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Drought in Queensland 2013

Report Categories:
Agricultural Situation
Livestock and Products
Grain and Feed

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Report Highlights:
Over 65% of the state of Queensland has been officially drought declared. Many cattle producers have had to reduce herd sizes significantly and received low prices in return. The extent of the dry conditions, compounded by low market prices has put considerable financial stress on many producers, some of whom are expected to be forced to exit the industry.

Drought in Queensland

The drought that is currently affecting the vast majority of Queensland has been described by many as the worst in living memory. From 2010 to 2012 most of Queensland experienced a series of above average rainfall years with the result that cattle numbers increased to levels not seen since the mid-1970s. However the wet season of 2012-13 was considered a failure and record high summer temperatures combined to limit pasture growth significantly (see Figure 1). As a result over 65 percent of Queensland has been officially drought declared (see **Error! Reference source not found.**) with this figure expected to rise further before the end of 2013.

In response cattle producers began selling large numbers of cattle much earlier in the year than normal which depressed market prices. Because the dry conditions are so widespread there have been limited opportunities for producers to 'buy grass' by purchasing additional land, contract grazing (agistment) of cattle, or herding. There have been cases of producers selling cattle for less than the cost of the freight to get them to sale yards, resulting in a net negative return. Compounding these factors has been a sharp rise in the cost of fodder supplements such as cotton seed (+204% since April) and molasses. Cottonseed meal has been particularly limited in supply due to high export demand for the product from New Zealand during dry conditions earlier in 2013. The quality of pasture in many areas has now declined to the point that traditional protein supplements are insufficient and livestock require energy supplementation as well. Until the recent start of the 2013 grain harvest stocks of hay and grain were very low and prices high. A significant portion of the grain harvest in New South Wales and Victoria has been downgraded due to frost which will increase stocks of feed-grain somewhat but even once significant rain is received demand for these products will continue for several weeks at least.

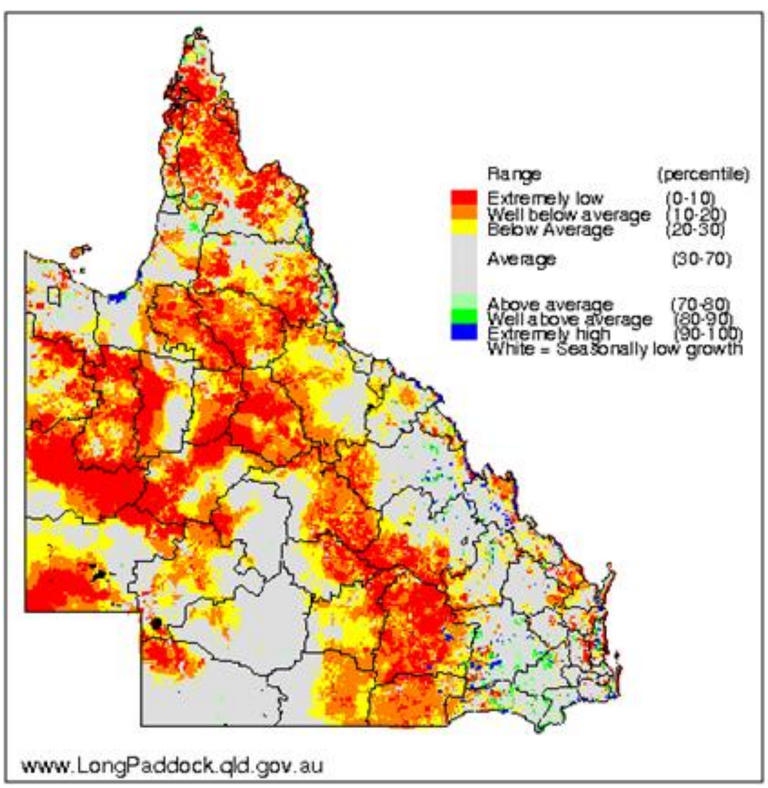

Figure 1 Queensland pasture growth November 2012 - October 2013 compared to average 1957-2013.

