2023

Australian agriculture mid-year outlook

RURAL BANK

Available through Bendigo Bank

Executive summary

Cattle

Restocker demand is expected to begin easing with a dry forecast, whilst rising supply will continue to push prices lower.

Cropping

Most Australian cropping regions have had a good autumn break and seeded full programs, though a forecast drier winter and spring is weighing on the outlook.

Dairy

Weak import demand has global prices below average, but flat to lower domestic production means local prices remain near record highs.

Horticulture

Rising supply and strong export demand will drive record production value despite a slight easing of prices.

Sheep

High supply will keep lamb prices under pressure but improvements in some markets will add support.

Wool

Below-average prices for wool and high shearing costs are weighing on the outlook for the sector.

Australian agriculture has benefited from favourable seasonal conditions and strong production over the first half of 2023 with timely rainfall ensuring strong winter crop establishment and pasture growth, particularly on the east coast. Despite the positive start to the year, easing commodity prices are impacting Australian farmers following several seasons of strong prices. While export conditions have improved, a slowing global economy combined with drier seasonal conditions are weighing on the outlook as we enter the second half of 2023.

Rural Bank's *Australian Agriculture Mid-year Outlook* provides an in-depth perspective on supply, demand, and price outlooks for Australia's major agricultural commodities. The *Outlook* aims to help Australian farmers make informed business decisions by presenting a detailed view on what lies ahead.

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

Seasonal conditions remain a vital factor across all agricultural sectors with current forecasts from the Bureau of Meteorology indicating below median rainfall is now very likely across most of Australia over the next six months. Current forecasts are indicating there is now a 70 per cent chance of an El Niño and positive Indian Ocean Dipole forming in 2023 which drive both hotter and drier conditions across the east coast of Australia. This drier seasonal outlook is weighing on production forecasts across a range of agricultural commodities. Australian winter crop production is expected to fall from the record output recorded last season with national winter crop production now forecast to come in slightly below average, though a strong autumn break and timely rainfall in early June is supporting a strong start to the season. Horticulture production estimates remain strong despite the drier outlook, while consecutive seasons of herd and flock rebuilding across livestock industries are expected to drive strong beef and lamb supply into the back half of the year.

Trade conditions are expected to continue improving for Australian exporters despite the ongoing volatility in grain markets, though export demand has been impacted by the current economic environment. Both global bulk and container shipping rates have now returned to pre-pandemic levels as a slowdown in global economic activity softens freight demand. The continued diversification of export markets is also expected to benefit a range of agricultural producers with the Australia-India Economic Cooperation and Trade Agreement (AI-ECTA) and Australia-United Kingdom Free Trade Agreement (A-UKFTA) both now in effect. The punitive tariffs and trade restrictions placed on a range of Australian agricultural exports to China including beef, lobsters, barley, cotton, table grapes and wine are slowly coming under review as trade relations between China and Australia continue to improve. While most of these measures remain in place, increased dialogue between the two countries is a positive sign for Australian growers. Unfortunately, it's not all good news. Russia's ongoing invasion of Ukraine is continuing to drive volatility across both grain and oilseed markets as ongoing market uncertainty regarding exports from two of the world's largest grain producing nations continues.

Global economic growth is expected to continue to ease in the second half of the year as inflationary pressures and the high interest rate environment drives lower investment and weighs on consumer sentiment. While a higher Australian dollar is expected to weigh on the competitiveness of Australian agricultural exports, it will be a marginal impact with the Australian dollar still sitting below historical averages. A general easing of fertiliser prices driven by lower energy prices and an easing of pandemic induced supply chain issues has been observed both domestically and on the local market. The reduced costs of inputs are supporting grower margins amidst the broad decline in commodity prices that was observed across the first half of 2023.

The analysis included in the *Mid-year Outlook* report gives insight to look towards the second half of 2023 and understand the key driving forces affecting agricultural markets.

Economic outlook

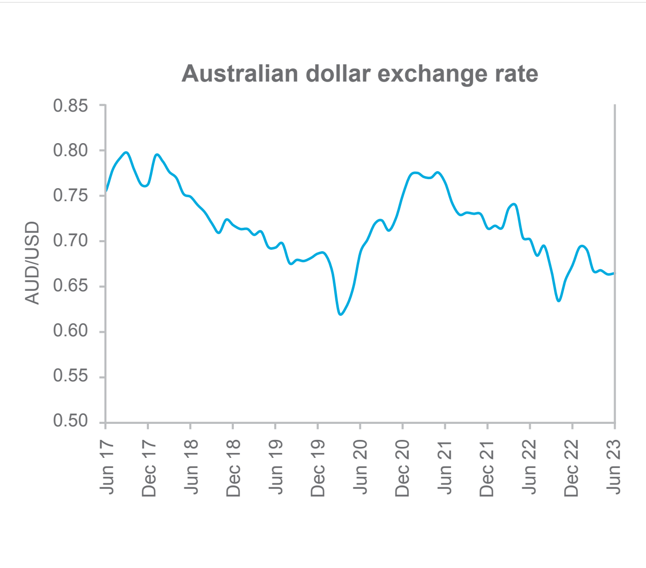
The Australian economy is continuing to be buffeted by several factors coming into the back half of 2023. The global inflation shock, and various central bank responses to it continues to be the dominant theme, with interest rates yet to peak in most countries. Sources of the inflation shock include supply chain stress throughout the pandemic, further amplified by the Russian invasion of Ukraine. These inflation drivers remain influential more than a year on from the start of the policy tightening cycles. While the prices for goods and a range of commodities have eased, the primary concern now is that core services inflation will remain stubbornly high. As a result, most central banks continue to warn of the need for further rate hikes, or at least maintaining a tightening bias for longer than previously expected.

The Reserve Bank of Australia (RBA) has consistently stated this year that it aims to control inflation by tightening monetary policy but at the same time wishes to 'keep the economy on an even keel'. Its rate hikes commenced later than other comparable central banks and have been smaller in magnitude; however, the latest increase to 4.1 per cent now puts at risk the 'soft landing' scenario that had previously appeared achievable. The RBA is still referring to the 'narrow path' to this dual aspiration of managing inflation while avoiding recession, but any further hikes may see the path disappear altogether. The RBA continue to advocate for an uplift in productivity to drive real wages growth, noting that this is only sustainable way to lift standards of living.

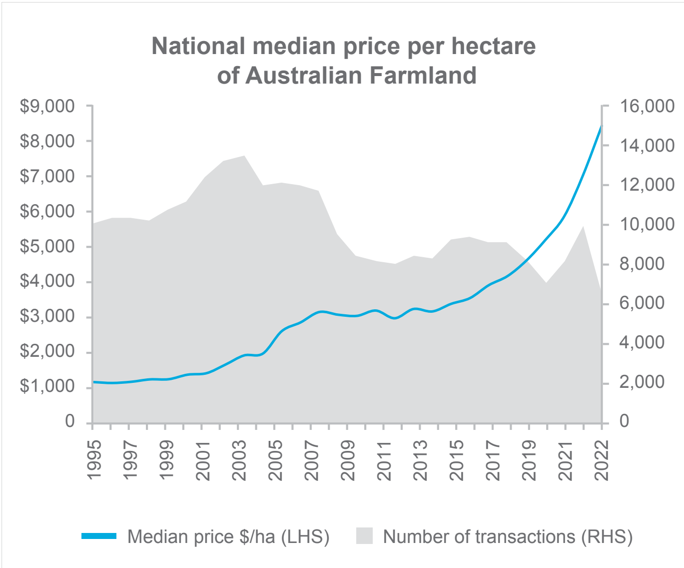
The impact of the economic downturn and higher interest rates in Australia will be seen by slower growth, higher unemployment and gradually moderating inflation. Gross Domestic Product (GDP) growth was 0.2 per cent for the first quarter of 2023 (2.3 per cent growth year-on-year), with a fall in household savings, disposable income and a slower pace of household spending. GDP is expected to see minimal, if any, growth over the coming 12 months, with a technical recession quite likely, though the extent of any economic contraction remains very much dependent on RBA policy.

