more give, less take

agribusiness

nab

Federal Budget 2014

What the Federal Budget means – 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.

nab.com.au/fedbudget

Federal Budget overview

Our economists' view

Alan Oster, Group Chief Economist, NAB

The 2014 Federal Budget should really be seen as a re-ordering of Budget priorities to fund significant new outlays proposed for years to come – including National Disabilities, Gonski education reforms and Paid Parental Leave commitments – and at the same time put the Budget on a more robust path to balance. With net debt to GDP of around 17% this was never a Budget in crisis – although some medium term challenges had to be addressed. The Government has opted to spread the pain and start straight away.

Much of that pain has been well signalled. That included tightening eligibility criteria for family tax benefits and eligibility rules for unemployment benefits; increased cuts to public sector employment (from 12,000 to 16,500); the merger/abolition of 70 public entities and more privatisation; a deficit tax levy of 2% for those paid more than $180k per year (for three years); cuts to industry assistance programs worth $850m; resumption of petrol indexation (with the proceeds put to road funding); and medical co-payments of $7 per visit (to set up a new medical services future fund); large cuts to hospital payments; and university fee liberalisation (which will increase the cost of some courses). In the longer run, from 2018 Gonski funding will be replaced by an indexation of education funding; the pension age will be raised to 70 years effective from 2035; and the pension assets test will not be indexed for a number of years.

Over the next three years the measures represent significant savings (around $15 billion) – with most of the work done on the revenue side. Effectively our estimates suggest that the Government, in a structural sense, is taking around 0.5% out of growth in each year in the forward estimates. While the tax rises and petrol tax increases are not enough to seriously impact growth, they together with significant transfer cuts, could well have more important effects on confidence.

On the Budget forecasts, NAB is more optimistic on growth (NAB 3% Govt 2.5% in 2014-15). We are more cautious on domestic demand, reflecting a view that public sector demand and/or consumption might be hit harder by Budget announcements. That said, the Government sees unemployment peaking at the same rate as NAB, but staying at that rate longer (all of 2015-16). The Government also anticipates a faster terms of trade fall and, consequently, lower nominal GDP growth. Overall, we see the forecasts as unlikely to overstate the fiscal outcome and indeed they appear marginally conservative.

Clearly this Budget has lots of politics. This is where the main uncertainties will emerge. How many of the measures announced will get through Parliament and how will consumer and business confidence be affected?

Fiscal Outcome

The underlying cash deficit for 2013-14 is estimated at $49.9 billion (3.1% of GDP). The Budget maintains large but shrinking deficits of $29.8 billion in 2014-15, $17.1 billion in 2015-16, and $10.6 billion in 2016-17. The Government has set an objective to return the Budget to 1% of GDP over the medium-term.

Economic Outlook

The Government's economic outlook is softer than recent RBA forecasts, and slightly softer than NAB's forecasts for 2014-15 (NAB is weaker in 2015-16). In 2014-15, the government has forecast real GDP growth of 2.5% (compared with NAB's 3.1%), reflecting a smaller trade balance that more than offsets its stronger expectation for domestic demand. In 2015-16, the Government's forecast is a little stronger (3% compared to NAB's 2.7%) due to an anticipated improvement in domestic demand (NAB is forecasting a further slowing, led by a contraction in mining investment). The Government expects unemployment to rise to around 6.25% by mid 2015, while NAB expects it to peak sooner (at a similar level), before easing to around 6%. The Government, RBA and NAB share very similar views on the outlook for underlying inflation, although the RBA sees larger price pressures in the near term. Each expects inflation to remain well within the RBA's 2-3% target band over the forecast horizon. The structural adjustment occurring in the economy at present remains a real risk to the outlook. Nothing in the Budget changes our view that rates are on hold until late 2015.

Financial Markets

Beyond the economic/fiscal outlook, the Budget was regarded as 'credit positive' by Moody's Investors Service, and supportive of Australia's AAA rating. The market reaction to the Budget was positive, with the $A quickly rising ½ a cent to under 0.938, before retracing. Despite all the concern in the lead up, most measures were well flagged, with no real negative surprises. Overall, the market sees the Budget as a good start towards addressing the looming structural pressures facing government finances.

