

To track the advances in the South Australian resources, agri-food and wine sectors, PIRSA has developed a series of Industry ScoreCards, which provide detailed value-chain measures of annual performance. This report outlines the 2007/08 findings of our assessment for SA's agri-food sector, against respective Food Plan targets, to be reported to the South Australian Premier's Food Council on the 24th of November.

1. OVERVIEW - FOOD SCORECARD RESULTS FOR 2007/08

Over the past few years, the progress of South Australia's Food industry against the 'headline' targets: *Gross Food Revenue*; *Exports (overseas)*; and *Finished Foods*, have been hampered by the cumulative impacts of a high Australian currency, reduced water allocations along the River Murray and successive periods of low rainfall or drought.

Table 1 shows that over 2007/08, growth of the SA Food industry accelerated significantly across all the major performance aggregates, particularly driven by a significant rebound in the field crop sector, resulting in a boost to overseas and interstate commodity exports.

Table 1: SA Food ScoreCard Summary, 2007/08

Industry	Farm Gate Value	Finished Food Value	Overseas & Interstate Exports	Retail & Food Service	Net Food Revenue	Gross Food Revenue	% growth GFR 2006/07 - 2007/08
Field Crops	1,253	873	1,428	1,718	2,870	3,146	33%
Livestock	898	1,499	1,100	1,928	2,723	3,028	7%
Dairy	273	297	119	635	642	753	9%
Horticulture	626	1,063	694	1,737	2,128	2,431	3%
Seafood	435	614	491	309	624	800	12%
Other	-	60	34	1,313	383	1,347	32%
Total	3,484	4,405	3,864	7,640	9,371	11,504	15%
% growth over year	39%	9%	19%	14%	17%	15%	

Highlights in the Food ScoreCards value-chain performance over 2007/08 include:

- *Production* growth of \$970 million(m) (up 39%) to reach \$3.5 billion, the highest level since ScoreCard records commenced in 1996/97;
- *Finished Foods* growth of \$355m (up 9%) to reach a record \$4.4 billion;
- *Overseas Export* growth of \$295m (up 17%) to reach \$2.0 billion;
- *Gross Food Revenue* growth of \$1.5 billion (up 15%) to reach a record \$11.5 billion;
- *Food Employment* up by 10,200 (7.7%) to reach a record level of 143,400.

Despite the impressive growth over the year, caution must be used in interpreting the figures as regional and sector impacts vary significantly. Additionally, much of the growth comes from price impacts from, on the one hand, increases in world demand and, on the other, input cost pressures (fertiliser, chemicals, fuel, stock feed and labour). This means that the 'headline' growth figures do not necessarily translate into improved margins or profits along the value chain, especially as some of the price increases are likely to be ephemeral.

The outlook for the 2008/09 season represents one of the most uncertain periods in recent agri-food history, with continued low water allocations, dryer than average spring conditions, dramatically reduced commodity prices, sharply fluctuating foreign exchange rates and uncertain world demand conditions flowing from the global financial crises.



2. FOOD PLAN TARGETS AND KEY PERFORMANCE AREAS

2.1 Gross Food Revenue reaches a record \$11.5 billion

Figure 1 shows the trend in the headline *Gross Food Revenue* (GFR) ¹ over the past 13 years, since the commencement of the State Food Plan. The blue-dashed line represents the average annual growth needed over this period to meet the principal GFR target of \$15 billion by 2015. The black underlying trend line shows the average growth in GFR over the past 20 years.

Figure 1: Gross Food Revenue, South Australia (1996/97-2007/08)

