 per cent confidence interval.
Source: Australian Wool Exchange (AWEX), Rural Bank



Monthly average prices for 17 micron, 20 micron and 28 micron wool in Melbourne selling centre.
Source: AWEX, Rural Bank

About the research

The *Australian agriculture outlook 2023* provides a forecast for domestic and international supply, demand, and price dynamics for agricultural products. Significant effort has been taken to secure the most recent data available.

The price forecasts presented in this report have been calculated using an Auto-Regressive Integrated Moving Average model. The model projects a range of values based on trend, volatility, cyclical and seasonal patterns in the historic data. The forward estimates relate to the January 2023 - June 2023 period. Future market conditions may cause actual prices to move across and outside of the forecast range.

All prices represent Australian Dollars unless otherwise noted.

Glossary

ABS	Australian Bureau of Statistics
ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
AWEX	Australian Wool Exchange
AWPFC	Australian Wool Production Forecasting Committee
AWTA	Australian Wool Testing Authority
AUD	Australian Dollar
CPI	Consumer Price Index
EMI	Eastern Market Indicator
ESTLI	Eastern States Trade Lamb Indicator
EU	European Union
EYCI	Eastern Young Cattle Indicator
GDP	Gross Domestic Product
GDT	Global Dairy Trade
MLA	Meat and Livestock Australia
MS	Milk solids
RBA	Reserve Bank of Australia
US	United States
USDA	United States Department of Agriculture

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