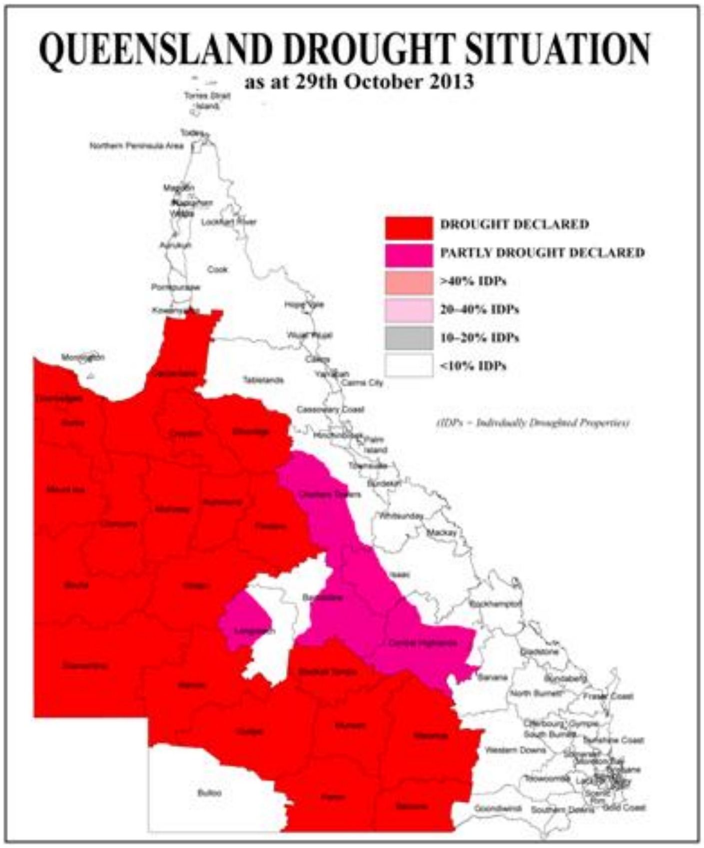

Figure 2 Queensland pasture growth November 2012 - October 2013 compared to average 1957-2013.

Cattle slaughter rates and prices

As a result of the dry conditions, cattle slaughter rates have been higher than average for almost all Australian states. A large proportion of the cattle that are bred and backgrounded in Queensland are slaughtered in New South Wales, and this year greater numbers than normal have been shipped to Victoria and South Australia for finishing and slaughter. The slaughter of cows for the period January to September 2013 is 9 percent higher than the 10 year average for the same period with cows making up 43 percent of the total slaughter, up from 40 percent in 2012.

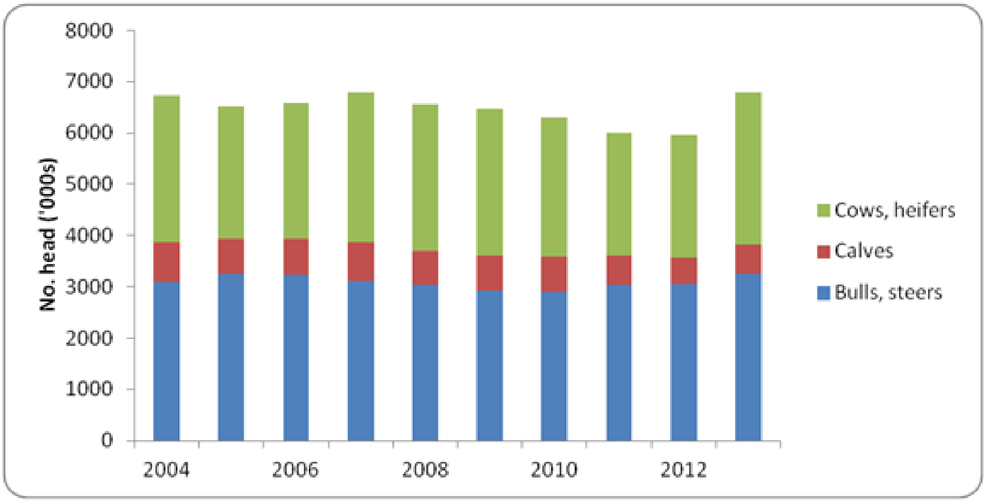

Figure 3 Australian cattle slaughter rates (Jan-Sept data)

The higher numbers of cattle on offer of declining quality as the season has continued has depressed market prices. The main price index for the Australian live cattle market is the Eastern Young Cattle Indicator (EYCI) which has been well below average during 2013 and fell below 280c/kg in May 2013 for the first time since 2009.

