



Economic Report

Post-farmgate Agribusiness Survey – December Quarter 2014

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Key points

- The December quarter 2014 saw a rebound in post-farmgate agribusiness conditions, confidence and expected conditions at both 3 and 12 months. However forward orders declined and profitability remained negative.
- Overall, the sector experienced a more optimistic December quarter, partly reflecting generally stronger seasonal performance. However, good early summer rainfall in many parts of Queensland, combined with a falling AUD, likely provided some encouragement.
- We expect the AUD to continue to fall., which, combined with a stabilisation in international dairy prices and continued demand for Australian beef, may lead to further signs of improvement in conditions. However, grain prices remain suppressed.

Key survey indicators	Q2 2014	Q3 2014	Q4 2014
Business conditions	-4	-6	+1
Business confidence	-13	-13	-6
Trading	-2	0	+14
Profitability	-9	-7	-7
Employment	0	-11	-3
Expected conditions – 3 months	0	-1	+6
Expected conditions – 12 months	+24	+5	+12
Forward orders	-2	+4	+2
Capacity utilisation (%)	77.3	77.8	79.0
Capex plans – next 12 months	22	21	28



Business Conditions

Post-farmgate business conditions rebounded in the December quarter to +1, up from -6 in the September quarter. While this in part reflects normal seasonal variation and remains well below 9 year high of +17 reached in the December quarter 2013, expectations are generally positive. Expectations for the March quarter 2015 are +6.

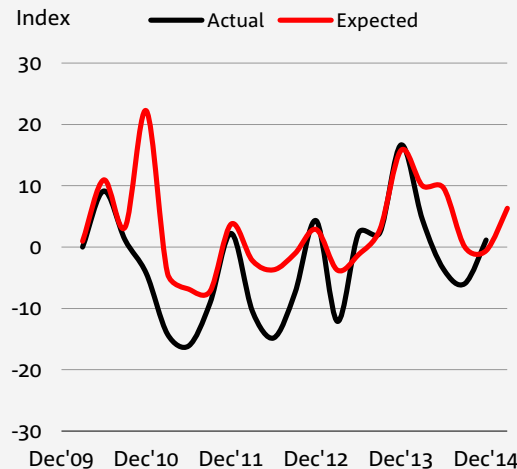
The December quarter saw the start of encouraging rainfall in parts of Queensland as well as a falling AUD. These factors are likely to lend to improved business conditions, although surging beef prices in the March Quarter 2015 will likely affect processor margins.

Trading

Post-farmgate agribusiness trading conditions continued to improve in the December quarter, increasing from zero to +14. Trading conditions performed above respondents' expectations reported in the September quarter, which stood at +5.

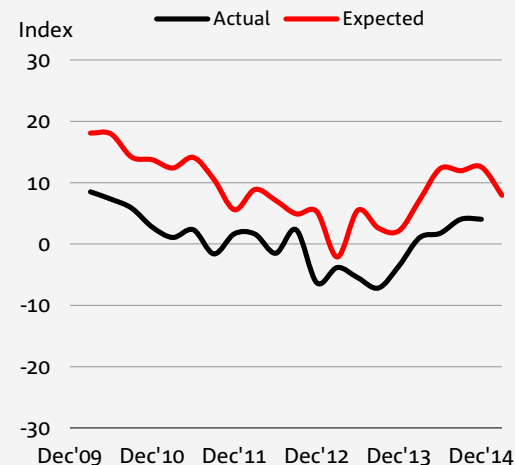
The December quarter is traditionally seasonally stronger, which is reflected in the drivers of trading conditions (Figure 4), showing seasonality as the biggest driver of the improvement in conditions, followed by customer confidence and the exchange rate.

Figure 1: Agribusiness business conditions



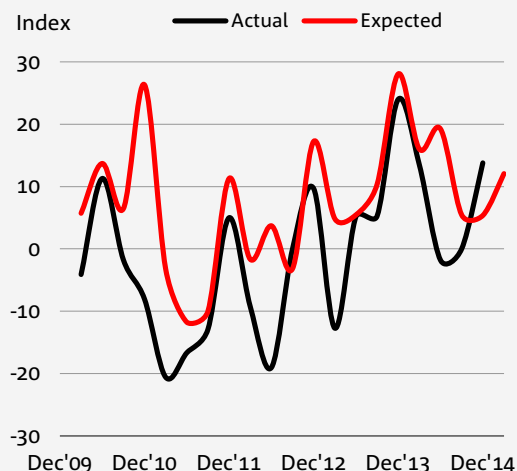
Source: NAB Group Economics

Figure 2: Total business conditions (s.a.)



