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Agricultural trade implications of COVID-19



Agricultural production continues, despite the pandemic. Food production is being treated as an essential service in Australia and many other countries and as a result, disruptions are being minimised to the extent possible. The real impact on Australian production continues to be the drought, and for certain areas and sectors, the recent bushfires. There is however some concern about supply of imported inputs, but with China's recovery, this risk is substantially reduced.

Production continues - influenced by drought and bushfires

The recent drought continues to be the most significant factor influencing agricultural production and prices this season. The national cattle herd and sheep flock are at historic lows and with recent rainfall, farmers are focussed on herd and flock rebuilding. This process will take up to 5 years and will see meat production reduce from the historic high turn-off rates seen during the drought. Things are looking good for the winter crop, and if the positive seasonal outlook for rain eventuates we will see a significant increase in grain production by the start of 2021. For irrigated agriculture the recovery is likely to be much slower, with more time needed to improve water storages.

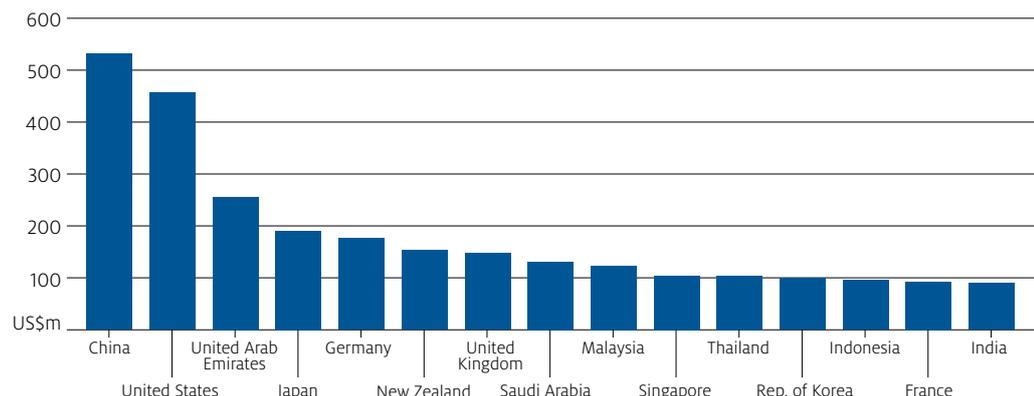
For forestry, COVID-19 may have some more immediate impacts. The summer bushfires in south-eastern Australia impacted large areas of plantation forest and public forest used for timber production. While the final impact on log supply will depend on factors such as fire intensity, age of trees and operational decisions, log supply may rise in the short term as fire-affected trees are harvested. Softening domestic and global markets, disruption to supply chains, and any slowdown in domestic construction activity may limit opportunities. For traded products, the lack of domestic processing alternatives may limit sales if processing in international markets is significantly disrupted. This will depend largely on the recovery of Chinese processing capacity.

Production does need imported inputs

Australian agriculture is both up and downstream of various international industries in global supply networks. Agricultural exports are underpinned by imports, with imported inputs accounting for around 10% of the total gross value of Australian exports.

China is our most significant supplier of intermediate inputs, followed by the US. But Asia and Europe are also important (Figure 1).

FIGURE 1 Key suppliers of intermediate inputs into Australian agri-food exports (2014)



Notes: Includes forestry but not manufactured wood products.
Source: ABARES

For farmers, key imported inputs include chemicals, fertilisers, stockfeed and machinery. For processors, inputs include packaging and other component inputs (such as other milk products from New Zealand for dairy processors). Industries such as dairy have highlighted potential supply issues for items such as tins and other packaging for processed products. Similarly, the berry industry has raised concerns about the supply of imported packaging (punnets). Domestic workarounds may be possible, meaning products will still find their way to consumers. However, workarounds will come at a higher cost, and will partially erode margins and increase consumer prices.

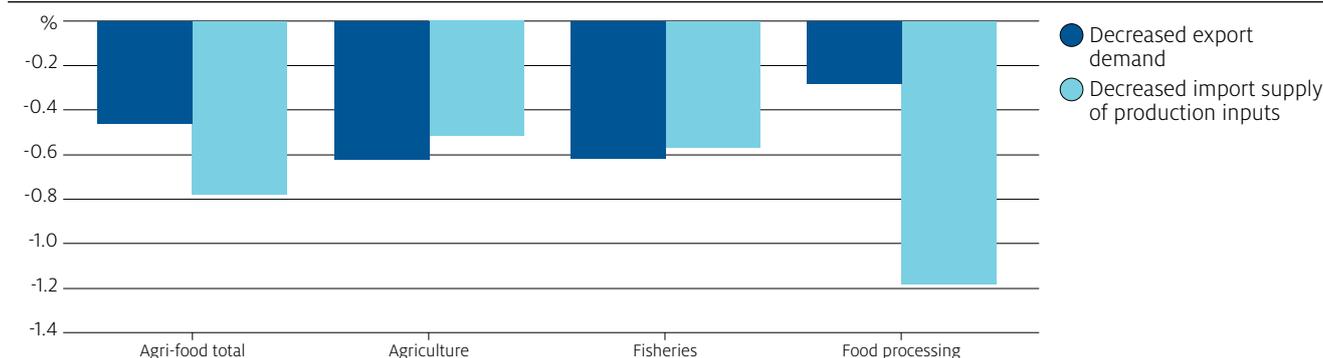
If disruptions do occur, the impact could be significant

Illustrative modelling suggests that disruptions to supplies of imported inputs would impact agriculture, forestry and fishing sectors more than demand shocks.