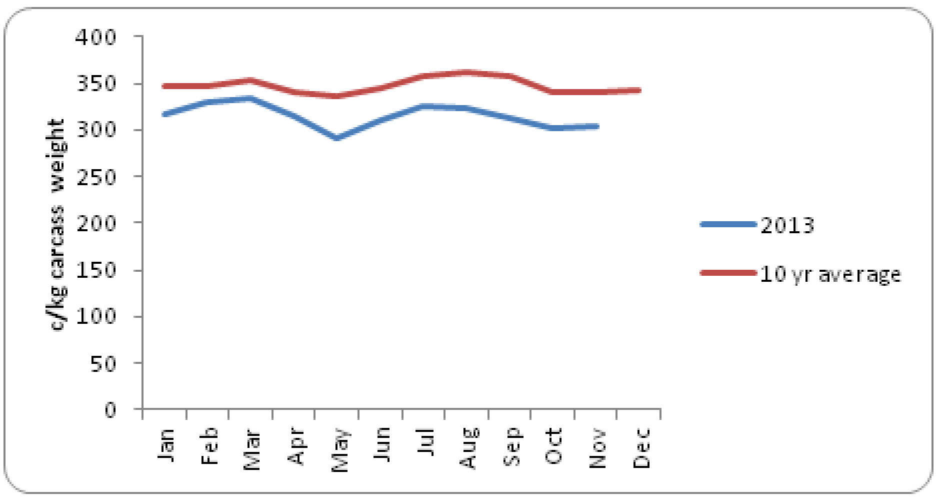

Figure 4 Eastern Young Cattle Indicator 2013

The impact of the drought is already evident in the financial performance of beef producing farms as assessed by the Australian Bureau of Agriculture and Resource Economics and Sciences (ABARES). The average farm cash income for northern[1] beef producers declined from $102,000 in 2011-12 to $100,000 in 2012-13 and farm business profit (in real terms) declined from $45,100 to just $2,000. While southern Australia has not suffered the same poor seasonal conditions as Queensland (and the

[1] ABARES defines northern Australia as Queensland, the Northern Territory and the Kimberley region of Western Australia. Southern Australia is defined as New South Wales, Victoria, Tasmania, South Australia and the remainder of Western Australia.

Northern Territory), the influx of cattle from northern areas has also affected cattle prices in these regions. ABARES reports that the average profit for southern beef producers declined from $30,500 in 2011-12 to $4,000 in 2012-13.

Rural property market impacts

At this stage it would appear that both investors and banks are waiting to see how the 2013-14 wet season unfolds before making any major moves in the rural property market. In some of the worst hit areas there are a large number of properties under receivership or close to it. However, the banks are hesitant to force sales before it rains to avoid the risk of depressing market prices further. Industry reports suggest that the major impact of this drought on property prices will be seen over the next 12 months to two years as the full impact of reduced cash flows is felt. One of the major issues reported by producers is the pressure to sell cattle even at reduced prices to reduce debt levels. While this has the advantage of reducing operating costs in the short term, particularly in the form of reduced fodder costs, producers will require access to significant funds to restock when seasonal conditions improve. The ability of producers to trade their way back to positive returns will vary widely between individual businesses and depend largely on their ability to negotiate appropriate terms with their financial institution.

Government support

The Queensland government has put in place a number of measures to support producers affected by the drought conditions. These include rebates for the construction of livestock watering points, freight subsidies, land rent deferral and concessions on fees for vehicle registrations and permits. Permits have also been granted to allow cattle to graze in a limited number of national parks. There was significant public opposition to this move, particularly from environmental groups. However, the government defended the policy based on the fact that the areas in question had only recently been converted from cattle production areas to national parks. The Queensland Department of Health is also providing mental health workshops and counseling services.

On November 6, 2013 the Australian Minister for Agriculture, Barnaby Joyce announced that the Australian Government would contribute an additional $AUD7 million to supplement the funds provided by the Queensland Government for the emergency water infrastructure rebate. There has been some criticism of this move, largely from environmental groups as it would appear that the funds were reallocated from the national Landcare program which aims to improve on-farm environmental outcomes.

Historically the Australian Government has provided drought assistance under the Exceptional Circumstances program. However this program closed on June 30, 2012 as part of a review of drought assistance measures. The National Drought Program Reform was announced by the previous Labor Government in the 2013-14 Budget with the aim of moving the focus to drought preparedness rather than crisis management. However, the new Program which will operate from July 1, 2014 will still allow farmers to access up to three years of income support during periods of financial hardship. The Program also includes changes to taxation rules and greater access to financial counseling services. Total investment in the Program is $99.4 million over four years. No further changes to drought assistance programs have been announced by the new Coalition Government.