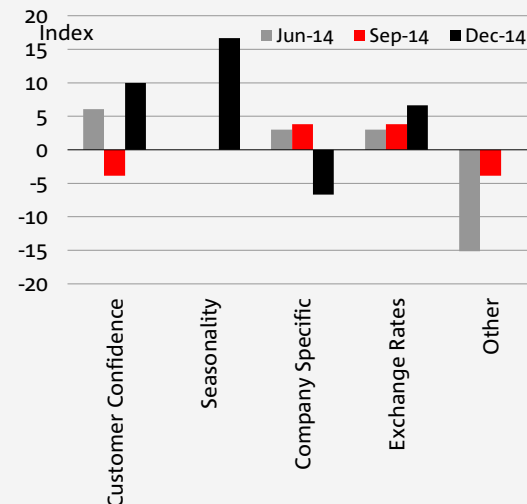
Source: NAB Group Economics

Figure 3: Agribusiness trading conditions



Source: NAB Group Economics

Figure 4: Drivers of trading conditions



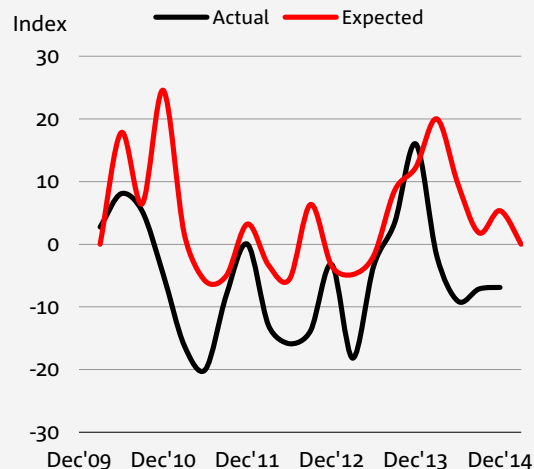
Source: NAB Group Economics

Profitability

Profitability flat-lined in the December quarter, failing to enjoy the usual seasonal bounce. Profitability stood at -7 in the December quarter, well below expectations and despite lower fuel prices. Nonetheless, respondents continue to expect a pick-up in profitability, with 0 expected for the March quarter 2015.

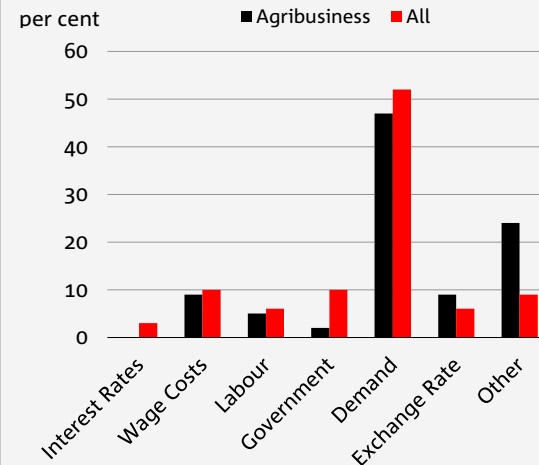
Respondents continue to cite a perceived lack of demand as the overarching constraint on post-farmgate agribusiness profitability, although slightly less so than other businesses.

Figure 5: Agribusiness profitability



Source: NAB Group Economics

Figure 6: Constraints to profitability



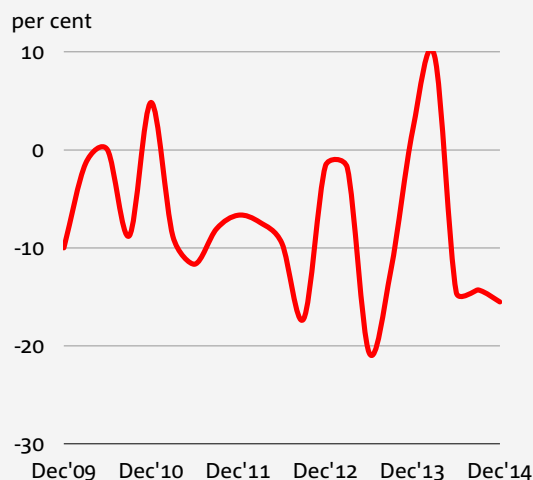
Source: NAB Group Economics

Margins

Sales margins declined slightly in the December quarter, down to -16. Following profitability, margins did not enjoy a seasonal bounce that usually occurs in the December quarter.