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

Key initiatives:

- $320 million Farm Finance package to alleviate debt pressures and provide targeted financial assistance to drought-affected farmers (up to $280 million for concessional loans to eligible farm businesses, $12 million in 2014-15 to install water related infrastructure; $10 million over two years to deal with the impact of pest animals in drought affected areas, contingent on equal contributions from states; and $10.7 million over two years from 2013 14 to enhance access to social and mental health services).
- $100 million to fund research in partnership with Rural Research and Development Corporations (RDCs).
- $8 million to improve access by farmers for minor use agricultural and veterinary chemicals.
- $20 million to strengthen Australia's biosecurity and quarantine arrangements by providing additional resources to address pest and disease incursions.
- $15 million to support small exporters in sectors where there are specific export certification registration charges, by providing a rebate of 50 percent of their export certification registration costs in 2013-14, up to a maximum of $5,000. From 2015 16, funding will be provided for projects that directly benefit small exporters, particularly projects to improve market access.
- $9 million to support a more competitive and sustainable fisheries sector.
- Savings of $483.8 million by merging Caring for our Country and Landcare.
- $80 million reduction in Cooperative Research Centres (CRC) Program.
- $146.8 million funding cuts to CSIRO which will cost around 500 jobs.
- $11 million reduced annual appropriation funding to the Rural Industries Research and Development Corporation (RIRDC).
- $6.6 million savings from the cessation of National Water Commission.
- The reintroduction of a fuel levy surcharge will take place on 1 August 2014, which will be indexed to inflation every six months. Every dollar raised will be linked by law to help fund more than $80 billion in new roads. The indexation of fuel excise would likely increase costs for SMEs, some of which would be less likely to absorb or pass these costs compared to their larger counterparts.

NAB's view:

As expected, the agribusiness sector was largely spared the "fall of the axe" of austerity measures in the Budget, but it has not emerged a winner by any meaningful stretch either, given only modest gains on balance.

The speculated cut in diesel fuel tax rebate did not occur. The $320 million financial assistance package for drought-affected farmers announced earlier this year is also left untouched. Similarly, most of the proposed cuts to agricultural programs by the National Commission of Audit, including the slashing of funding to the Farm Finance concessional loans scheme, abolishment of the Rural Financial Counselling Service (RFCS), and Export Market Development Grants did not materialise either.

The only recommendation by the Commission taken on board by the Government is the cessation of the National Water Commission, which is not expected to have any significant adverse impact on the sector, given that the Commission's functions are presumably going to be taken over to a large extent by the Department of Environment or Productivity Commission.

The relatively minor changes to existing agricultural-related programs possibly reflect the Government's recognition of the continued vulnerabilities faced by certain farming communities due to ongoing drought conditions. However, the agricultural sector stands to lose indirectly from funding cuts to Cooperative Research Centres (CRC) Program and the CSIRO, even though there is now a stronger emphasis by the Government to link CRC and CSIRO research to outcomes that can be used by farmers. In addition, some benefits of the rebate will now be diluted by the resumption in fuel excise tax indexation to inflation, which is expected to raise the cost of petrol up to 3 cents a litre every year.

Perhaps the standout initiative for the agricultural sector has been the announcement of around $100 million new funding over four years to fund research in partnership with Rural Research and Development Corporations (RDC), constituting the delivery of the Government's election promise.

There are also some smaller measures to support exporters and strengthen Australia's biosecurity and quarantine arrangements etc, but there are very few additional initiatives targeted at the longer-term structural issues close to the heart of agricultural communities - especially cutting red tape and strategic infrastructure projects, which would make the sector more competitive.

That said, there will be some positive spillovers from the general infrastructure investments that the Government undertakes in metropolitan and regional areas alike, including improved highways, the extension of airport runways and better access to ports.

Industry comment:

The National Farmers' Federation (NFF) acknowledged that in a tough Budget environment, the Government largely delivered on its election commitments to the agriculture sector. The NFF had fought hard to ensure the rebate to farmers for fuel used off-road was in line with excise rises.

NFF President, Mr Brent Finlay, said; "The NFF welcomes the Government's commitment to developing key infrastructure projects in regional Australia. Given that the money for infrastructure is resulting from a rise in the fuel excise, it's important that this is directed to projects that are most needed and that regional Australia benefits. If the funding is raised in the bush, it needs to stay in the bush via a transparent process."

The NFF also acknowledged the confirmation of the Government's $100 million election commitment to agriculture-specific research and development over the next four years. "The benefits from agricultural research and development to the Australian community are enormous. We are, however, disappointed to see major cuts to the Cooperative Research Centre Programme and the Rural Industries Research and Development Corporation," Mr Finlay said.

The NFF was also disappointed that the Environmental Stewardship Programme and National Water Commission were abolished.

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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