



# Economic Report

## Post-farmgate Agribusiness Survey – March Quarter 2015

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## Key points

- The March and June quarters are generally the seasonally weakest quarters in the NAB Post-farmgate Agribusiness Survey. However, the results for the March quarter 2015 are mostly below even historic seasonal levels.
- Post-farmgate business conditions fell considerably in the March quarter to -13, down from +1 in the December quarter 2014 and below the five year March quarter average of -6. Expectations for the June quarter have also fallen to -12. Meanwhile confidence fell to -18, and trading conditions and profitability conditions were also sharply lower.
- The weakness in the results likely reflects mixed climatic conditions, with encouraging rainfall in parts of Queensland at the start of the quarter, but a disappointing finish to the northern wet season and dry conditions in much of the south.

Key survey indicators	Q3 2014	Q4 2014	Q1 2015
Business conditions	-6	+1	-13
Business confidence	-13	-6	-18
Trading	0	+14	-14
Profitability	-7	-7	-21
Employment	-11	-3	-5
Expected conditions – 3 months	-1	+6	-12
Expected conditions – 12 months	+5	+12	8
Forward orders	+4	+2	-4
Capacity utilisation (%)	77.8	79.0	77.4
Capex plans – next 12 months	21	28	18

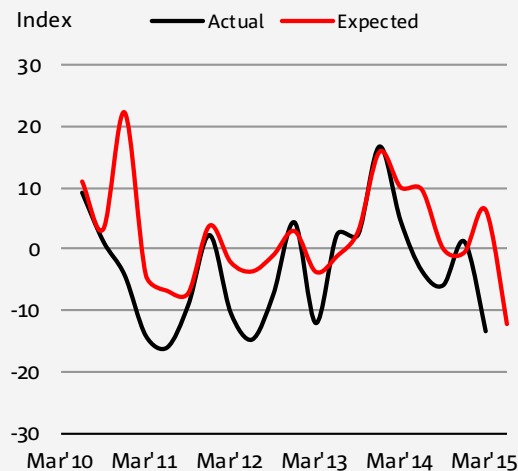


## Business Conditions

Post-farmgate business conditions fell considerably in the March quarter to -13, down from +1 in the December quarter 2014. While this in part reflects normal seasonal variation (March and June are traditionally the weakest quarters), it is below the five year March quarter average of -6. Expectations for the June quarter have also fallen to -12.

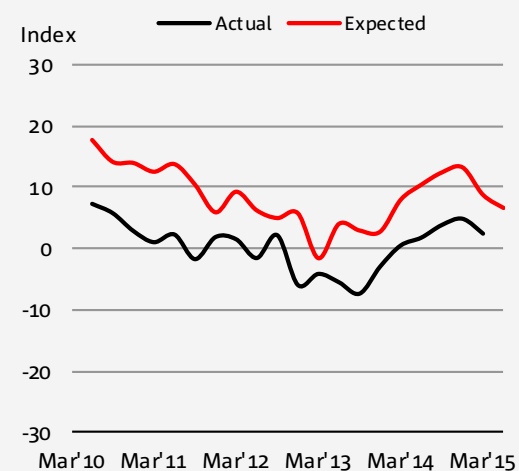
The March quarter saw encouraging rainfall in parts of Queensland at the start of the quarter, but a disappointing finish to the northern wet season and dry conditions in much of the south likely contributed to the result.

**Figure 1: Agribusiness business conditions**



Source: NAB Group Economics

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



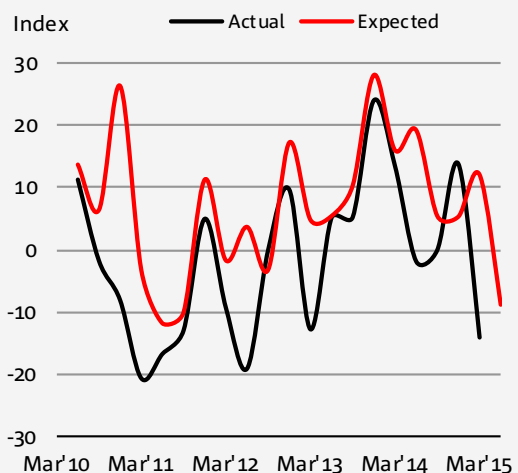
Source: NAB Group Economics

## Trading

Post-farmgate agribusiness trading conditions fell in the March quarter, falling to -14 from +14 in the December quarter 2014, well below expectations and below the five year March quarter average of -7. Expectations for the June quarter are likewise muted, standing at -9.

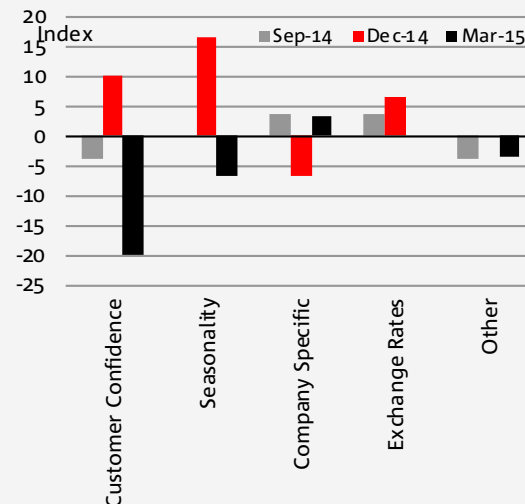
The March quarter is traditionally seasonally weaker, which is reflected in the drivers of trading conditions (Figure 4), showing seasonality as the second biggest driver of the improvement in conditions, after customer confidence.