Unemployment fell to 3.4 per cent last October, the lowest level in 50 years, amid very tight labour markets and significant shortages of available labour. The recent welcome rebound observed in both the net migration and working visa approvals is helping to alleviate these shortages, particularly across the agricultural sector. The economic cycle will also see a steady increase in unemployment as demand falls.

In summary, the global economy continues to face significant headwinds from inflation and central bank responses to tackle it, which is likely to translate to recession in most G7 economies. Growth will also be well below trend in East Asia and for Australia's major trading partners, but still close to four per cent on average for this region. Australia faces slowing domestic demand as restrictive interest rates limit discretionary spending, but reasonable offshore demand remains a positive demand factor. As a result, the Australian Dollar (currently around US 67 cents) is expected to mildly appreciate over the next six months. The Aussie Dollar is more stable on a trade weighted basis, being supported by relatively high commodity prices (albeit off their highs) but constrained by interest rate differentials.



Source: RBA



Source: Digital Agriculture Services, Pricefinder, Rural Bank

Cattle

> Australian cattle prices are likely to remain softer in the coming months as supply on the market remains constant given the tough season being experienced in some cattle areas. Seasonal conditions will be the key influence on supply as producers weigh up whether to hold onto cattle or sell given the current drier outlook for the remainder of the year.

Mark Pain

Senior Agribusiness Relationship Manager, Queensland

Cattle

Supply

Australian beef production to rise in the second half of 2023 following two seasons of herd rebuilding.

Price

Further softening of Australian cattle prices is likely before a rise by the year's end.

Demand

Demand is expected increase with declining US supply to drive increasing global demand for Australian beef.

Outlook

Restocker demand is expected to begin easing with a dry forecast, whilst rising supply will continue to weigh on prices.

Supply

Australia's beef production is forecast to rise by six per cent during the second half of 2023, with output to sit in-line with the five-year production average. This comes on the back of rising cattle availability following the last two years of herd rebuilding. The increase in beef production will continue to provide a strong surplus of beef available to be exported over the next six months. A potential risk to the higher supply of beef production is limited labour availability which may restrict the rate at which slaughter could increase, though with labour supply expected to continue rebounding over the next six months, this risk remains relatively minor.

Global beef production is expected to increase throughout the second half of 2023 as the fall in US production is matched by gains in Australian, Brazilian, and Chinese beef production. Brazil's production is forecast to rise two per cent as lower calf prices and a stronger domestic market push slaughter rates higher. The USDA are forecasting US supply will decline by around five per cent across the remainder for 2023, as the cattle herd has decreased following the large culling rates in late 2022 and early 2023 driven by drought conditions across key US grazing areas.

Demand

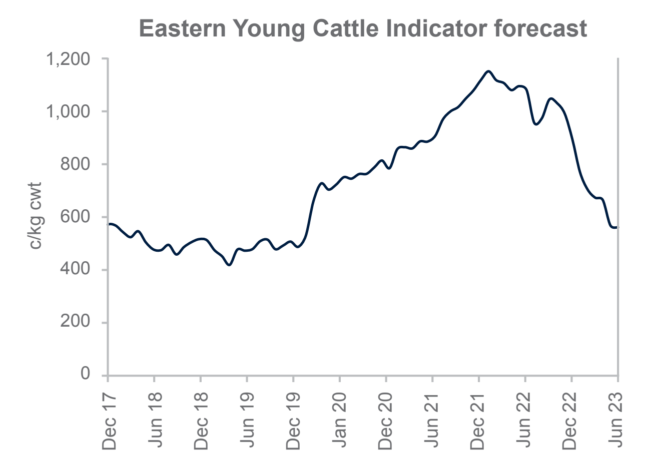
Domestic demand for Australian beef is likely to soften marginally throughout the second half of 2023. The continued weight of inflationary pressures is expected to decrease discretionary spending for consumers, which will affect higher end beef products. The dry weather outlook is expected to affect pasture availability and restocker demand is also likely to soften in key cattle regions across Australia as the herd rebuild reaches maturity.

Global demand for Australian beef is expected to rise throughout the second half of 2023. This comes on the back of a decline in US production which will create export opportunities into key markets including China, Japan, South Korea and the US itself. With China's COVID restrictions now removed it is likely that their domestic demand will rise over the next six months, further providing export opportunities.

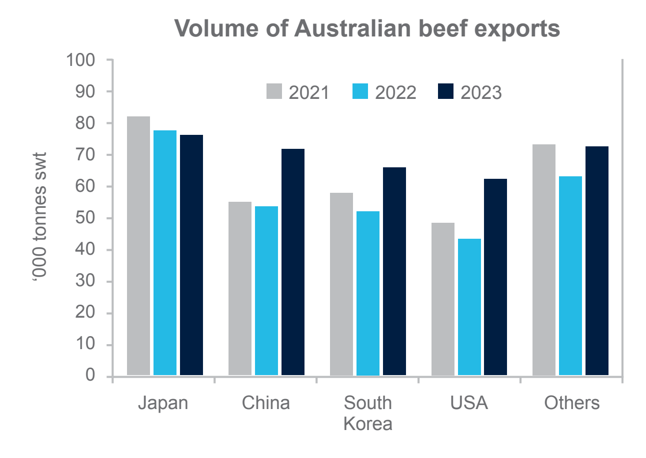
The implementation of the A-UKFTA at the end of May provides another possibility for a rise in demand for Australian beef, particularly over the longer term. Australian beef producers now have access to a duty-free quota of 35,000 tonnes in the first year as a result of the agreement. This follows a maximum limit of 3,761 tonnes in previous years with prohibitive tariffs outside of this quota. The improved market access is providing an especially positive outlook for Australian producers over the coming years as restrictions on exports begins to ease, however as mentioned this remains a longer-term benefit and is not likely to translate to a significant increase in beef exports to the UK over the next six months.

Price

Australian cattle prices are likely to continue declining marginally throughout the next few months before beginning to trend upwards toward the end of the year. Despite the increase in prices forecast near the conclusion of 2023, prices will remain below the five-year average. Elevated cattle availability on the market, coupled with weaker restocker demand will reduce competition in markets. However, improved opportunities in export markets on the back of reduced US supply is expected to begin offering support for price rises by the end of the year.



Value of the Eastern Young Cattle Indicator from Jan 2019 till June 2023.
Source: Meat and Livestock Australia (MLA)



Volume of Australian beef exports year to date for the top four export markets.
Source: Department of Agriculture, Fisheries and Forestry.

