more give, less take

agribusiness

nab

Federal Budget 2015

What the Federal Budget means for Agribusiness.

About NAB Agribusiness

NAB Agribusiness is Australia's leading agribusiness bank and has been supporting Australian farmers for more than 150 years. NAB employs more than 600 agribusiness banking specialists in 110 metropolitan and regional locations Australia-wide.

With their local and industry knowledge, our Agribusiness team understand the unique financial and environmental needs of farmers and businesses beyond the farm gate – whether they provide inputs into agriculture or process, or distribute or market primary produce.

NAB also has a specialist Agribusiness Asia Desk to help Australian farmers make the most of the rapid growth in demand for high quality produce in Asia.

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Federal Budget overview

Our economists' view

Alan Oster, Group Chief Economist, NAB

The focus of the 2015 Federal Budget is very different from last year. Given the political problems of last year's budget, the focus has been on attempting to make this Budget as politically saleable as possible. Also, unlike last year, the 2015 Budget is relatively neutral in its impact on the broader economy. Essentially, new expenditures have been broadly offset by savings.

More than any budget in recent memory, most of the key changes were pre-announced/leaked – again to emphasise the 'no surprises' focus. Consequently, the key spends include a $5.5bn small business package (really micro business, ie turnover of less than $2m per annum), including tax cuts and, more importantly, a 5% tax discount (up to $1,000) to other tax payments, immediate write-offs of new assets up to $20,000, tax advantages for crowd funding and GST exemptions to SME electronic purchases. Elsewhere there is $3.5bn (over five years) spending on childcare incentives (linked to stalled family tax benefits savings); a new infrastructure fund for Northern Australia ($800m); extra incentives for employment of older Australians; drought spending ($330m); border/terrorism spend ($500m); a payment to offset Western Australia's GST issues ($500m); extra spending on the Pharmaceutical Benefit Scheme ($1.6bn) and the reversal of last year's doctor rebate savings.

The savings were equally well flagged. These include a new law on cross-border profit shifting: GST on intangible/services (Netflix tax); pension savings by lowering the non-home asset threshold to $800,000 ($2.4bn); tightening of the paid parental schemes (anti-double dipping between private and public schemes); the withdrawal of Melbourne East West Link money ($1.5bn); and further public service efficiency dividends.

As set out in the section on the medium term fiscal outlook, the Budget really is a combination of redirected policy spending broadly offset by substantial increases in revenue to GDP – bracket creep. Outlays broadly grow in line with GDP, which is better than the previous upward trend. Also, the economic impact of the Budget on the economy is relatively neutral.

Broadly, the Government's forecasts are very similar to NAB's, so we see the projections as credible. Of course to the extent we have all overestimated growth – especially in a low wage growth and falling commodity price world – the Budget remains open to the disappointments (especially on the revenue line) that we have seen in recent years. But with a credible set of forecasts (and a deliberately conservative iron ore price assumption – Treasury's $US48 vis-à-vis NAB's $US60 per tonne) the rating agencies should be relatively satisfied. Equally we would not expect the very negative reaction of consumers to this year's Budget. That said, we would not really expect much of a kick to business confidence, outside of micro business.

Of course the Budget is not the complete current fiscal story. There is still the Tax White Paper to come. The Budget had little on big tax and superannuation questions. Also, there is still the debate about what happens to Government's removal of $80bn in state funding for health and education in the out years. And finally, despite the Government's best efforts, what happens in the ensuing political process is unknowable.

Fiscal Outcome

The underlying cash deficit for 2014-15 is estimated at $41.1bn and $35bn in 2015-16 (or 2.1% of GDP and below market expectations – but near NAB's). The projected deficit then moves down to $14.4bn in 2017-18 (0.8% of GDP) with an eventual return to surplus in 2019-20. Basically the reduction in the deficit is driven by returning revenues, which rise from 23.9% of GDP in 2014-15 to 25.7% in 2017-18 (accruals basis). Outlays move from 26.1% to 26% of GDP in the same period.

Economic Outlook

As noted above, there is little fundamental difference between Treasury's and NAB's economic outlook. At the margin, we are slightly less optimistic in the near term (NAB 2.3% Treasury 2.5% in 2014-15) but slightly more optimistic in 2015-16 (NAB 2.9% Treasury 2.75%). An interesting difference here is our slightly more pessimistic view on business investment. That said, the RBA is more pessimistic on 2015-16 growth than either Treasury or NAB. At the margin, Treasury has a slightly higher unemployment rate in year average terms in 2015-16 (NAB 6.25% Treasury 6.5%). Finally, on the critical nominal GDP forecasts (for Budget deficit forecasting) there is little difference between NAB and the Treasury (both around 1.5% and 3.5% in the next financial year).

