

IN FOCUS: HORTICULTURE

JUNE 2019

Author Phin Ziebell, Senior Economist – Agribusiness



KEY POINTS

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CONTACTS

Phin Ziebell
Agribusiness Economist
+61 (0) 475 940 662

Alan Oster
Group Chief Economist
+61 3 8634 2927

Dean Pearson
Head of Economics
+61 3 8634 2331

Australia's horticultural sector is both large and diverse – the sector is worth around \$11.4 billion in 2018-19, comparable to grains, oilseeds and pulses at \$12.9 billion. Much of the product grown is destined for domestic consumers, but there is also a large export sector, particularly for fruit and nuts.

ABARES data show Australian horticulture exports of around \$3.2 billion in 2018-19. This is a comparable export value to Australia's lamb and mutton (\$3.6b) and dairy (\$3.5b) sectors.

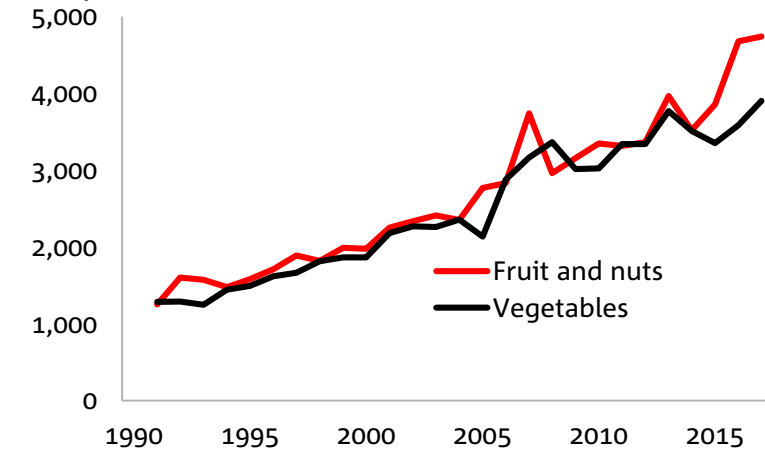
A major boost to Australian fruit exports came in the form of the China-Australia Free Trade Agreement (CHAFTA), which took effect in late 2015. CHAFTA has improved market access and lowered tariffs, particularly for Australian citrus. The value of Australian navel orange exports doubled in the three years since the agreement was signed, and the value of mandarin exports tripled over the period.

Tree nuts are also booming. In five years, the number of almond trees in Australia increased by two-thirds to over 11 million trees. Almost four million of these trees are still too young to bear fruit, suggesting that the value of almond production is set to increase rapidly.

While the value of vegetable production has continued to trend upwards, so too have vegetable imports, which now total around \$1 billion per year. Many of these imports are frozen and processed food. However, the trade position underlines the importance of market access for exports as well as an internationally competitive food processing sector.

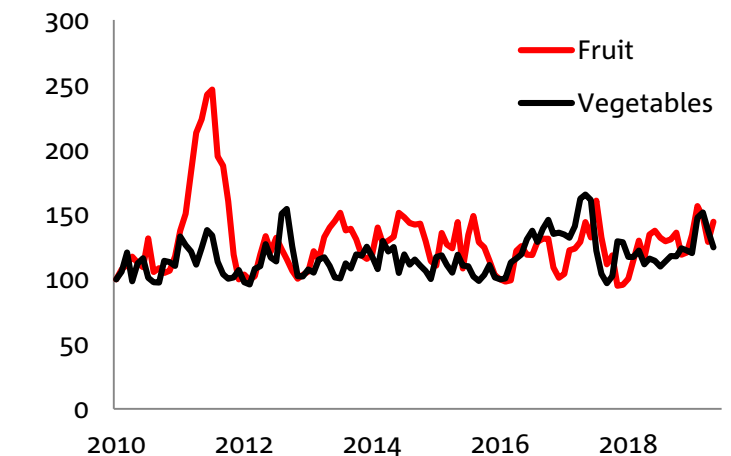
VALUE OF AUSTRALIAN PRODUCTION

\$m per annum



WHOLESALE MARKET PRICES

Price index, Melbourne and Sydney markets



Source: Source: NAB Group Economics, ABARES, Ausmarket Consultants, Australian Bureau of Statistics



HIGHLIGHTS FROM THE NAB AGRIBUSINESS BANKER SURVEY

As Australia's largest agribusiness bank, NAB is in a unique position to monitor movements in the agricultural sector and regional Australia.