Cropping

“Widespread rainfall across Victoria in early June has allowed growers to finish off seeding and get mostly full programs in. The rainfall was very timely after a dry May and was the break growers were waiting for, especially in the northern Wimmera and Mallee regions. This has transformed Victoria’s grain production potential from one of below average to at least average. With the likelihood of an El Niño developing by spring remaining high growers will be cautious in putting on forward sales until September.”

Wayne Saunders

Regional Manager Agribusiness, Western Victoria

Cropping

Supply

Australian winter crop production is forecast to fall 34 per cent from last season's record.

Price

Prices are expected to remain above average through to the second half of 2023 for cereals. Canola prices are forecast to return to average.

Demand

Decreased production in key exporting nations along with continued strong global demand will see export opportunities remain positive for Australian wheat.

Outlook

Most Australian cropping regions have had a good autumn break and seeded full programs. A forecast drier winter and spring is weighing on sentiment.

Cereals

Supply

Winter cereal production in Australia is projected to fall from record highs under expectations of below average rainfall for winter and spring. At present, wheat production is forecast to fall by 34 per cent to 26.2 million tonnes, slightly below the 10-year average. Australian barley production is forecast to fall by 30 per cent to 9.9 million tonnes, around 11 per cent below the 10-year average. The planting program has progressed well in most states after growers opted to utilise soil moisture from good rainfall received in March and April and sow the crop early. Overall germination and crop establishment has been good, although dry conditions in parts of northern New South Wales has negatively impacted crops in the region. After getting off to a good start, the downside risk to this season's crop is the potential for an El Niño and positive Indian Ocean Dipole event to both form later this year. These two events combined typically suppresses rainfall in eastern Australia during the winter and spring months.

The USDA has forecast global wheat production to increase slightly from last season to a record 800.2 million tonnes. Reduced production in Australia, Russia and Ukraine is offset by increases to production across Canada, Argentina, and the European Union. Given assumptions for global use, global carry-out stocks are expected to increase from 266.7 million tonnes in the current season to 270.7 million tonnes in 2023/24. Of greater importance is the stocks forecast for the eight major global exporters. This volume is calculated at 62.2 million tonnes, falling for the sixth time in the past seven years. Internationally we are moving into the sweet spot for finishing northern hemisphere winter crops and critical time for spring sown crops, so weather risks become more dominant now. Markets have been heavily sold on the back of increased new season supply potential, any thoughts of cuts to new season supply will see markets reverse quickly.

Demand

Wheat exports have been at record pace during 2023 aided by Asian buyers substituting corn with Australian feed wheat. Demand is expected to remain strong for the remainder of the 2022/23 marketing year with the final wheat export figure estimated at a record 29 million tonnes. Australian wheat exports for the 2023/24 season are estimated at 21 million tonnes on the back of the lower production outlook. Decreased production in key exporting nations along with continued strong global demand will see export opportunities remain positive for Australian wheat.

Barley exports for 2022/23 are estimated to drop 11 per cent year on year to 7.3 million tonnes. Strong demand for feed barley from domestic users on the east-coast has led to negative export margins, a function of the premium they have been paying over export parity. This will see combined exports from New South Wales and Victoria decline by 900,000 tonnes from the previous season. Australian barley exports for the 2023/24 season are estimated at 5.5 million tonnes on the back of the lower production outlook. It is widely believed that China's tariff on Australian barley will be lifted in coming months. This will have large ramifications for this market with domestic barley prices expected to move sharply higher. The opening would also reduce Australia's exposure to inverted northern hemisphere markets, where prices are lower in July and August as new crop Black Sea and European barley is harvested and marketed.

Price

Global wheat prices have fallen 21 per cent for the year to date and 57 per cent since hitting an all-time high in March last year. Last July's Back Sea grain corridor deal and its subsequent extensions have allowed Ukraine to export grains through Black Sea ports, easing concerns over world supplies. Australian wheat prices have held up comparatively well, dropping around 13 per cent since the beginning of the year. Global prices are expected to fall further in 2023/24 because of expected rising global grain production. Whether local wheat prices follow will depend on the outcome of local production, though generally Australian wheat prices are expected to stay elevated and trade at historically high values over the coming six months. Australian Premium White (APW) grade wheat is forecast to trade between $350 to $400 per tonne over this period. Ongoing strong demand from Asia and in particular China will continue to support prices.

Barley prices are anticipated to average $250 to $290 per tonne over the outlook period out of the export-oriented states of Western Australia and South Australia. Queensland and northern New South Wales are trading at a premium to this on diminishing supplies and continued strong demand from domestic feed users. If conditions turn dry prices will push higher as the domestic market rations demand back. The forecast for barley prices at this stage does not consider the possibility of successful negotiation with China and the lifting of tariffs. At current international values China access would add around $50 per tonne to barley export prices.

Cropping

Oilseeds

Australian canola area is forecast to decline 11 per cent to 3.5 million hectares, although this remains the second largest area on record. The decline in canola prices from their highs a year ago is making it a less attractive crop to grow due to its high input costs. Growers took advantage of early season rainfall with most major canola regions getting the crop planted and established while soil temperatures were still warm. Below average rainfall in May put some stress on developing crops. However, ideally timed rainfall in the first week of June across southern Australia has topped up these crops and still sees production potential at least average. Canola production is forecast to fall by 41 per cent to 4.9 million tonnes in 2023/24. With an above average carry-out forecast at 2.0 million tonnes, of which Western Australia will account for around 80 percent, Australia will have an exportable surplus of around 5.1 million tonnes under current production estimates.

The USDA estimates global canola production will fall one per cent from last year's record crop to 87.2 million tonnes. Canada and the European Union are both projected to produce above average crops this season. This will see Australian canola prices come under pressure as it faces competition from increased Canadian exports. The European Union, a major consumer of Australian canola, is expected to see imports drop by 1.8 million tonnes to 5.1 million tonnes, a five-year low.

Fundamental supply and demand factors will put downward pressure on canola prices through to 2024. This will see canola prices trading back around historical averages of between $550 and $650 per tonne.

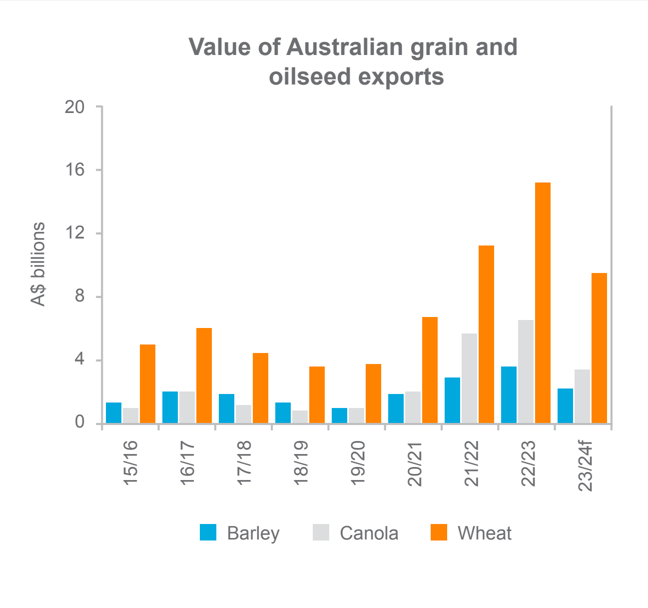
Pulses

Planted area to pulses is seen steady year on year with mostly favourable seeding conditions allowing growers to plant full programs. Early forecasts of a return to average yields have pulse production declining 32 per cent from last year to 2.7 million tonnes. Chickpea area is forecast to rise 15 per cent from last year to 457 thousand hectares and production is forecast to increase one per cent to 544 thousand tonnes.