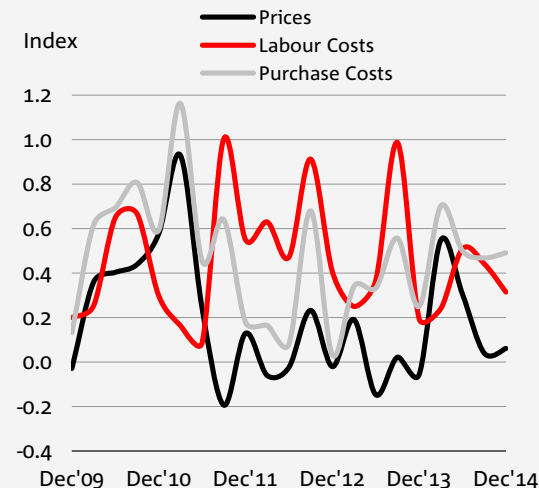
Margins remain under pressure from weaker prices for many agricultural commodities (particularly grains) in global markets. Although world prices have weakened, a falling AUD has mitigated some of these effects for Australian producers.

Figure 7: Agribusiness sales margins



Source: NAB Group Economics

Figure 8: Costs and prices



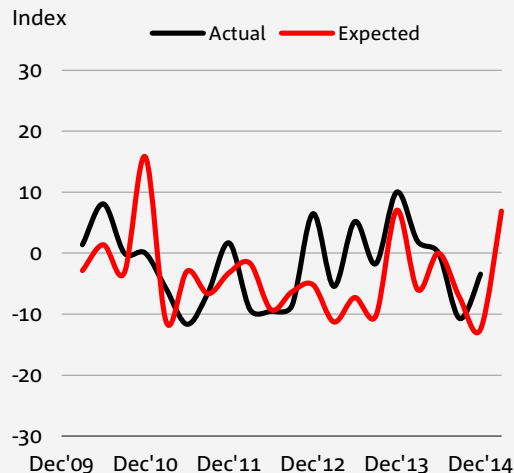
Source: NAB Group Economics

Employment

Post-farmgate agribusiness employment conditions rose in the December quarter from -11 to -3, well above expectations reported by respondents in the September quarter and reflecting a return of more favourable weather conditions for a number of commodities.

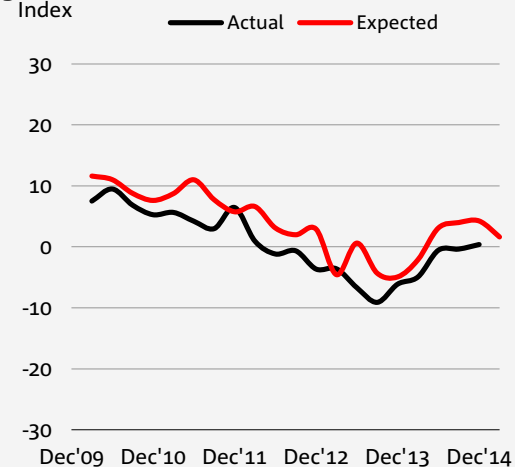
Employment expectations are +7 for the March quarter 2015, the highest expected level since the December quarter 2013. However, the majority (72%) of those surveyed plan to keep their number of employees steady over the next year.