Good news

Since the beginning of November there have been increasing numbers of storms across Queensland and down into New South Wales. Figure 5 shows the rainfall totals for the week ending November 18 and the forecast for the week beginning November 18 also shows some positive signs of more rain. While certainly not drought-breaking these rains may signal a return to more 'normal' seasonal conditions.

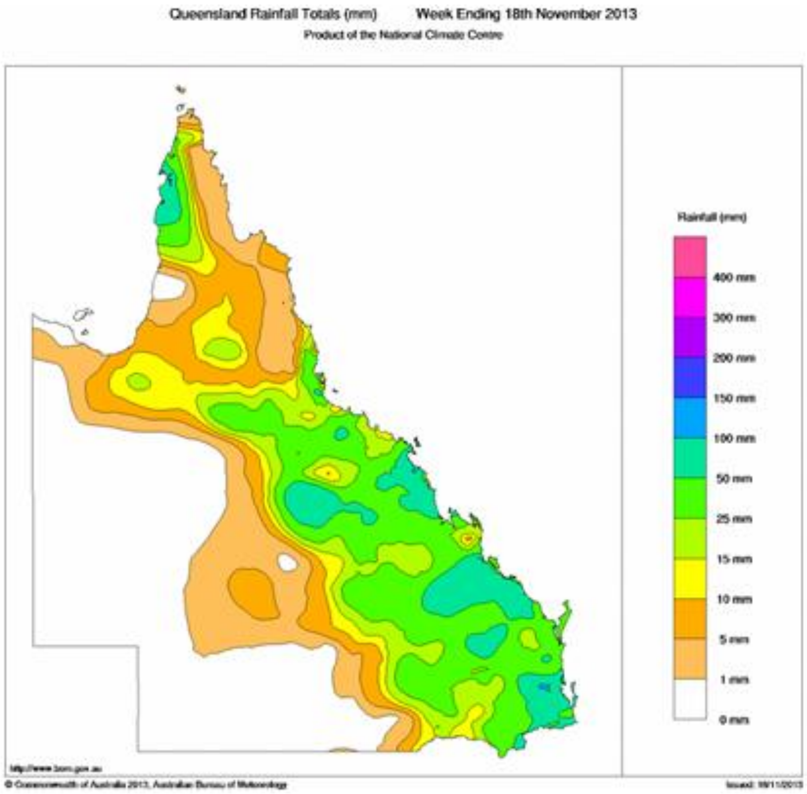

Figure 5 Queensland rainfall for week ending November 18, 2013

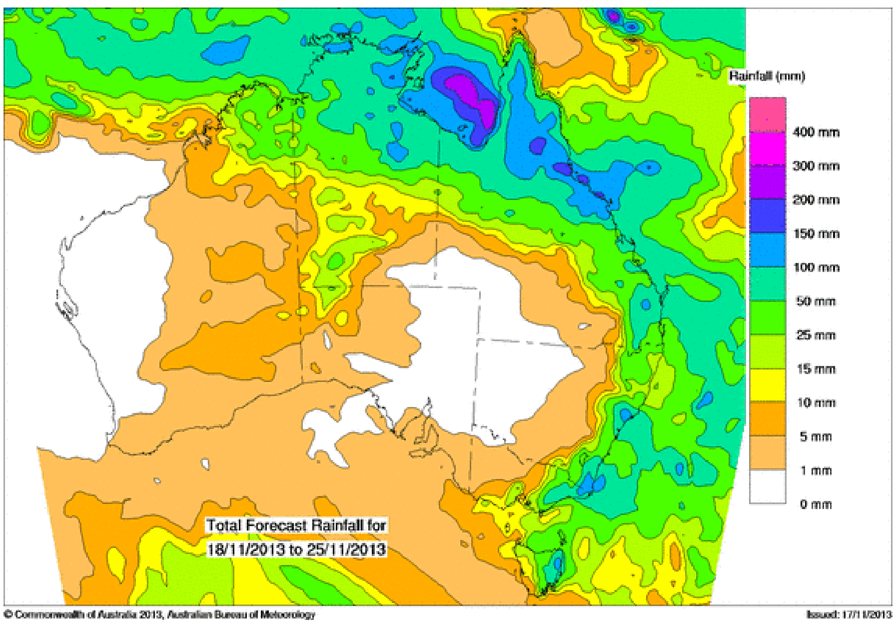

Figure 6 Australian forecast rainfall November 18 - 25, 2013