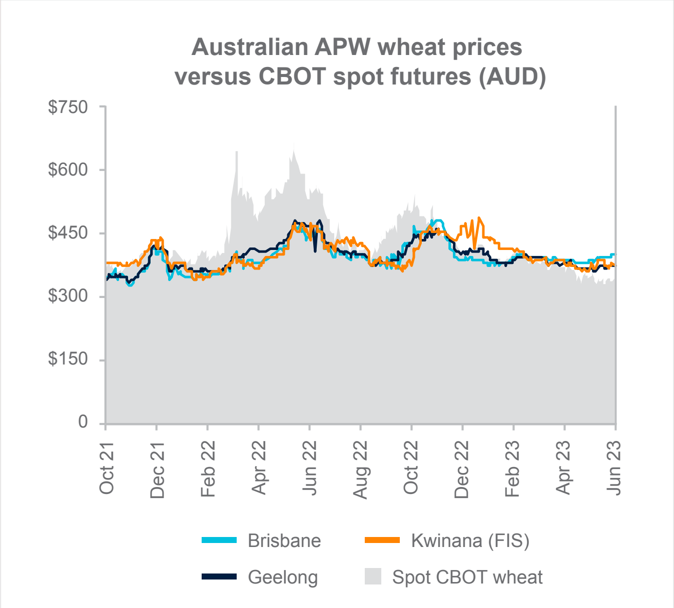
Lentil exports are on track to surpass one million tonnes this season with India the prime destination. Australian lentil exports to India will continue to benefit from a zero tariff until at least 31 March 2024. With prices to stay supported at over $800 per tonne, some buyers are indicating they will need to start pricing again, as they still have vessels to accumulate for in the coming months. With AgPulse Analytica putting the 2023 global red lentil production at over 7 million tonnes, up from 6.7 million tonnes in 2022, a large upside in price could be hard to achieve in the medium to long term unless there are production issues.

Current faba bean exports are five per cent behind the same time as last year at 196 thousand tonnes. Australia has put less product into Egypt this year compared with the previous two because of Egypt's currency difficulties. On the global front there are no major crop concerns to add any price support, with reports that European crop conditions are overall positive, with France and the UK the major competitors against Australian beans. Without export interest picking up it does seem supply could outstrip domestic demand before harvest. Delivered Melbourne prices are expected to trade around $400 per tonne for the rest of the year.

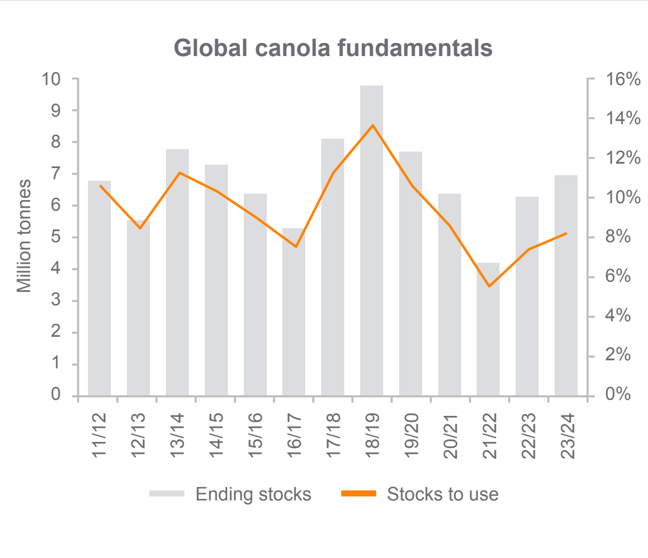
Cropping



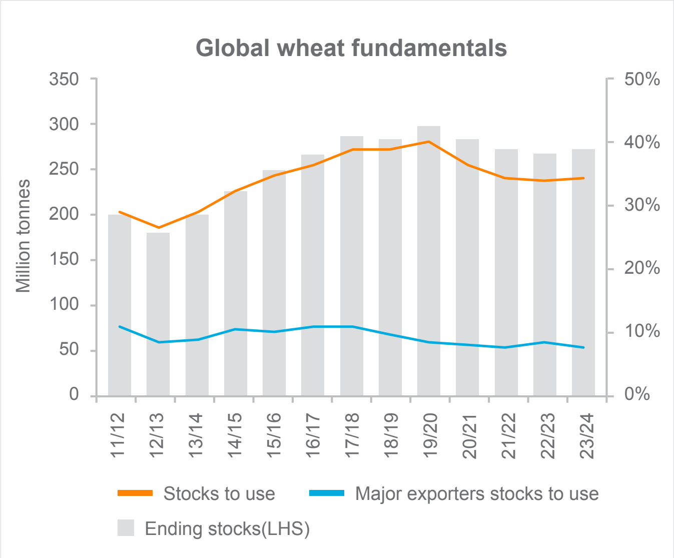
Value of Australia's three main broadacre crops, wheat, barley, and canola.
Source: ABARES, ABS



Australian APW wheat port zone prices versus CBOT spot futures (AUD).
Source: Profarmer Australia, CME Group, Rural Bank



Global canola supply and demand fundamentals.
Source: USDA



Global wheat supply and demand fundamentals.
Source: USDA

Dairy

> Strong farmgate milk prices and positive seasonal conditions provide optimism for a profitable season ahead. Good returns will likely see production stabilise after consecutive years of decline in the face of labour shortage and increased input costs. Australian dairy prices appear to be increasingly disconnected from global conditions with contracting local production increasing the threat of imports from other regions.

Tony Anderson
Regional Manager Agribusiness, Southern Victoria

Dairy

Supply

Australian milk production will be flat to slightly lower, while global supply will increase slightly over the next six months.

Demand

Domestic demand is expected to remain steady, while global demand is likely to be subdued across most of the year.

Price

Farmgate prices remain at or near record levels, but are unlikely to lift significantly. Global dairy prices will likewise hold reasonably steady.

Outlook

Farmgate milk prices at record levels and postiive seasonal conditions are balanced by flat to lower production, soft demand and weaker global dairy prices.

