more give, less take

Federal Budget 2013

What the Federal Budget means for Agribusiness

About NAB Agribusiness

We've been proudly supporting agribusiness and working in rural Australia for over 155 years, alongside customers and their communities to help them achieve their aspirations. NAB Agribusiness is today the largest lender to agribusiness in Australia, with more than 620 agribusiness banking specialists in 110 locations, from Albany in Western Australia to Townsville in Queensland and all the areas in between.

The NAB Agribusiness team use their local and industry knowledge to provide assistance and insight that support farmers and businesses beyond the farm gate.

In 2013, NAB Agribusiness sees sound business planning, management of cash flow, farm investment options and reviewing succession planning as crucial elements to long term business success.

nab.com.au/fedbudget

Federal Budget overview

Our economists' view

Alan Oster, Group Chief Economist, NAB

What a difference a year makes. Gone is the political rhetoric on the importance of gaining international credibility by getting a surplus no matter what. Rather, the focus is very much on a fairly timid initial approach that doesn't see a balanced Budget till 2015/16 or a surplus till 2016/17. In short, a Budget that is more in line with a "soft economy" – even if the Government doesn't describe it as such.

The Budget effectively takes nothing to the economy in the near term (compared to detraction from growth of nearly 1½% this year). From a structural viewpoint nearly all of the heavy hitting is from the revenue side and most is done in the out years. That said, the Budget is helping to repair some structural problems via:

- scrapping last year's welfare increases (last year's so called spreading the benefits of the mining boom – around $2.5bn over the estimates) and the baby bonus
- increasing the Medicare levy to help fund national disability reform (the largest saving at $11.5bn over the estimates)
- tightening offshore tax arrangements including Offshore Banking Units (a hefty $4.2bn over the estimates) and acknowledging the lower carbon price ($3.4bn over the estimates).
- measures to reduce funding costs of schooling (out of universities etc at $2.6bn) and measures to introduce PAYG systems for large tax payers.

The main expenditure items (within the estimates period) are more infrastructure ($3.1bn) school building ($2.9bn) and disability care ($1.9bn but ramping up in the beyond estimates period).

NAB's real activity forecasts are very similar to Treasury's – albeit we are a touch weaker in 2012/13 and we also have unemployment a touch higher. Of more concern, we are significantly lower for nominal GDP – which is important because this was the main cause of revenue under prediction in recent years. We are also slightly weaker for the global outlook. For more details, see Economic and Financial Outlook.

The real risks to the Budget probably revolve around how much of the package will see the light of day post the election. Also, the Budget expenditures are very much back ended which raises the question of just in what state the economy will be in 2016/17 and beyond. Finally even this modest fiscal retraction will possibly be at risk if election spending fires up. At least in that context Australia's debt position remains very strong in an international context with debt levels very low – albeit they are possibly moving towards the lower end of the remaining AAA economies. For more details, see Bond Issuance and Net Debt.

Overall then a budget for a softer economy but one that is very political in nature (as probably was inevitable in present circumstances).

Fiscal Outcome

The underlying cash deficit for 2012/13 is estimated at $19.4 billion (1.3% percent of GDP). The Budget maintains large deficits of $18 billion in 2013/14, and $10.9 billion in 2014/15, before moving into a marginal surplus of $800 million in 2015/16.

Economic Outlook

The Government's economic outlook is broadly in line with recent RBA forecasts, and only slightly stronger than NAB's. However, the Government's outlook for nominal GDP is substantially stronger than ours, at 3¼% in 2012/13 compared to our 2.1%, and 5% in 2013/14 compared to our 4.2%. Over estimating nominal GDP was the reason why revenues were overestimated in recent years – and this is clearly a concern. The Government and NAB both have growth of 2.7% and 3% for 2013/14 and 2014/15. However, we are weaker in 2012/13 (at 2.7% v the Governments 3%) largely slower near-term public sector demand and a sharper pace of decline in the terms of trade. The Government expects unemployment to rise to around 5¾% by mid 2014, while NAB expects it to edge towards 6%, reflecting our weaker view on growth. The Government, RBA and NAB share very similar views on the outlook for underlying inflation, which is expected to remain well within the RBA's 2-3% target band over the forecast horizon. Given the structural adjustment occurring in the economy at present, as well as softness in labour market conditions, we still believe the economy would benefit from another 25 bp rate cut this year (November); this would take the RBA's cash rate to 2.50%. However, further deterioration in labour market conditions could see earlier action and possibly more than one cut. For further details, see the Economic and Financial Outlook.

Financial Markets

Beyond the economic/fiscal outlook, for bond investors the two main considerations from tonight's Budget are: 1) the Government's debt programme for 2013/14, and 2) any implications for Government's stable AAA credit rating. The market reaction to the Budget was negative, with the $A quickly falling ½ a cent to under 0.9950. The reasoning was less to do with the detail of the Budget and more that investors saw a string of deficits indicating the economy remains weak. The bond market was little moved.