Figure 9: Agribusiness employment gains



Source: NAB Group Economics

Figure 10: Total business employment gains



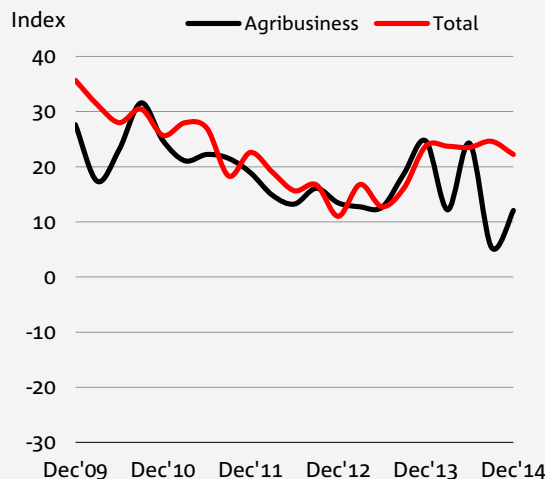
Source: NAB Group Economics

Expected Conditions

Post-farmgate agribusiness expectations of future conditions partially recovered in the December quarter after falling sharply in September. Expected business conditions for the next 12 months was up from a sanguine +5 in the September quarter to a more optimistic +12 in the December quarter. This rise in expected conditions was not mirrored in overall business expectations.

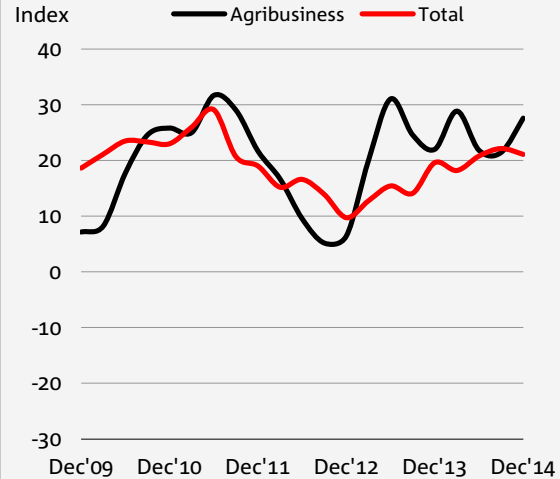
Agribusiness capital expenditure expectations for the coming year also increased from +21 to +28, more confident than overall business expectations of +21.

Figure 11: Expected business conditions – 12 months



Source: NAB Group Economics

Figure 12: Capital expenditure conditions – 12 months



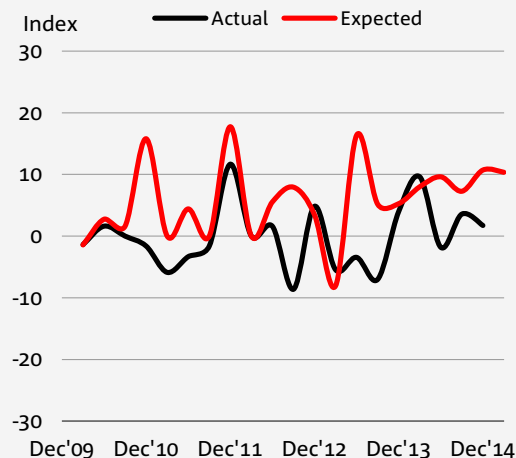
Source: NAB Group Economics

Forward Orders

Forward orders of post-farmgate agribusinesses declined somewhat in the December quarter, falling from +4 in the September quarter to +2. Expectations for the March quarter 2015 are more optimistic, reaching +10.

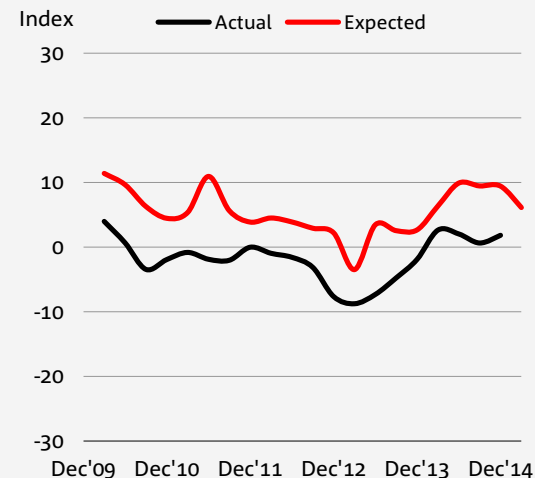
This trend is not mirrored by businesses overall, with total business forward orders rising from +1 to +2 (seasonally adjusted). Total business expectations for the March quarter 2015 stand at +6 (seasonally adjusted).