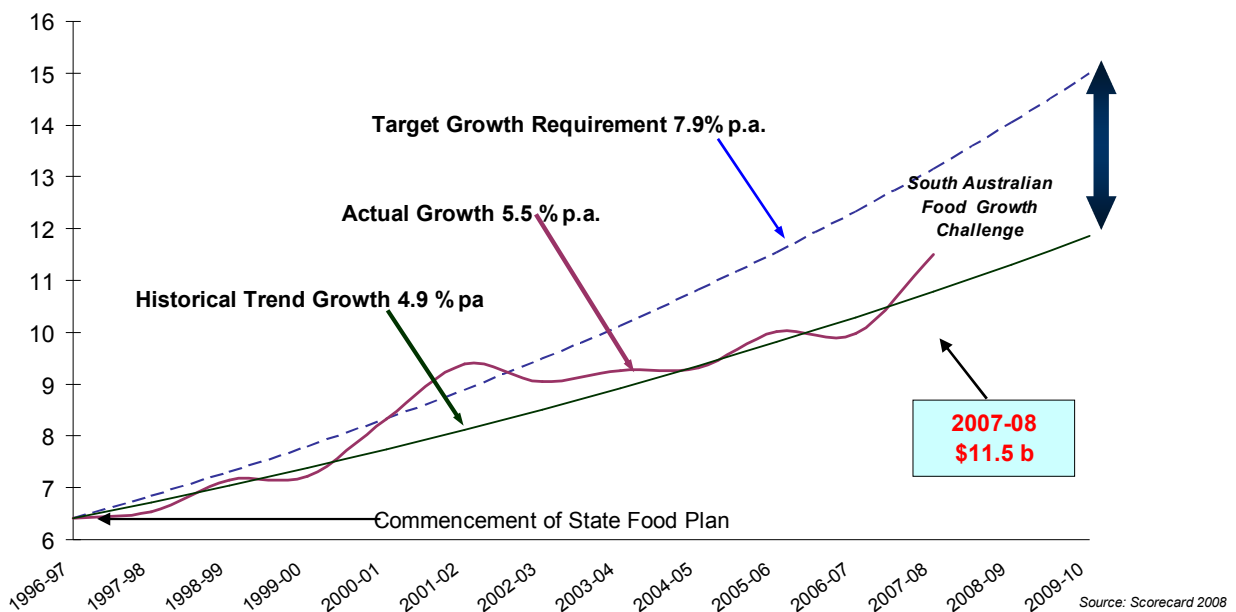


Figure 1 shows that since 1996/97 GFR has grown at an average rate of 5.5% pa. A sharp rise in this growth is evident over 2007/08, with GFR up by \$1.5 billion (15%), to a record level of \$11.5 billion. Being a figure expressed in nominal terms, it is estimated that 37% of the growth in GFR was the result of food price inflation (estimated at 5.6% over the year). Thus *real* GFR growth over the year is estimated at 9.4%.

While figure 1 shows that last years growth has propelled the SA Food sector's performance beyond the 'underlying average' growth evident over the past 20 years, cumulative growth equal to that achieved over this year (at 14% pa), is needed over the next two years, to reach the Food Plan GFR target.

The increase in GFR has largely been the result of increased local consumption, through both food service and retail trade growth. Local consumption increased by \$0.9 billion (14%) to reach \$7.6 billion in 2007/08. However, in percentage terms, the largest increase occurred in total overseas and interstate exports (up by 19%). This was driven largely by the field crop industry (up by 74%).

¹ The measure Gross Food Revenue captures all food sales that have occurred within South Australia, including commodity and other food products that have been sold for domestic consumption, exported interstate or overseas.