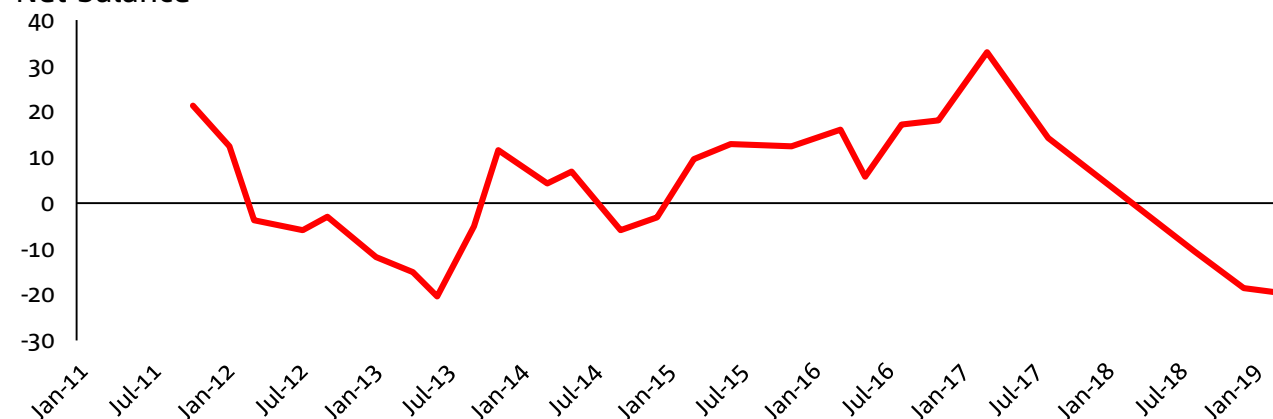
NAB's second Agribusiness Banker Survey found that agribusiness conditions remained negative in Q1 2019. The index fell from -19 (the number of bankers who said conditions were weaker out-weighted those who said it was stronger) in Q4 2018 to -20 in Q1 2019.

Looking at horticulture specifically, the survey found that conditions for fruit, vegetables and table grapes were positive in Q4 2018 and Q1 2019, at +16 and +7 respectively. Nuts were also positive, at +10 and +2 respectively.

While the data show somewhat weaker performance in Q1 2019, we are cautious about drawing any major conclusions beyond noting that horticulture conditions are positive and strongly outperforming agriculture overall.