Figure 13: Agribusiness Forward orders



Source: NAB Group Economics

Figure 14: Total business forward orders



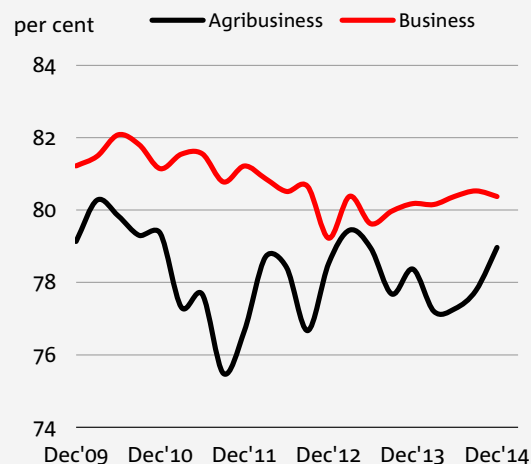
Source: NAB Group Economics

Capacity Utilisation

Post-farmgate agribusiness capacity utilisation was up in the December quarter to 79.0% from 77.8% in the September quarter. This partly reflects higher seasonal capacity utilisation in the December quarter, although the December 2014 result is above the 5 year December quarter average of 78.5%.

Post-farmgate agribusinesses continue to report lower capacity than the total business average, reflecting a greater need by agribusinesses to maintain excess capacity to meet considerably more volatile agricultural production.

Figure 15: Capacity utilisation



Source: NAB Group Economics

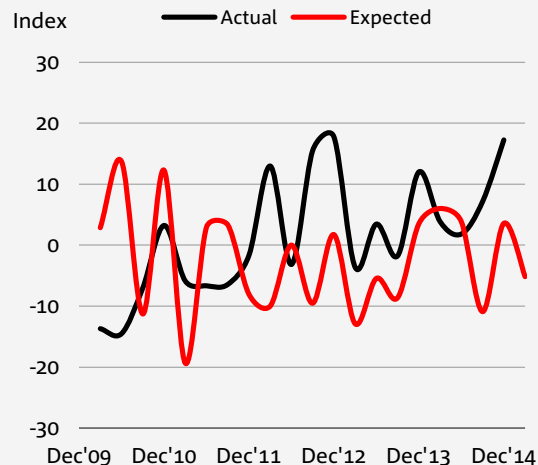


Inventories

Inventories continued to rise in the December quarter to +17, based in part on cyclical factors as agribusiness stocks continued to rebuild coming into the warmer months. Overall, inventories have been tending upwards over the past 5 years.

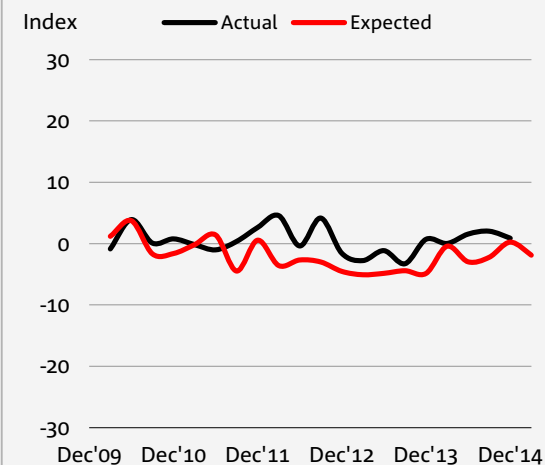
Expectations for the coming quarter are sharply lower, falling to -5.

Figure 16: Agribusiness stocks



Source: NAB Group Economics

Figure 17: Total business stocks



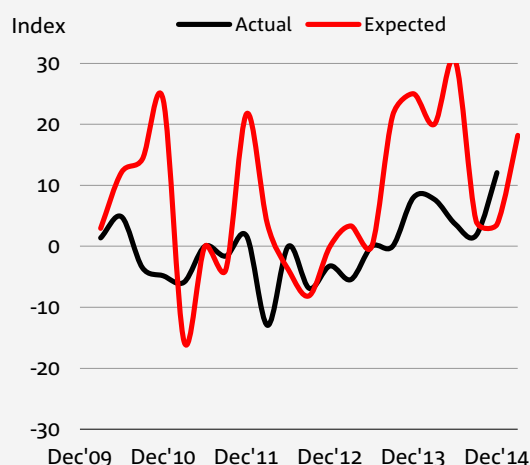
Source: NAB Group Economics

Exports

Export sales increased in the December quarter to +12, up from +2 in the September quarter. The December quarter brought mixed news for the sector, with falling international grain prices balanced against encouraging rain in major Queensland beef regions.