Supply

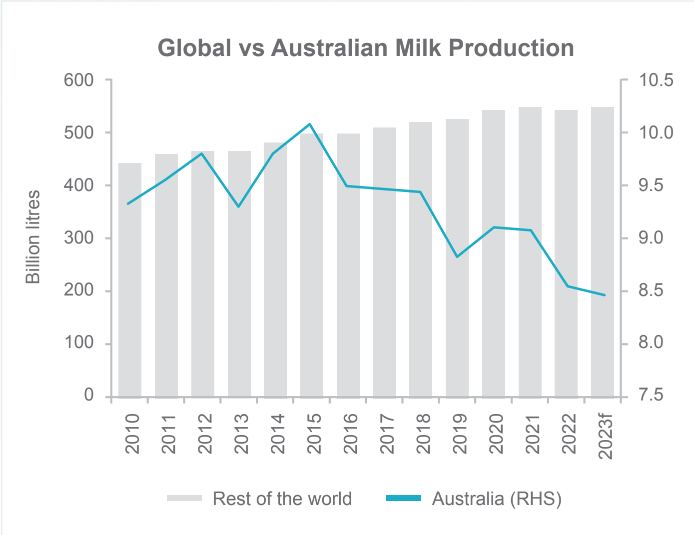
Australian milk production for the 2023/24 season is forecast to remain flat to slightly lower at around 8.0 billion litres. This represents a 1–2 per cent reduction on estimated 2022/23 production of 8.1–8.2 billion litres. Local supply is expected to stabilise somewhat following consecutive declines in the previous two seasons. The factors that caused declining production in previous seasons remain present but not to the same extent as seen in the past few years, which is anticipated to drive a slowdown in industry contraction. Factors such as input costs easing from the highs seen through 2022. Favourable seasonal conditions have allowed for good pasture growth, fodder stockpiling, and carryover water reserves will hold irrigators in good stead and go some way to mitigating risks of a potentially drier second half of the year. Labour shortages remain an issue, but there is some anecdotal evidence the situation has improved in recent months. Beef prices have fallen significantly which is disincentivising culling of the dairy herd or diversification of dairy industries. These factors, combined with record opening farmgate prices provide some optimism for producers and is expected to decelerate industry exits, leading to a stabilisation of milk production.

Global milk production is forecast to return to growth in 2023 after flat production in 2022. The USDA forecasts 2023 milk production will lift one per cent to 666 billion litres, or three per cent above the five-year average. Improved seasonal conditions in the US and Argentina are expected to see increases in milk production, more than offsetting relatively flat production in New Zealand and the EU. Growth in global supply is expected to remain constrained by easing global prices and concerns over the implementation of environmental policies.

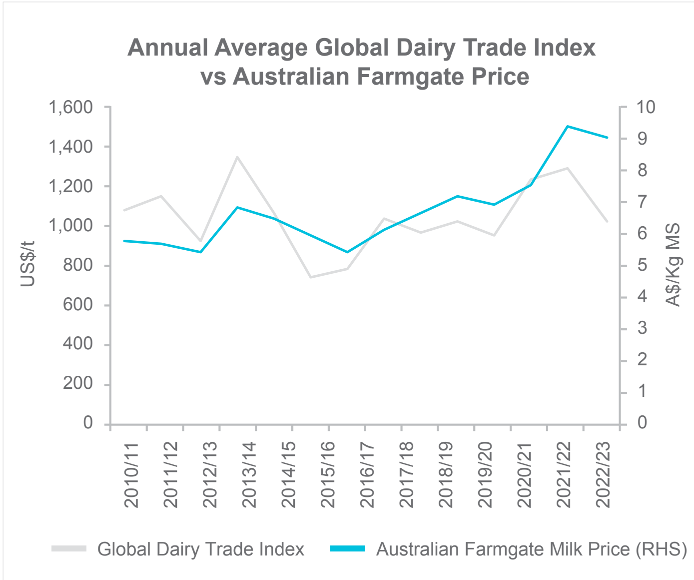
Demand

Domestic demand for dairy products is expected to remain robust with cost-of-living pressures a continuing driver of end user consumption. The higher price point of plant-based beverages, yoghurts and cheeses and their less established place in the market has seen cost conscious consumers opt for cheaper dairy products. Rather than foregoing dairy products, buyers looking to save money are opting for private label (or 'home brand') products over branded produce. As dairy is seen as a staple product in Australia, domestic demand is expected to remain relatively stable over the next six months.

Global demand is anticipated to lift towards the end of the year as Chinese buying may pick up. China's lack of buying as a result of an oversupply of whole milk powder has seen global buying activity slow. Some support has been provided by buying from North and South-East Asia, but this has been more opportunistic as global prices have slumped. While Chinese demand is expected to pick up later in the year, slowing economic growth is impacting global demand, and increased global stockpiles means any lift in demand will be easily catered for by competing exporters.



Global annual milk production excluding Australia compared to Australian annual milk production (billion litres).
Source: USDA



Annual average GDT Index price trend compared to Australian annual farmgate milk prices.
Source: GDT, Rural Bank

Dairy

Price

Australian farmgate milk prices for 2023/24 opened at historic highs with initial offerings averaging around $8.92/Kg MS, but increases within the first month saw the average offer from major processors lift to $9.36/Kg MS. This is 11.8 per cent higher than the average 2022/23 opening farmgate price, and on par with record 2022/23 closing prices. As the season progresses, there may be some minor step ups as processors jostle for position to secure supply from a low domestic pool. But with current farmgate prices already back to record closing prices from last season, significant further lifts are unlikely.

The Global Dairy Trade Index has fallen 40 per cent since a peak in March 2022 to now sit around eight per cent below average. China's lack of demand has driven down skim and whole milk powder prices with cheese and butter values holding up slightly better in comparison.

While there is some expectation Chinese demand will return in the coming months, sufficient global supply and the broader global economic downturn will weigh on any potential upside, so global prices are not anticipated to rise significantly above average in the next six months.

This will in turn limit Australian processors' appetite to step up farmgate prices moving forwards, but competition to secure supply is likely to see farmgate price offerings average around the $9.40 to $9.80/Kg MS range.

Horticulture

> "Favourable soil moisture and low irrigation costs will drive strong production volumes, despite the prospect of dry weather conditions over the coming months. Fruit and vegetable prices are expected to ease but remain broadly above average, with supply chains back to normal following last year's floods. While margins remain thin: strong production forecasts, softening fertiliser prices and improved labour supply is driving increased optimism within the industry following a challenging 12 months."

Leah Weekes

Regional Manager Agribusiness, Queensland

Horticulture

Supply

Low irrigation costs, improved labour availability and high sowing rates will see production continue to rebound.

Price

Fruit and vegetable prices are expected to ease compared to the last six months but remain above average.

Demand

Improved quality and greater market access will drive strong export demand for key varieties. Domestic demand to remain steady.

Outlook

Rising supply and strong export demand will drive record horticultural production value despite a slight easing of prices.