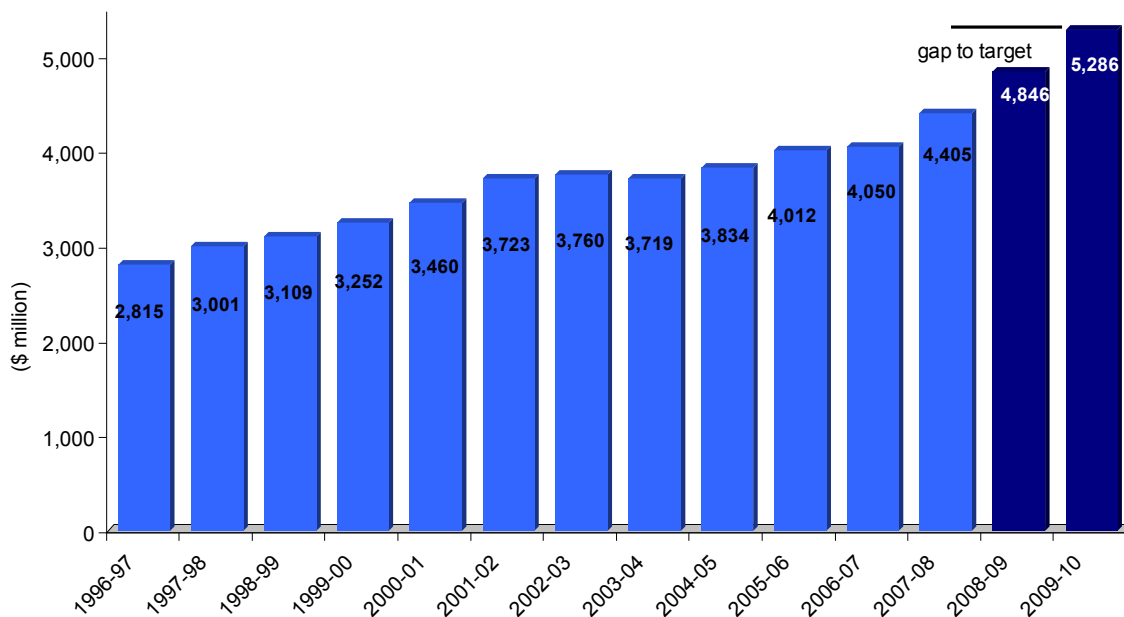


2.2 Finished Foods grow to a record \$4.4 billion

Figure 2, shows the growth in *Finished Food*² values in SA since 1996/97, with the darker shaded columns identifying the target range over the next few years, required to meet the 8 percent per annum growth identified in the 2007-2010 SA Food Plan.

Since 1996/97 the value of *Finished Foods* has grown by \$1.6 billion (60% higher) at an average annual rate of 4.2%.

Figure 2: Value of Finished Foods, South Australia (1996/07-2007/08)



Source: ABS Manufacturing & Scorecard 2008

Over the year to 2007/08 *Finished Foods* grew by \$355m (up 9%) to reach \$4.4 billion. Figure 2 shows that this is the highest annual growth rate since *ScoreCard* analysis commenced in 1996/97. Nevertheless, it is noted that these values are expressed in nominal terms and it is estimated that food price inflation accounted for over half the latest growth (measured in wholesale terms).

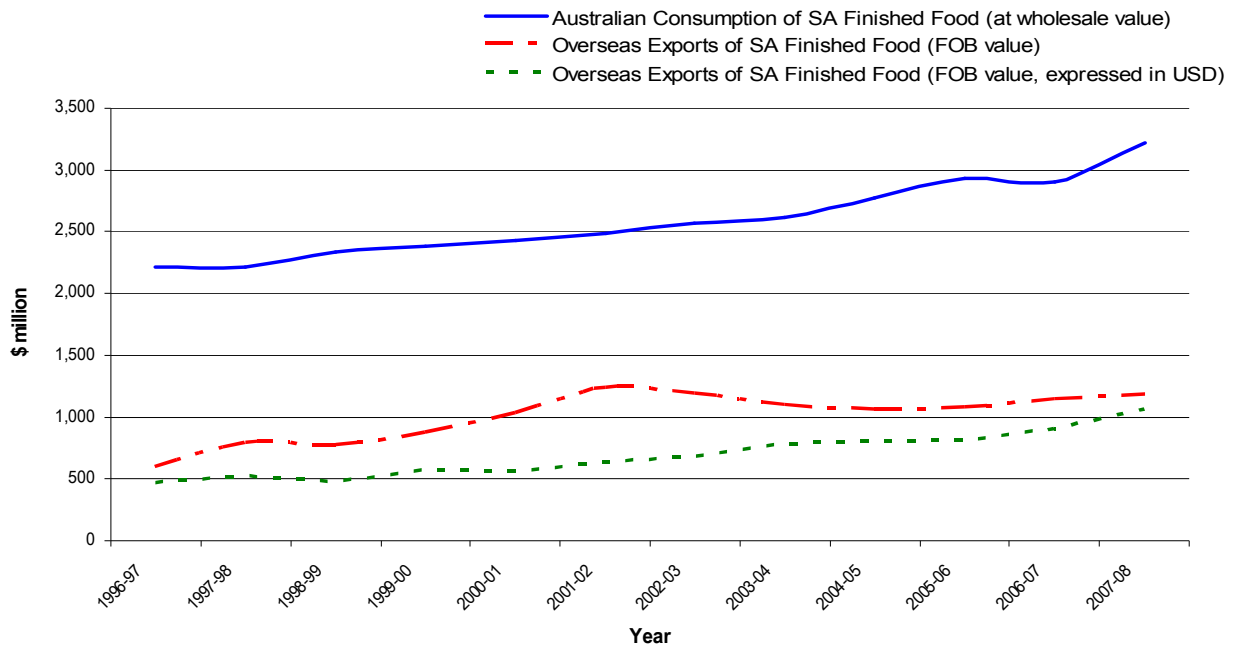
Despite this latest growth, to reach the *Finished Food* target of \$5.3 billion by 2009/10, the required growth rate for *Finished Foods* at 9.5% p.a. remains above the original target of 8% (see Figure 2).