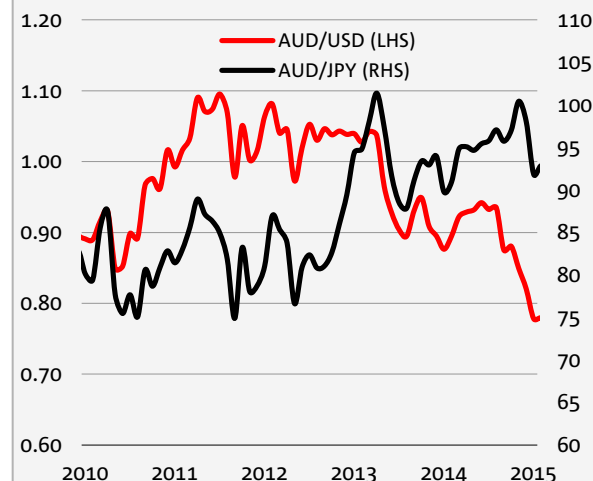
Expectations for the March quarter 2015 have rebounded to +18. This follows a large fall in expectations in the June quarter and lacklustre performance in the September quarter.

Figure 18: Agribusiness export sales



Source: NAB Group Economics

Figure 19: Monthly currency movements



Source: NAB Group Economics, DXdata

Confidence by sector

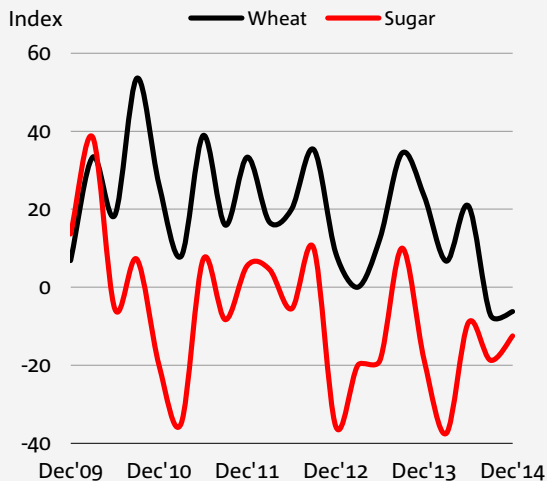
Expected confidence for the coming three months was mixed overall in the December quarter. The slide in wheat was arrested, rising from -7 to -6 as falling international prices weighed on sentiment. Sugar was up slightly but still in negative territory at -13, while other crops and wine both fell to +3 and -6 respectively.

Confidence in proteins was more positive: sheep meat was down slightly to a still optimistic +31 while beef was up considerably to +33 with the beginning of encouraging rains in Queensland. Poultry fell to -9 while dairy jumped to +32. The dairy result may reflect the first signs of an increase in international dairy prices, but more likely reflects a strong seasonal factor.

Confidence in fibres was mixed: cotton was up sharply to +5 from -22 despite sharply lower domestic planting on account of lower irrigation water availability. Confidence in wool fell to -7 despite prices remaining relatively stable.

Confidence in farm inputs fell sharply, likely reflecting the impact of a lower AUD putting pressure on importers' margins. Farm chemicals was down to +10 and farm equipment down to +3.