Our modelling analysed a hypothetical proportional reduction in demand for exports or supply of imported inputs. It found that the impact of imported input supply disruptions on production was around 1.7 times greater than a demand shock. This makes sense. A demand shock generally reduces prices, but products still find a market. But limits to inputs also limits the ability to produce.

The results vary across sectors, with incomes for producers in agriculture and fisheries more susceptible to prices softening from demand shocks due to the availability of locally sourced inputs.

FIGURE 2 Impact of disrupted input supplies versus a proportional demand shock



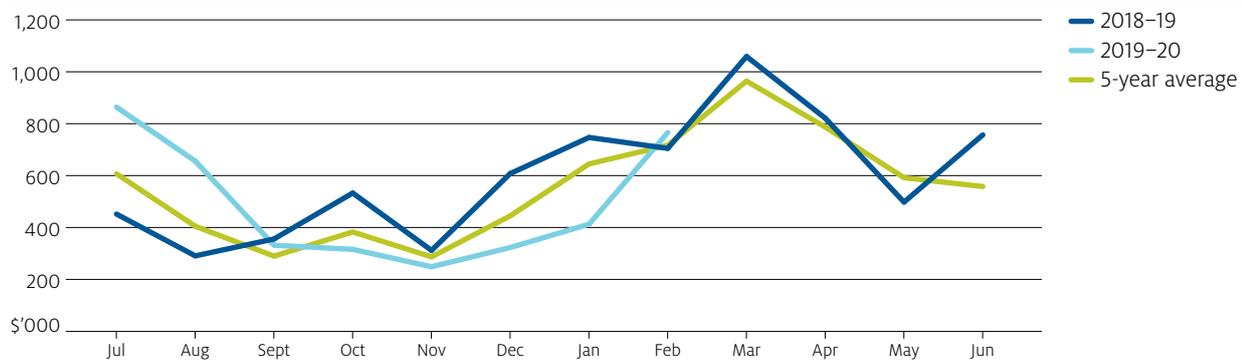
Notes: Results show the percentage decline in sector gross value of production from a 30% reduction in export demand and a 30% fall in supplies of imports.
Source: ABARES

But significant problems haven't emerged

At this stage there is no sign of significant disruption to imported inputs. Recently released trade data shows that foreign input supplies continue to flow. And whilst that data does not cover March 2020, unpublished import information suggests that import of key inputs has continued over recent weeks without significant problems.

Imports of feed remain well above the five-year average, reflecting the effect of drought on domestic stocks. Fertiliser imports (Figure 3) have been below the 5-year average, again reflecting the effect of the drought that significantly reduced demand during the summer cropping season, but have picked up significantly in February – a trend that appears to have continued into March. A similar pattern is seen for agricultural chemicals where imports have been below average levels up until March, where a significant increase has occurred, suggesting that supply chains are responding to the increased demand despite the COVID-19 crisis. Agricultural machinery imports are also tracking largely in line with average levels.

FIGURE 3 Fertiliser imports, 2018–19 and 2019–20 compared with 5-year average



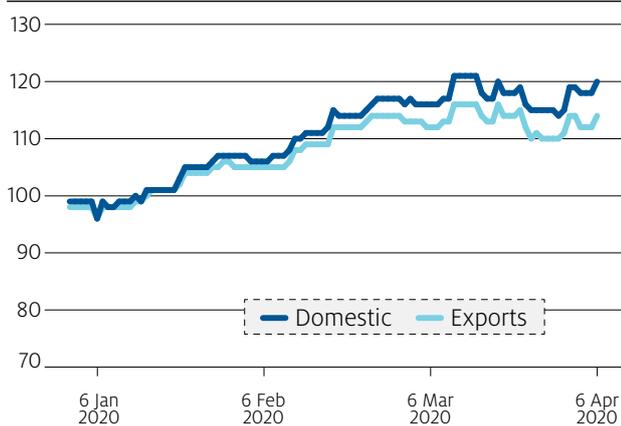
Source: ABS

Given the outlook for the winter season, the use of chemicals such as herbicides and fertiliser will increase, meaning keeping these import supply chain functions will be important.

Price falls have moderated

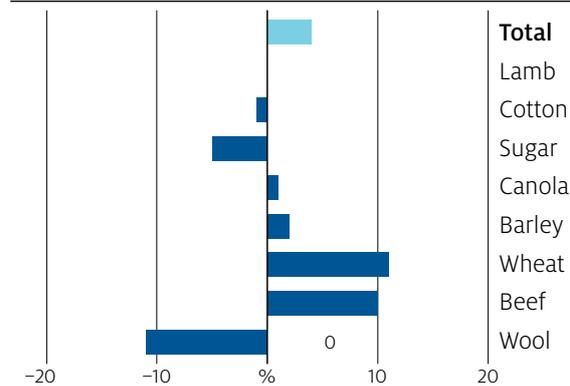
The trend of price softening has moderated this week. Increased uncertainty in international markets related to export restriction in major cereal producing countries has placed some upwards pressure on prices, particularly as Australia is viewed as a reliable supplier.

FIGURE 4 Daily price moves selected commodities (6 April 2020)



Source: ABARES

FIGURE 5 Weekly price moves selected commodities (6 April 2020)



Source: ABARES