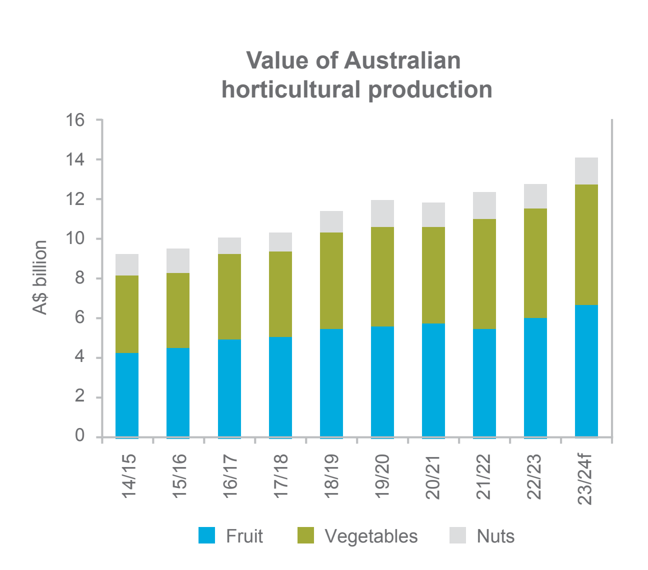
Overview

Strong horticultural production combined with rising export demand for key varieties are expected to hold producers in good stead over the back half of 2023. While the Bureau of Meteorology's forecast for below median rainfall across much of the country is a concern, high water storage levels are keeping water prices low which will continue to benefit irrigated crops. The reduced likelihood of damaging rainfall events is also anticipated to drive improved quality across key export varieties. While prices are broadly expected to trend lower, improved export market access combined with relatively steady domestic consumption and high production costs will keep fresh fruit and vegetable prices above longer-term averages. Improving fertiliser prices and labour supply in comparison to 2022 will come as some relief to growers over the next six months. Though both labour and input costs are expected to remain above pre-pandemic levels.

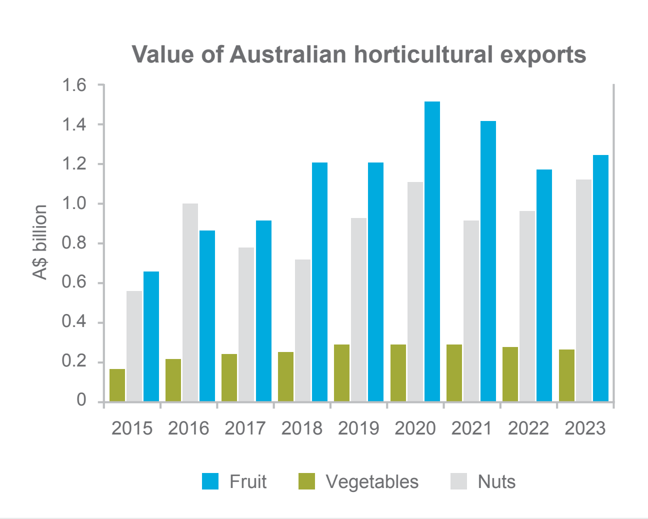
Fruit

Fruit production volumes are forecast to remain above average over the next six months. Deep soil moisture levels are favourable which will help to offset the forecast drier seasonal conditions and support yields from mature trees. More recent plantings may struggle in the drier conditions. Export demand for produce is expected to rise to near record levels. This is partially driven by an increase in the amount of higher quality produce anticipated over the next six months, which finds particular favour amongst export markets. This improved quality is a result of the drier seasonal conditions which will drive reduced disease and crop damage in comparison to last year. Greater access to both the United Kingdom and Indian markets resulting from recent trade agreements will further lift export demand, particularly over the longer term. The agreements are expected to benefit a wide range of fruit including citrus, avocados and stone fruit. Domestic demand remains mostly stable, though cost of living pressures will drive a decline in demand for more premium produce such as dried fruit and berries.

Strong avocado production is again anticipated across both the east and west coast growing regions with national production forecast to reach between 100,000 and 115,000 tonnes. This compares to last season's record production of more than 120,000 tonnes which drove wholesale avocado prices to as low as $1.30/kg. Avocado production will continue trending higher over the long term as additional plantings reach full maturity. Export demand is expanding amidst greater access to both the Indian and Thailand markets, though these markets remain relatively small (at the moment) in comparison to the increasing production seen on the Australian market. Japan remains a growing export market for Western Australian growers with annual exports now totalling $1.5 million, a year-on-year increase of more than 130 per cent. Notably, the Japanese market remains closed to east coast growers. Avocados Australia alongside the Australian government are working through various biosecurity measures in an attempt to meet Japan's strict requirements. Opening up access to new export markets will be key to keeping a floor under avocado prices as



Value of Australian horticultural production .
Source: Hort Innovation, ABS, Rural Bank



Value of Australian horticultural exports April-March.
Source: Global Trade Atlas

Horticulture

domestic production continues to expand. Domestic demand remains strong, though has far more limited capacity for growth. The slightly lower production forecast and additional export markets should see prices hold up better in comparison this year with wholesale prices expected to hit a low of around $1.50/kg.

Favourable conditions over the past six months have driven a broad increase in citrus production this season. Mandarin harvest is underway, with picking taking place a few weeks later than normal. Production on the east coast is well above last season's mandarin crop with current national production estimates ranging between a 15–30 per cent increase on last season. Notably, orange production volumes are expected to decline slightly with average yields and slightly smaller sizing, though overall quality is looking good which will drive strong export demand for Australian produce. National orange exports are expected to return closer to average of 185,000 tonnes following last season's sharp drop off in exports due to quality issues. High-quality fruit is typically exported to Asian markets. Demand from these markets is particularly strong this season which will offer further support for prices. Below average US production and reports that China have approved imports from a number of Australian citrus exporters amidst improving trade relations will also drive additional demand for Australian produce. This comes as great news for growers with high production costs continuing to impact margins. Navel prices are expected to sit slightly above average with the additional export demand to take volumes away from the domestic market in comparison to the previous season.

Vegetables

Vegetable production is forecast to be broadly above average across most key production regions over the next six months. This follows a challenging period during the first half of the year as production recovered from flood and storm events that impacted a number of key vegetable crops including tomatoes, potatoes and onions. Favourable water storage levels are expected to drive increased planting across most key varieties, while it's hoped that the forecast drier weather conditions will reduce weather related risks to production.

Onion supply is expected to return closer to average over the back half of 2023. Tasmania, one of the key production states, saw crops impacted by heavy rainfall and flooding which has weighed on output over the first half of 2023. Domestic and foodservice demand for onions remains stable while export demand is elevated. Heavy rain across growing regions in Europe will exacerbate onion shortages in the EU over the coming months. This will keep European demand for Australian onions above normal levels before returning closer to average as we come into spring. The increased domestic supply should see wholesale prices of brown onions return closer to longer term averages of just under $1/kg, particularly towards the back end of the year.

Potato volumes have returned closer to average over the past quarter, though production remains hampered following a challenging six-month period for producers. Later plantings across parts of Victoria and Tasmania are struggling with a lack sunlight which becomes more limited later in the year. This is expected to have a negative impact on yields over the back half of the year. As a result, total supply is expected to remain slightly below average which will keep prices slightly elevated despite relatively steady domestic demand at both a consumer and foodservice level.

Tomato volumes are also anticipated to rebound slowly with production across key growing regions in central Victoria struggling to recover from flooding and hail damage that occurred late last year. Victoria typically produces over 60 per cent of total national tomato output. Fresh tomatoes are seeing supplies begin to stabilise following a delayed planting period, however over half of all production is used for processing. Canned tomatoes are likely to absorb the reduced production which will keep canned tomato prices well above average according to key producers.

Nuts

This year's almond crop has been impacted by a number of challenges, with initial estimates putting total output for the 2023 crop between 120,000–130,000 tonnes. This compares to last year's almond crop of almost 140,000 tonnes. Difficulties with pollination driven by the varroa mite outbreak last year along with a wet finish to 2022 drove a significant decline in yields. The quality of the almond crop held up relatively well with a drier harvest period helping to reduce mould levels. This will aid prices with export demand for Australian almonds expected to be strong this season amidst a smaller than expected Californian crop as cold and wet weather impacted pollination in the key US growing area. Chinese demand for Australian almonds remains significant as substantial tariffs on US almond exports remain in place.