Figure 3, over page, disaggregates the above figures by market destination, showing that domestic demand (National consumption) remains the dominant market. Its growth over the past year has been the strongest (up 11%), with performance growth over the long term (1996/97-2007/08) remaining comparatively stable. By contrast, the overseas growth of *Finished Food* exports over the year, at just under 4%, has been more modest.

² The measure *Finished Foods* captures food industry value adding. This is measured at an intermediate level, before a product is either traded or consumer and its value is expressed in wholesale prices. Data on *Finished Food* values are not regularly published, and *ScoreCard* estimates are based on a combination of sources including: balancing inputs from production with trade and consumption estimates, along the value-chain as well as ABS Published Food and Beverage Manufacturing Turnover.



Figure 3: Destinations of SA Finished Food (wholesale/FOB Values, \$million)



Source: PIRSA ScoreCard 2008

Nevertheless, over the longer term, the growth of overseas exports of *Finished Foods* has been a significant growth driver, maintaining a 6.4% per annum growth rate. In the dashed green line in Figure 3 the impact of AUD currency fluctuations is removed, suggesting that this growth has been remarkably consistent over the 12 years represented.

2.3 Agri-Food Production values reach a record \$3.5 billion

Table 2, below, shows that over the year, SA food production values increased by \$970m (39%) to reach \$3.48 billion, and another record high level for *ScoreCards*.

Table 2: SA Primary Food Production, by Industry and Sector

Industry	Value \$ million			% Change 2006/07-2007/08	
	2006/07	2007/08	% change	Prices	Volume
Field Crops	291	1,253	331%		
<i>Wheat</i>	182	787	332%	173%	59%
<i>Barley</i>	50	188	273%	116%	72%
Livestock	975	898	-8%		
<i>Beef</i>	382	326	-15%	3%	-17%
<i>Pig</i>	165	160	-3%	1%	1%
<i>Sheep</i>	283	241	-15%	-4%	-11%
<i>Chicken</i>	124	142	15%	0%	12%
Dairy	216	273	26%	36%	-7%
Horticulture	644	626	-3%		
<i>Potatoes</i>	142	133	-6%	0%	-5%
<i>Apples & Pears</i>	53	46	-14%	11%	-21%
<i>Almonds</i>	84	59	-30%	-21%	-12%
<i>Other heavy Veg</i>	69	46	-33%	-2%	-31%
<i>Citrus</i>	44	56	27%	31%	-3%
<i>Cucumbers & capsicums</i>	72	108	50%	35%	11%
Seafood	387	435	12%		
<i>Blue fin tuna</i>	148	168	14%	-18%	29%
<i>Lobster</i>	72	94	31%	34%	-3%
Total Primary Production	2,513	3,484	39%		

Source: PIRSA ScoreCard 2008



Table 2 also displays the performance of key sectors by industry, showing the influence of price or volume changes upon performance. While overall performance has been strong, Table 2 shows that results for individual industries and their sectors has been mixed, with seafood, dairy and, most significantly, field crops demonstrating strong growth, while small declines were recorded in the livestock and horticulture areas:

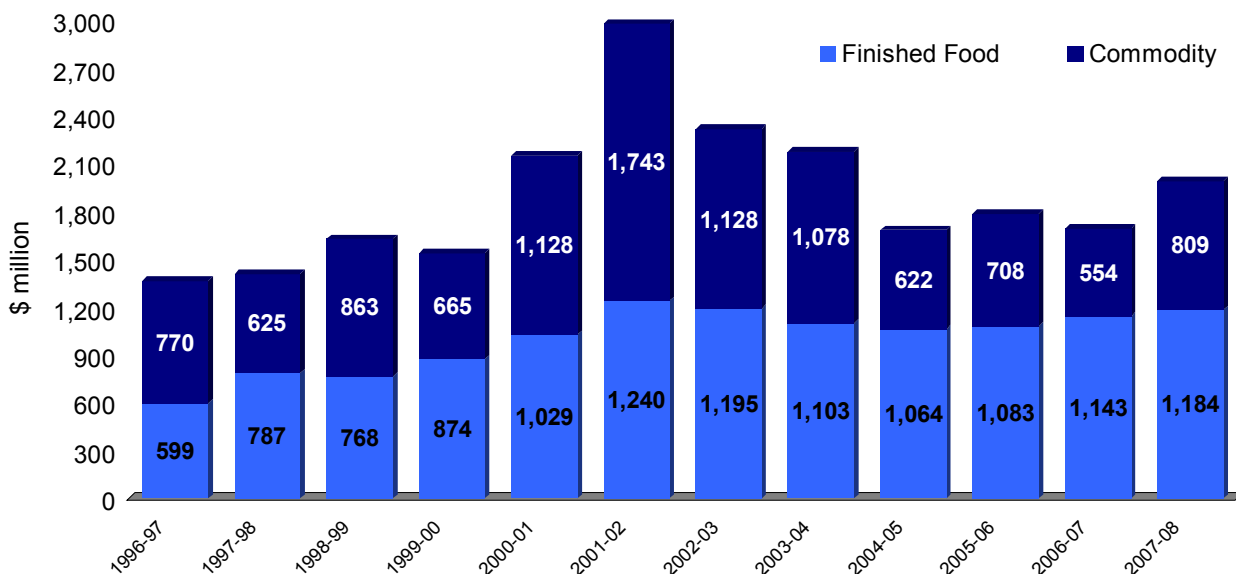
- Field crops – total production values increased to near record Food ScoreCard highs. The most significant increases were for wheat and barley. However, the significant increase in the value of field crops occurred despite production levels being around 6 percent down on the 6-year average. Indeed, the growth in value was caused by grains prices in 2007/08 being almost double (up 96%) the average.
- Livestock – total production values declined slightly. Declines were evident in the beef and sheep sectors, with the poultry and pigs sectors increasing in both volume and price.
- Dairy – total production values increased due to strong price increases, but volume declined.
- Horticulture – total production values declined somewhat. The decrease in production values occurred for most major sectors. Citrus increased in value, driven largely by a price increase.
- Seafood – total production values increased. Performance was mixed with the two largest sectors, blue fin tuna and lobster increasing strongly, while most other sectors have remained largely unchanged.

2.4 SA Food Exports (overseas) increase by 17% to almost \$2 billion

Figure 4 shows that over the year total overseas food exports from SA increased strongly by \$295m (up 17%) to reach \$1.99 billion.

The growth in SA food exports was led by grain commodities which increased by \$250m (48%) to reach \$769m. The price attained for export grains over 2007/08 was significant, for example, non- durum wheat volumes remained virtually unchanged over the year, with average prices up \$143/tonne (up 61%) to \$380/tonne.

Figure 4: SA Agri-Food Exports Commodity and Finished Foods, 1996/97 to 2007/08





Significantly, despite a 14% increase in the AUD exchange rate over 2007/08, total food exports reached a 4 year high. In particular, the growth performance of *Finished Foods* remains strong, growing by an average of 6% per annum since 1996/97.

Table 3 shows in more detail the growth in overseas exports, over the year and the longer term of selected products defined by commodity or *Finished Food*.