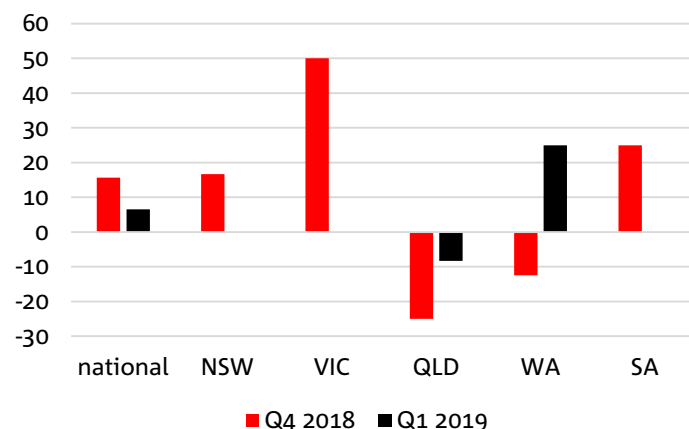
AGRIBUSINESS CONDITIONS - OVERALL

Net balance



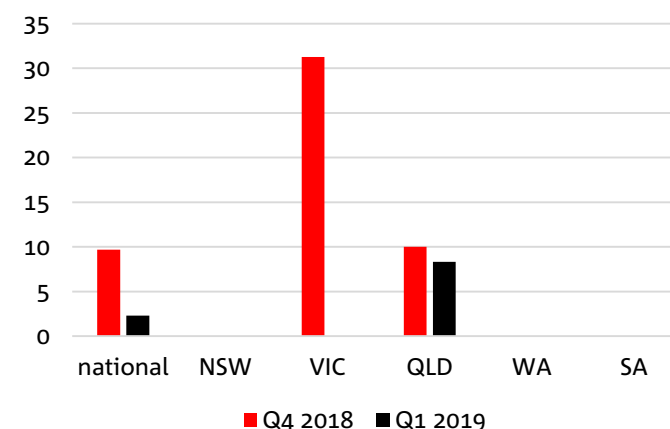
AGRIBUSINESS CONDITIONS

Fruit, vegetables and table grapes



AGRIBUSINESS CONDITIONS

Nuts

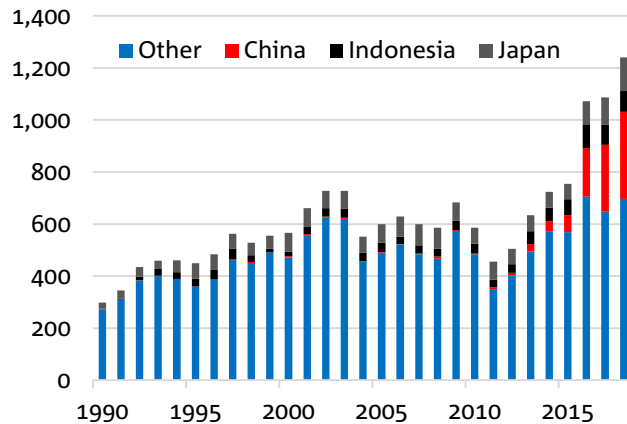


Source: NAB Group Economics

FRUIT

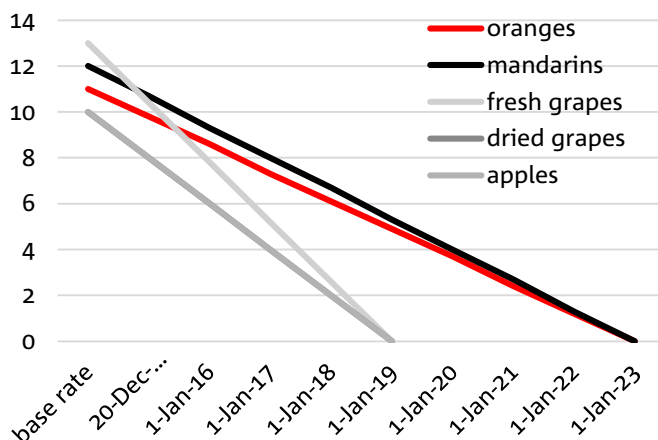
AUSTRALIAN FRUIT EXPORTS

\$m per annum



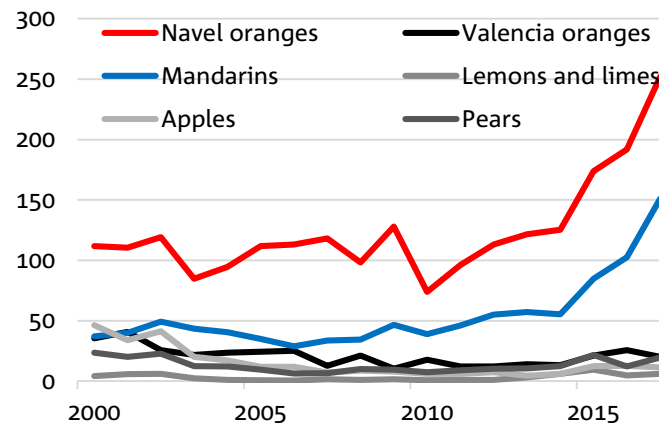
CHAFTA TARIFF SCHEDULES

Selected fruit, % Chinese tariff



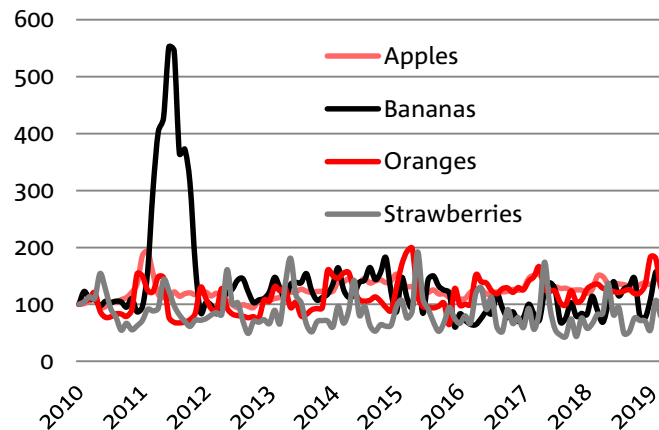
FRUIT EXPORTS BY VARIETY

\$m per annum



MARKET PRICES FOR SELECTED FRUIT

Mel and Syd average, index



Australia's fruit exports are growing very strongly indeed, in large part due to CHAFTA, which came into force in late 2015. CHAFTA has improved market access and lowered tariffs, particularly for Australian citrus. The value of Australian navel orange exports doubled in the three years since the agreement was signed, and the value of mandarin exports tripled over the period.