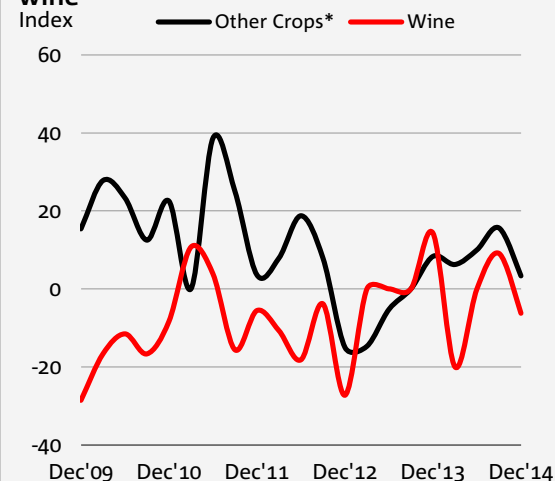
Figure 20: Confidence – wheat and sugar



Source: NAB Group Economics

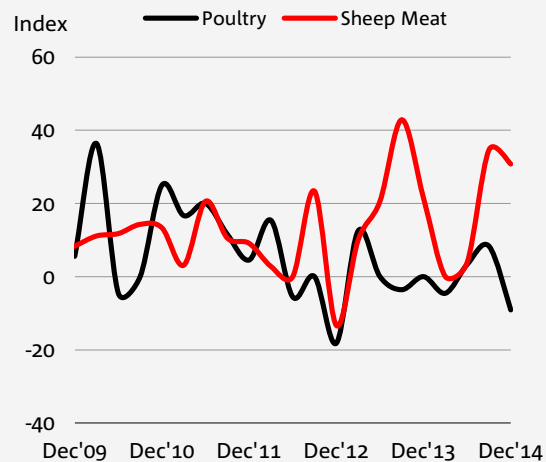


Figure 21: Confidence – other crops and wine



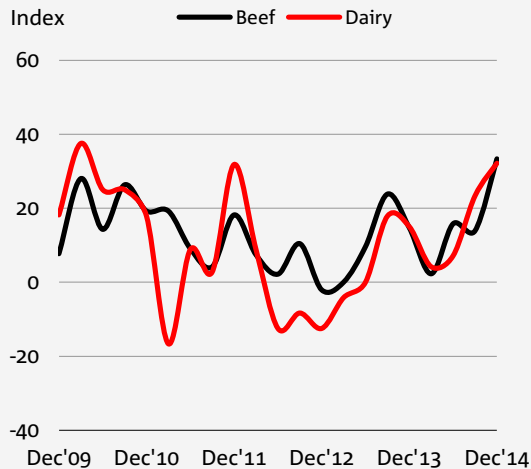
Source: NAB Group Economics

Figure 22: Confidence – poultry and sheep



Source: NAB Group Economics

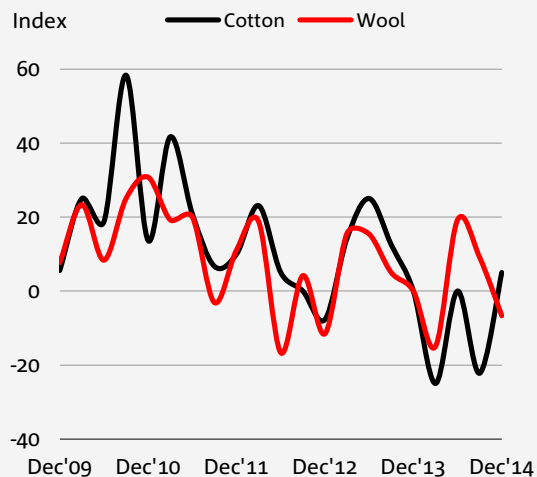
Figure 23: Confidence – beef and dairy



Source: NAB Group Economics

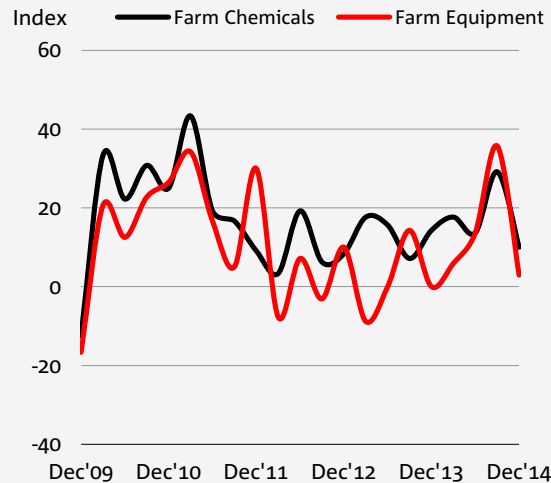


Figure 24: Confidence - fibres



Source: NAB Group Economics

Figure 25: Confidence – farm inputs



Source: NAB Group Economics



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