

Are Australian farmers faring better than others under Covid?

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AT A GLANCE...

Because Australian farmers mostly grow and export wheat sold mostly as a food grain – rather than a feed grain – they are less affected by Covid-related global dietary change than grain producers in many competitor countries.

BENNETT'S law says, in simple terms, as people's incomes rise, their diets transition away from grains and other staple products towards meat, dairy, fish, fresh produce and other non-staple food items.

This law was mentioned, as many people's incomes across the world are unfortunately now not rising. In recent months and perhaps for some time, the gradual spread of the Covid-19 virus is stripping millions of people of income.

It's creating a world in which many household incomes are shrinking rather than growing. Bennett's law helps explain what happens to their purchasing behaviour. But what happens specifically to their grain consumption?

Household spending and diets in a Covid world

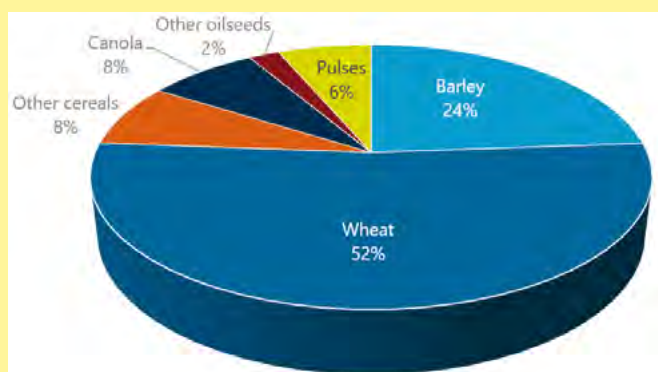
What is commonly observed in a world affected by the spectre of Covid-19 is that households curtail discretionary expenditure and their demand for certain activities in the travel, hospitality and entertainment sectors ceases or is limited.

As a result of the decline in household expenditure, many people whose employment depends on providing goods and services to those same households become under-employed or unemployed. These workers' household incomes are then reduced.

When money is tight people purchase more food types that easily and cheaply fill their stomachs. People stock up on grain staples – rice, pasta, noodles, biscuits and flour. Packets of noodles or pasta that are cheap to buy and that provide nutritious satiety are preferred food ingredients.

In addition, because some people now have more time to prepare food, home baking of biscuits, breads and cakes becomes a feasible and socially attractive, low-cost family activity.

FIGURE 1: Major crop shares of Australian grain production (average of past 5 years)



Consumption of staple foods such as noodles, produced from wheat, is less affected by falls in household income.

But not all grain is solely used in direct consumption. Feed grains are only ever indirectly consumed via the dairy products, eggs or meat where production depends on animals eating feed grains. Yet Bennett's law suggests that when incomes diminish so does people's consumption of meat and dairy products.

What this means for Australian grain producers

Where does grain produced by Australian farmers end up? Is Australian grain primarily sold for direct consumption or is most grain indirectly consumed? Are Australian grain farmers winners or losers from Covid-19 impacts on household incomes?

Fortunately for Australian farmers, wheat is by far the main crop grown and exported (see Figure 1). Much of the wheat produced in Australia is sold mostly for food purposes either within Australia or as exports used to produce noodles, breads and other flour-based products.

Consumption of these staple foods is far less affected by a decline in household income.

By contrast, grains principally sold for feed purposes, such as barley, corn and soybeans are likely to experience reduced demand as these crops are ingredients in the production of foodstuffs like dairy products and red meats. Income-constrained households will purchase less of these products that rely on feed grains.

Similarly, some crops used for energy (e.g. corn for ethanol in the US) will also experience a reduced demand, as households travel less and therefore their demand for biofuels will lessen.

So, Australian grain producers, by mostly producing human consumption grains like wheat are better placed than some of their international grain export competitors.

AEGIC is an initiative of the Western Australian State Government and Australia's Grains Research & Development Corporation.

For more information: See www.aegic.org.au

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