China's share of Australian fruit exports increased from just 1% in 2009-10 to 27% in 2017-18 – and extraordinary ramp-up. Overall, the value of Australian fruit exports (\$1.2 billion) is 112% greater than a decade ago.

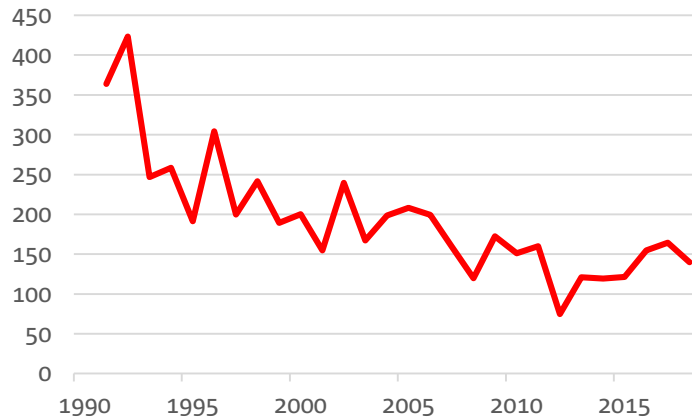
However, many fruits have not benefitted from CHAFTA, and those which are not export oriented have not seen major price growth in a long period of time. Wholesale prices for many fruits have seen fairly limited growth outside of normal seasonal variation – strawberries and bananas being classic examples. That said, domestic wholesale prices for oranges have seen perhaps less growth than might be expected given the strength of export markets.

Source: Source: NAB Group Economics, ABARES, Ausmarket Consultants, Australian Bureau of Statistics