For more detailed analysis from NAB Group Economics, please visit **nab.com.au/fedbudget**

Agribusiness

Through our relationship with Fairfax Agricultural Media, NAB is excited to share additional industry commentary and analysis.

Key initiatives:

- $420 million Farm Finance package to alleviate debt pressures and provide targeted financial assistance to farmers, through max $165,000 concessional loans ($210 million 2013-14 and $210 million 2014-15).
- $99.4 million Farm Household Allowance to support farmers in hardship under National Drought Program Reform.
- $25.4 million National Monitoring System for Agricultural Chemicals Residues in Food ($5 million in 2013-14).
- $750,000 boost to Rural Financial Counseling services in flood affected regions in QLD.
- Status Quo:
- $2.1 billion over five years for Caring for our Country ($200 million in second phase of Reef Rescue program over five years, starting 2013-14).
- $238.2 million commitment to RD&E funding for relevant research and development corporations.
- $379.9 million for construction of a state-of-the-art post-entry quarantine facility (announced in 2012-13 budget).

NAB's view:

Agribusiness has emerged as a net beneficiary of the budget, with the diesel fuel tax rebate – speculated as an area of possible cut prior to the release – remaining intact. That said, the overall gains are rather modest.

By agricultural sector, the largest spending has been on forestry, with the Government committing over $330 million to support the historic Tasmanian Forests Agreement.

More generally, the Government has recognised the adverse impacts of the recent drought on farmers' finances and their families, prompting them to announce a package of measures to support and assist farmers experiencing acute levels of debt, and setting up a fund under National Drought Program Reform to support farming families in times of hardships.

Fairfax Agricultural Media

Colin Bettles (Canberra Bureau Chief) - Fairfax Media (Rural Press)

- Major agricultural spending cuts have been avoided in the 2013-14 Federal Budget.
- But industry's hopes of winning new funding to underpin expectations for the sector's longer term vision have not been realised.
- The National Farmers Federation (NFF) had previously called for agricultural funding to be bolstered to reflect a reprioritisation of the sector in Canberra and to match political rhetoric about future food opportunities in the booming Asian region during the next three to four decades.
- The federation would have liked to have seen agricultural R&D increased from its existing level of 2 percent of the total government R&D spend to 3.5 percent of total R&D spend by 2015.
- NFF President Duncan Fraser said the NFF was expecting a tough budget although major agricultural programs remained steady.
- Mr Fraser added that Mr Swan's two main references in his budget announcement speech on Tuesday night were jobs and growth "but sadly we don't see evidence of that for the agricultural sector".
- However, Mr Fraser praised Federal Agriculture Minister Joe Ludwig's announcement of a $99.4 million Farm Household Allowance under the new National Drought Reform package agreed between the Commonwealth and State governments.
- Minister Ludwig said the budget expressed "a serious commitment to agriculture, with funding to implement our plan to make farmers stronger, better prepared for the future and with access to more opportunities".

Personal Finances in conjunction with MLC

The 2013 Federal Budget contained a few new measures and reconfirmed some recent announcements. Here is a summary of the key take-outs.

Note: These measures are proposals only and may or may not be made law.

Gemma Dale, Head of Technical Services, MLC

Personal Taxation

- The Medicare levy will increase by 0.5% to 2% pa from 1 July 2014 to help fund a better life for Australians with significant and permanent disabilities.
- The changes to the personal income tax thresholds, marginal tax rates and low income tax offset that were to take effect from 1 July 2015 have been abolished.
- The tax offset that is available if 'Net Medical Expenses' exceed $2,120 (in 2012/13) will be progressively phased out. The impact will be immediate for many people and it will be abolished by 2019.
- The amount of self-funded education expenses that can be claimed as a tax deduction will be capped at $2,000 pa from 1 July 2014.
- The Baby Bonus will be abolished from 1 March 2014.
- Families who are eligible for Family Tax Benefit Part A (FTB(A)) will receive an extra $2,000 following the birth of their first child and $1,000 for subsequent children.
- The income thresholds that are used to determine eligibility for FTB(A) and the threshold of $7,500 pa that applies to Child Care Rebate will not be increased until 1 July 2017.

Superannuation

- Currently, pre-tax and other concessional super contributions are capped at $25,000 pa, regardless of your age. This cap will increase to $35,000 pa from:
    - 1 July 2013 for people aged 60 and over, and
    - 1 July 2014 for people aged 50 and over.
- Currently, all earnings from assets held in a super pension are tax-free. From 1 July 2014, only the first $100,000 in earnings per member will be tax-free and earnings above this threshold will be taxed at 15%.
- From 1 July 2012, the tax concession on concessional super contributions will reduce from 30% to 15% for people who earn $300,000 pa or over.

Social security

- Currently, income payments received from an account-based pension are concessionally treated under the social security income test. However, from 1 January 2015, account-based pensions will be treated the same as other financial assets and be deemed to earn a particular rate of interest, regardless of the income actually earned.
- An incentive will be provided to older Australians to downsize the home by providing an exemption from the assets test for up to $200,000, subject to certain conditions. The main one is the home must have been owned for at least 25 years.

Important information