Table 3: Overseas Exports of SA Food, Growth in Selected Commodities and *Finished Foods*, 1996/97 to 2007/08

	Value	Average Annual % Change	
	2007/08	1996/97-2007/08	2006/07-2007/08
Grains	769	0%	48%
Livestock	40	4%	14%
Total Commodity Exports	809	0%	46%
Grain Products	130	4%	14%
Fruit & Vegetables	131	2%	4%
Seafood	315	5%	4%
Meat	530	10%	-2%
Dairy Products	54	1%	40%
Other	24	4%	23%
Total Finished Food Exports	1,184	6%	4%
Total Food Exports	1,993	3%	17%

Source: ABS Trade Data, 2007/08

Again, Table 3 highlights the growth over the year of grains commodities (up 48%), which continue to dominate total overseas export values. For overseas *Finished Food* exports, while most major products, except meat products recorded increases over the year, growth for dairy products (up 40%) and value-added grain products (up 17%) were significant.

Over the longer term (1996/97 to 2007/08) *Finished Food* exports overseas outstripped Commodity growth. This was driven by exception growth in meat products (up 10% per annum) and seafood (up 5% pa) and value-added grain products (up 4%pa).

As shown in Figure 3, earlier, the growth of *Finished Food* exports over this period is demonstrably more stable than seasonally dependent commodity products, underscoring the importance in developing and maintaining markets for higher value-added products.

2.5 Food Employment up to a record 143 thousand

Over the year total employment across the SA food value-chains increased by 10,200 (up 8%) to 143,400. Furthermore, the contribution of Food employment to total South Australian employment increased from 18% to 19%.

Within the value-chain, the greatest growth in employment occurred in *Finished Foods* with the food manufacturing sector, increasing by 3,600 or 21%. Curiously, despite a long term average decline (1995/96-2006/07) in primary production employment, over the year, farm employment increased strongly, by 3,100 or 10%.



2.6 Food Research and Development Investment

Tracking annual expenditure levels in research and development by the SA Food and Beverage Manufacturing sector provides some insight into investments into its future performance, whether it be via new product, packaging or processing development.

Expenditure over the long term (1996/07-2005/06) has generally increased despite its volatility. However, 2006/07 (latest data) recorded only \$8.3m in expenditure, a significant decline of \$12.6m on the previous year.

While tracking expenditure levels provides insight into proactive intentions of the industry to innovate, they should be interpreted with caution as they do not indicate levels of success, nor in which periods returns on these investments occur.

3. SUMMARY AND OUTLOOK

While the overall performance of the agri-food industry, in a time of significant challenges, has been particularly impressive, several caveats on this performance should be considered:

- The picture has been mixed for different industries and across regions, with seafood, dairy and, most significantly, field crops demonstrating strong growth, but livestock and horticulture declining in gross production values over the year;
- Impressive production growth over the year has occurred from a relatively subdued base, with low water availability continuing to influence the results as evident in both horticulture and dairy volumes. Low water allocations continue to reduce the on-going productive capacity of irrigated, perennial crops, and have increased irrigators' debt;
- Total horticulture production values have declined across most of the major sectors, with some notable exceptions such as citrus, where average price increases have boosted overall values.

Similarly, while significant progress against the SA Food Plan targets has also been achieved over the past year, the gaps to these targets remain substantial.

As observed, the principal driver of food industry performance in 2007/08 has been grains, bolstered by exceptionally high world prices. However, the current outlook is significantly less buoyant.

In addition, while the Australian dollar has recently depreciated, the impact on exports over the coming year is uncertain. Indeed, it is possible that the full effect of the recent appreciation in our currency over 2007/08 might still be to come, as exchange rate movements can have lagged effects on consumer/business trends in export markets.

Further, the uncertain situation regarding the emerging global financial crisis, might well see demand fall for higher-priced exports, such as seafood and livestock products.



Finally, the continuing influence of below average rainfall and severely restricted water allocations is, by most accounts, likely to continue in specific regions well into next year. The cumulative impacts are likely to threaten both the on-going productive capacity of perennial crops and the viability of irrigators.

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November 2008