NUTS AND TABLE GRAPES

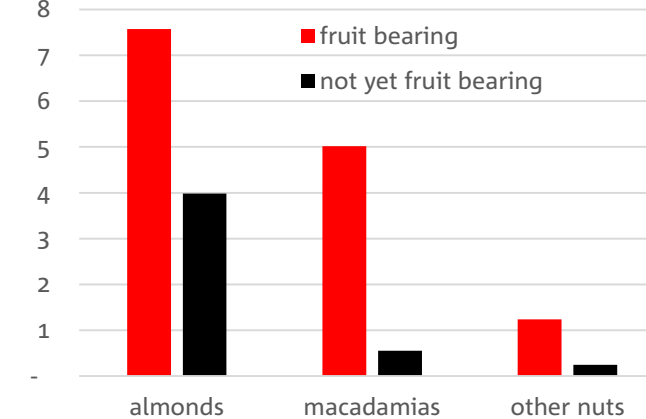
TABLE AND DRYING GRAPE PRODUCTION

KT per annum



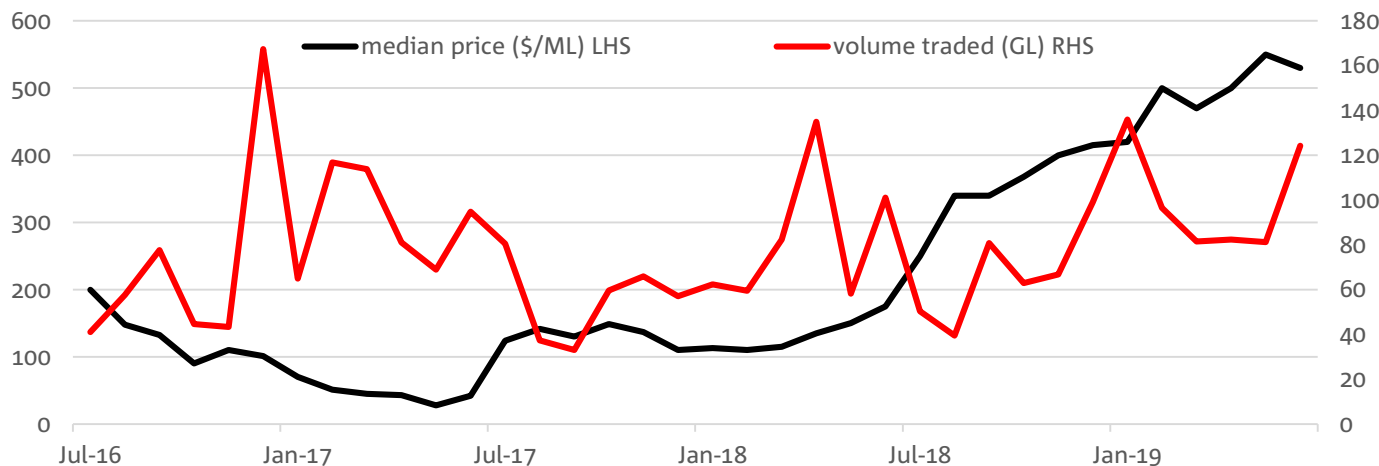
TREE NUT PLANTINGS

Tree numbers, millions



WATER ALLOCATION TRADE IN VIC ZONE 7 – BARMAH TO SA

Median monthly price (LHS) and volume traded (RHS)



Source: NAB Group Economics, ABARES, Ausmarket Consultants, Australian Bureau of Statistics, MDBA

The Australian tree nut industry is performing well, particularly for almonds.

The almond industry has expanded rapidly over recent years. There has been a 67% increase in Australian almond trees over the five years to 2017-18, although only a 19% increase in trees of fruit bearing age. Over a third of total almond trees in Australia are not yet fruit bearing, suggesting that there will be a strong increase in Australian almond production in coming years.

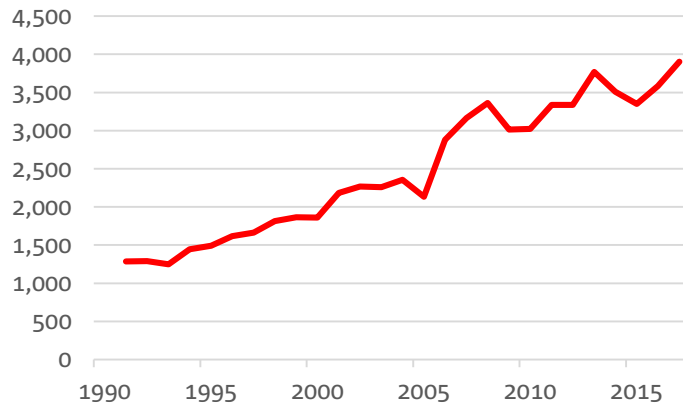
Production of table grapes decreased from the early 1990s until the end of the millennium drought, but new opportunities in Asia have seen a resurgence in the sector. Table and drying grape production increased from 75KT/annum in 2011-12 to 164KT/annum in 2016-17, although pulled back somewhat last year.