Macadamia producers are struggling amidst high global supply and constrained demand. Significant plantings both domestically and globally are driving production volumes consistently higher. Macadamia plantings from 5–10 years ago are now entering full production, with this growing supply trend expected to continue over coming seasons. Current industry forecasts have the 2023 macadamia crop sitting at around 53,500 tonnes in shell, an increase on last years crop of just under 53,000 tonnes. Global production for 2023 is expected to near 320,000 tonnes in 2023, an increase on last year's production of just over 300,000 tonnes. Both domestic and export demand remains subdued as inflationary pressures weigh on consumer demand for premium produce which is weighing further on pricing. As a result, macadamia prices have reached a 10-year low globally but have stabilised over the last few months. Farmgate prices have now fallen from $6/kg in-shell to below $2/kg. Global supply is forecast to grow to 500,000 tonnes over the next five years keeping the pressure on prices. The macadamia industry is expected to expand into the food ingredient sector as a result of the lower prices, though this is a longer-term strategy required to improve demand prospects.

Sheep

> "Lamb markets are expected to encounter good numbers of new season lambs in the second half of 2023. As high supply continues, markets will be looking for direction from export demand which has been a mixed bag so far this year. A drier outlook should avoid the challenges presented by the wet conditions of late 2022 which culminated in a surge of supply in recent months."

Stuart Bear
Senior Agribusiness Relationship Manager, Ballarat

Sheep

Supply

Australian lamb production will be on par with the second half of 2022 but down on recent months.

Price

Lamb prices are likely to improve from current levels but remain well below the five-year average.

Demand

Economic challenges will continue to weaken consumer demand but there are bright spots in some markets.

Outlook

High supply will keep lamb prices under pressure but improvements in some markets will add support.

Supply

The expansion mode of Australia's sheep flock is set to keep the industry in a high supply environment for the second half of 2023. A larger than normal carryover of lambs from late-2022 saw lamb slaughter in the first quarter of 2023 up 12.5 per cent year-on-year. This strong start has continued in recent months with May seeing the highest weekly slaughter rates since May 2019. Lamb supply is expected to come into closer alignment to trends from a year ago during the second half of 2023. Minor year-on-year increases to slaughter of around two per cent are expected on the back of flock growth. This will be offset by lighter average carcass weights due to forecast drier conditions. As a result, production volumes will be on par with 2022. Drier conditions should also lead to a more even flow of lambs through spring and summer compared to the past 12 months when excessive wet weather disrupted supply trends.

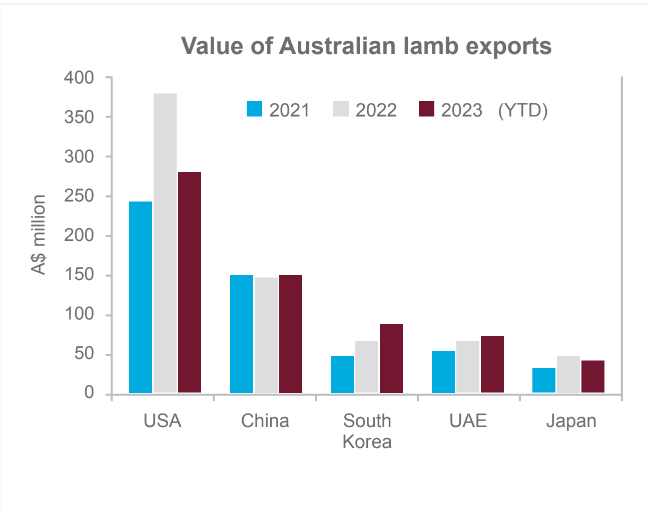
In contrast to Australia's growth trajectory, New Zealand supply is set to continue steadily shrinking and reduce competition in export markets. A declining breeding flock will limit lamb production which is already down four per cent year-on-year across the first four months of 2023 and 14.3 per cent below the five-year average.

Demand

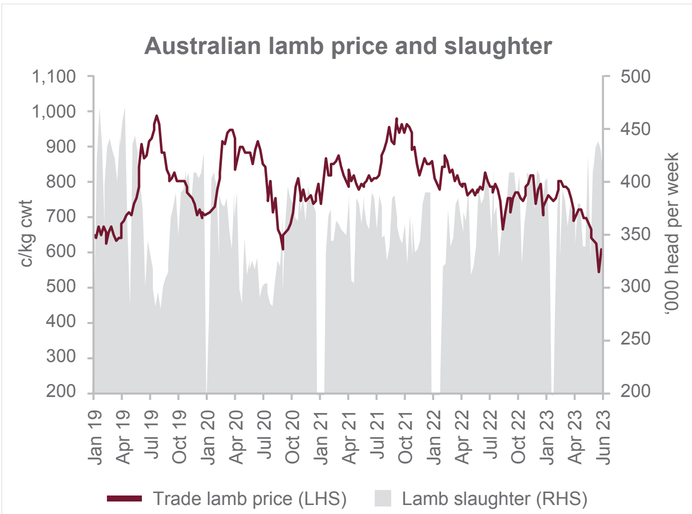
Consumer demand for lamb in Australia is set to remain subdued as consumers respond to challenging economic conditions. Inflation and higher interest rates will prompt many consumers to reassess purchases of higher-valued meat such as lamb in both retail and foodservice channels. This could result in a greater proportion of lamb being destined for export markets.

The ability of export markets to absorb increased production is key to the direction of prices. Currently, elevated production is finding a home in export markets, albeit at lower prices. The volume of lamb exports in January to April was 5.8 per cent higher year-on-year. However, the average unit price of exports has dropped by 15.3 per cent. Increased volumes but lower prices have resulted in the value of exports falling by 10.5 per cent. This trend suggests 2023 will be a record year for lamb export volumes but fall well short of last year's record value. The decline in export value largely stems from weaker US demand. Export value to the US has fallen 25.7 per cent so far in 2023 as poor economic conditions in the US are weakening demand. Demand outlooks are more positive to other major markets. There has been a resurgence in demand from China and the UAE following poorer demand in 2021 and 2022. A sustained improvement in appetite for lamb has led to South Korea being the largest growth market in 2023. Export value to South Korea is up 35.3 per cent for the year-to-date which has seen it overtake the UAE to become the third most valuable market.

The implementation of the A-UK FTA at the end of May presents another avenue of optimism for improved demand with Australian sheepmeat now having access to a duty-free quota of 25,000 tonnes. This equates to around 2.5 times the volume exported in each of the last two years. This is a positive step but may be a slow burn to translate into improved market sentiment.



Value of lamb exports January to April to top five markets.
Source: Global Trade Atlas



Weekly national lamb slaughter and national trade lamb indicator price.
Source: MLA

Sheep

Price

Lamb prices are set to remain subdued due to elevated supply forecast over the remainder of 2023. Supply is set to remain high deeper into winter than usual which will mean a delayed and limited winter price rally. Following winter, a relatively high and even flow of lambs will keep prices below five-year average levels. Improved conditioning could attract some improvement in pricing. Aside from supply, prices will be waiting on further improvement in export demand to offset the high supply environment to provide any further upside.