Financial Markets

There was modest but nonetheless positive market reaction to the Budget. The $A has pushed 30bps higher towards 0.7990, although it was trading higher before the Budget's release. Bond futures improved 2-3 bps (ie yields lower), presumably because the debt program is a little less than expected and the major ratings agencies have been quick to say the Budget doesn't pose any immediate threat to the AAA rating.

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

Key initiatives:

Northern Australia

- Establishment of a $5bn Northern Australia Infrastructure Facility to provide concessional loans for major infrastructure projects such as ports, railways, pipelines and electricity generation;
- $101.3m to upgrade roads in northern Australia to improve the efficiency of cattle supply chains.

Drought assistance

- $250m in concessional loan funding to continue the program in 2015-16, of which $150m is for Drought Concessional Loans and $100m for Drought Recovery Concessional Loans;
- $20m in 2015-16 to extend access to social and mental health services to drought-affected communities, as well as $1.8m in 2015-16 for a further 10 counsellors through the Rural Financial Counselling Service;
- $60.8m over four years, including $25.8m to help farmers manage the impact of pest animals in drought-affected areas and $35m for local council grants for infrastructure in drought-affected areas.

Tax changes

- In addition to the tax changes outlined for small businesses, primary production businesses will be able to claim an immediate tax deduction for water facilities as well as – from 1 July 2016 – fencing. They will also be able to claim three-year depreciation for all capital expenditure on fodder storage assets.

Quarantine measures

- Maintained funding for quarantine border security; expanded surveillance and offshore audits to manage biosecurity risks (expense and revenue not for publication at this stage due to ongoing consultation with industry);
- Increases in agricultural production levies totalling $13.8m over five years to improve biosecurity for the banana and bee industries and for the chicken industry for emergency response to avian influenza.

Other

- $1.5m over two years for a mechanical fuel load reduction trial to mitigate bushfire risk where conservation values would be compromised by fuel reduction burns;
- Savings of $30.9m over four years from the National Food Plan, redirected to initiatives associated with the Agricultural White Paper.

NAB's view:

Overall, agriculture will benefit in the 2015-16 Federal Budget, build on confidence and support expanded investment. Much of the new funding is to facilitate investment in northern Australia and to respond to the ongoing drought in many parts of the country. There is also an expanded focus on biosecurity as well as beneficial tax changes for farmers.

The $5bn Northern Australia Infrastructure Facility will provide concessional loans for major infrastructure projects such as ports, railways, pipelines and electricity generation in northern Australia. Critically, this is intended to underpin further agricultural development in northern Australia.

The idea of transforming northern Australia into a 'food bowl' for Asia has been around since the 1950s. This Budget goes some way towards recognising the huge capital investment that will be required to attempt to significantly boost intensive farm production in the region. However, forecast spending on the measure over the forward estimates period is only anticipated to be $800m, suggesting it will take a number of years for the funding to be allocated. Further, with interest rates already at record lows, it is unclear how much additional investment the measure will create. The Budget also provides $101.3m to upgrade roads in northern Australia to improve the efficiency of cattle supply chains.

Perhaps unsurprisingly, drought assistance features prominently in the budget, with additional funding to extend concessional loans for another year and further funding for management of pests, local council funding and expanded access to social and mental health services in drought affected areas.

Farmers in parts of Western Queensland have had no useful rain for three to four years, and after some optimism at the start of the year, the finish to the northern wet season was generally disappointing. Rolling over funding for another year will provide a lifeline to farmers in these areas ahead of the next wet season.

There is a renewed biosecurity focus in the 2015-16 Budget in the wake of the discovery of Panama Disease Tropical Race 4 in North Queensland earlier this year.

The disease, which lives in the soil, is extremely difficult to eradicate and poses a serious risk to the banana industry. The budget includes moderate increases in agricultural production levies for bananas, the bee industry and poultry, as well as ongoing funding for quarantine border security and expanded surveillance and offshore audits to manage biosecurity risks.

Important information

This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek professional financial and taxation advice prior to acting on this information. Before acquiring a financial product a person should obtain a Product Disclosure Statement (PDS) relating to that product and consider the contents of the PDS before making a decision about whether to acquire the product.

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