Permanent plantings in the Murray Darling basin are increasing, generally requiring water every year. Combined with lower – and less certain – rainfall and greater environmental allocations, there is likely to be a structural increase in water prices as a result. This will be a challenge for other industries, particularly dairy.

VEGETABLES

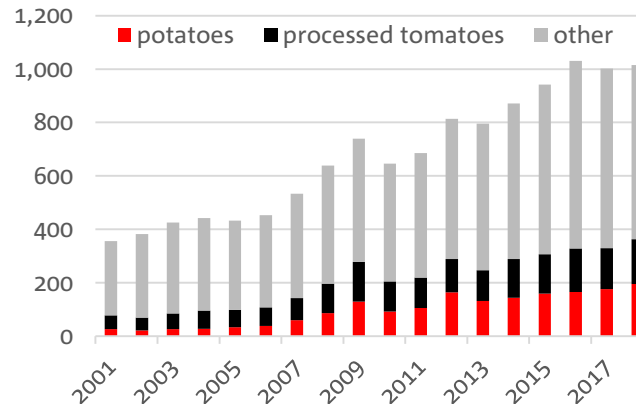
AUSTRALIAN VEGETABLE PRODUCTION

Gross value, \$ per annum



AUSTRALIAN VEGETABLE IMPORTS

\$m per annum, by type

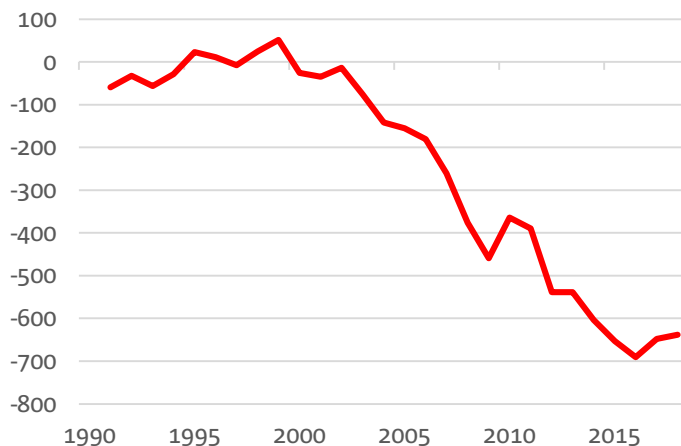


The value of Australian vegetable production continues to grow, reaching over \$4 billion in 2017-18. While this growth has not been constant, the trend has been generally positive.

While the value of vegetable production has continued to trend upwards, so too have vegetable imports, which now total around \$1 billion per year. Many of these imports are frozen and processed food. However, the trade position underlines the importance of market access for exports as well as an internationally competitive food processing sector.

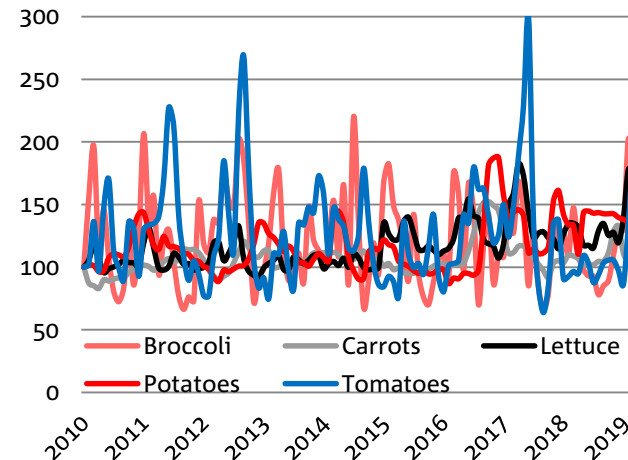
VEGETABLE NET EXPORTS

\$m per annum



MARKET PRICES FOR SELECTED VEG

Southern region, by micron, AUc/kg



Wholesale market prices display characteristic seasonal volatility, but as with fruit, have not generally seen major growth over the last decade. It is an open question whether prices are sustainable at these levels given higher input costs over the period.

Source: NAB Group Economics, ABARES, Ausmarket Consultants, Australian Bureau of Statistics



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