Mutton prices have spent much of 2023 below 400c/kg as supply has increased and demand for older sheep has waned. This is reflective of a national flock rebuild reaching maturation as producers offload older stock and are not looking to markets to supplement breeding ewes. These factors will remain in place for the remainder of 2023 and keep mutton prices subdued.

Wool

> Global economic headwinds are providing downward pressure on the forecast outlook for wool prices. This coupled with local skilled labour supply shortages and increased costs for wool harvesting will see reduced sentiment in flock re-stocking by Australian wool sheep farmers in the short-term. Attracting and retaining wool harvesting labour continues to remain a focus for the industry and grower groups.

Matt Gill

Senior Agribusiness Relationship Manager, Western Victoria

Wool

Supply

Australian wool supply to rise for the fourth consecutive year.

Price

Wool prices to remain low in high supply and low demand environment.

Demand

Demand will continue to be subdued by reduced household consumption.

Outlook

Below-average prices for wool and high shearing costs are weighing on the outlook for the sector.

Supply

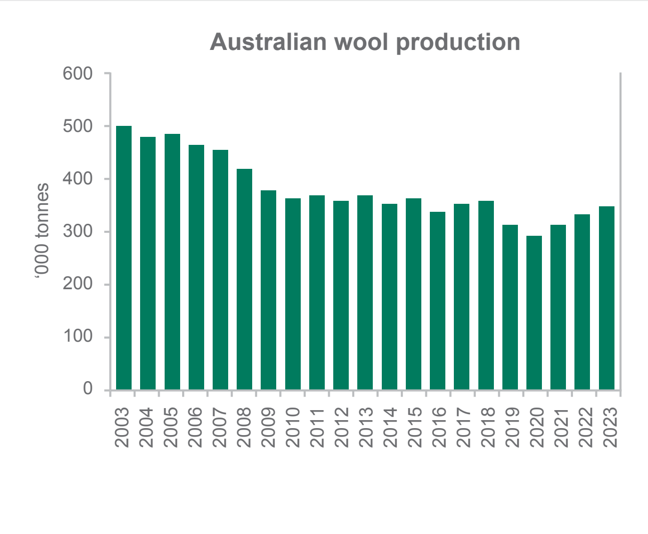
The number of sheep shorn in Australia in the next 12 months is forecast at 72.7 million by the Australian Wool Production Forecasting Committee. Strong seasonal conditions and above average sheep-meat prices in 2021 supported growth in the national flock during 2022. The national wool clip for 2022/23 is now 20 per cent higher than 2019/20 which was diminished by drought. The national wool clip in 2023/24 is expected to be only 1.4 per cent higher than the previous season. These numbers represent a peak in a cycle which has been marred by overall long-term decline. The decline in the supply of wool reveals a growth in the proportion of finer types. Types under 19.5 micron are now more than half of all tested wool compared to 40 per cent a decade earlier. The volume of strong merino wool has diminished, representing a change in the type of sheep being bred within Australia. This change is driven by contemporary challenges in wool prices and the harvesting of wool.

The pressures on the shearing industry will be put under more strain over the next six months with the number sheep to be shorn forecast to increase. A shortage of shearers right across the country has driven elevated labour costs and delayed shearing. There is no foreseeable short-term solution to this crisis. Pressures of increased costs will be exacerbated in the coming spring by below-average wool prices. The cost of shearing has increased two-fold in some sheds since the beginning of the pandemic. Conversely, the Eastern Market Indicator fell by 25 per cent in the same period. Weakened wool and sheep-meat prices will encourage more growers to cease restocking or rebuilding in the short-term.

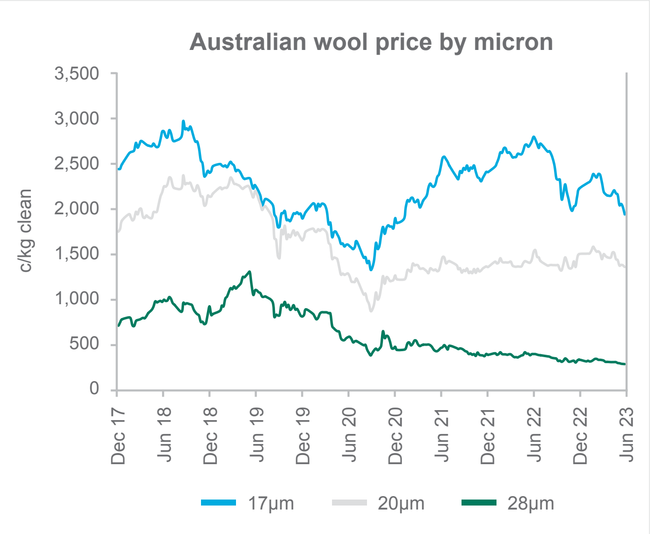
Demand

The export market for Australian raw wool continues to be dominated by China, who now accounts for 85 per cent market share. The export market has only five countries which purchase more than 1,000 tonnes of wool annually. This has fallen from 18 buyers just 20 years ago. Demand for raw wool has become concentrated in these larger markets. The Indian market has recorded the strongest growth in demand since the pandemic with exports India having tripled since 2021. This growth has been spurred by the Australia-India Economic Cooperation and Trade Agreement enacted in late 2022 which saw the removal of tariffs on Australian wool.

A bleak economic outlook has weakened demand for luxury retail goods. Consumers in advanced economies are spending an increasing portion of their disposable income on housing, thereby subduing spending on other goods. This trend is expected to continue throughout the rest of the year with central banks attempting to bring inflation under control. The opening of China's economy has not provided the market with the support that was initially predicted. China's inflation rate has progressively fallen throughout the first half of the year, which indicates a challenge to the country's modest five per cent GDP growth target for the year. China is central to both the raw market and retail market for the Australian wool industry.



Annual tested wool volumes.
Source: Australian Wool Testing Authority (AWTA), Rural Bank



Prices for 17-micron, 20 micron and 28-micron wool in Melbourne selling centre.
Source: AWEX, Rural Bank

Wool

Price

The price differential between fine and medium merino wool has begun to close after record prices drove a large wedge between the Micron Price Guides (MPGs). The gap between the 17 micron and 21-micron segments has fallen to 700 cents after averaging more than 1,050 cents since 2020. Prior to this point, the price differential was limited due to the elevated prices for medium strength merino wool. Prices for medium strength wool are currently at historic lows which may indicate that the price differential may close further, though a significant price premium for fine wool is expected to continue over the next six months.

Prices for wool types above the 23-micron segment have remained at historic lows since the beginning of the pandemic and the end of the drought in the eastern states. The value of 26-micron wools is now less than half of its value in January 2020. Annual production of wool above 23 microns has fallen by 14 per cent over the last decade. This shows both that strong production of finer wool and a lower demand for crossbred wool are contributing to a long-term price decline of above 23-micron types. Prices across the MPGS are not expected to increase significantly during the remainder of 2023. As a result, the Eastern Market Indicator is forecast to remain below 1,350 cents during the next six months.

About the research

The *Australian agriculture mid-year 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.

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
BOM	Bureau of Meteorology BOM
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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