**Figure 3: Agribusiness trading conditions**



Source: NAB Group Economics

**Figure 4: Drivers of trading conditions**



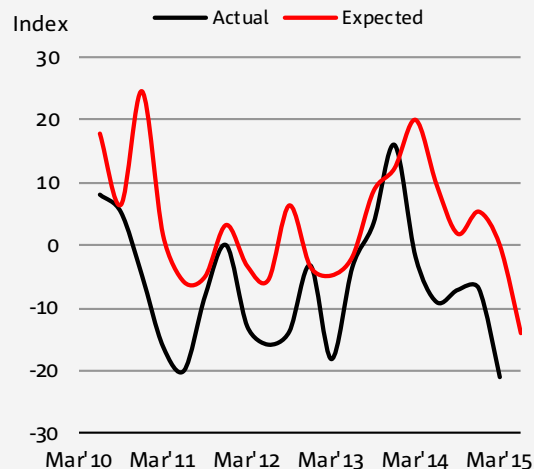
Source: NAB Group Economics

## Profitability

Profitability fell in the March quarter, experiencing the usual seasonal slump. Profitability stood at -21 in the March quarter, well below expectations and the lowest level since the March quarter 2009. Expectations for the coming quarter are the lowest since September 2009 and stand at -14.

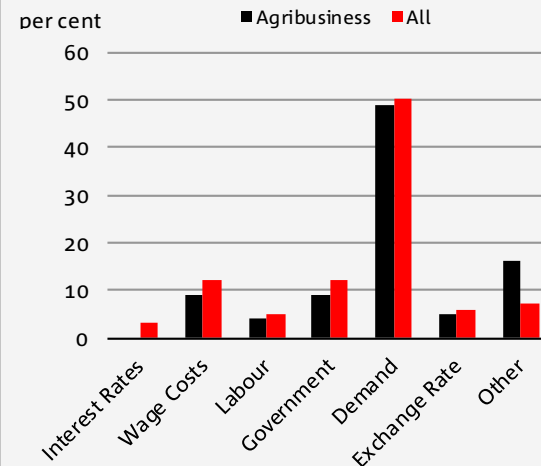
Respondents continue to cite a lack of demand as the overarching constraint on post-farmgate agribusiness profitability, although very slightly less so than other businesses.

**Figure 5: Agribusiness profitability**



Source: NAB Group Economics

**Figure 6: Constraints to profitability**



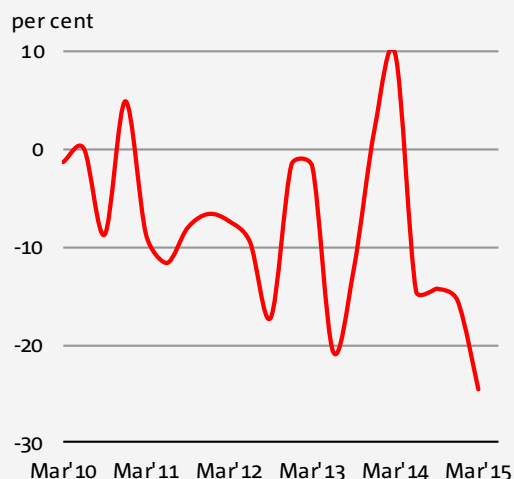
Source: NAB Group Economics

## Margins

Sales margins continued to fall in the March quarter, reflecting a long term decline as well as seasonal variation. Standing at -25 in the March quarter, margins are the lowest since September 2006.

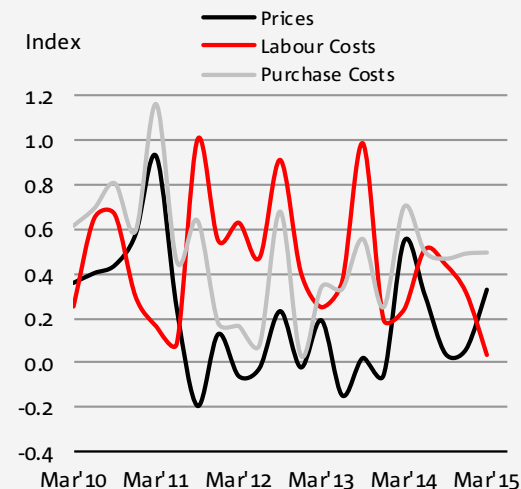
Margins for dairy processors are under pressure from weaker international prices, and beef and lamb processors have faced higher saleyard prices for cattle and lambs.

**Figure 7: Agribusiness sales margins**



Source: NAB Group Economics

**Figure 8: Costs and prices**



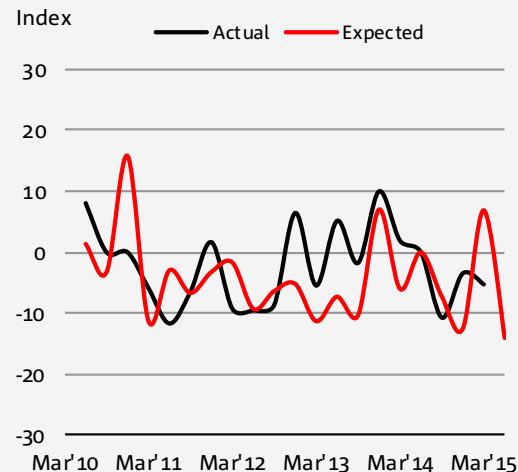
Source: NAB Group Economics

## Employment

Post-farmgate agribusiness employment conditions fell in the March quarter from -3 to -5, well below expectations reported by respondents in the December quarter and reflecting a return of less favourable weather conditions for a number of commodities as well as normal seasonal variation.

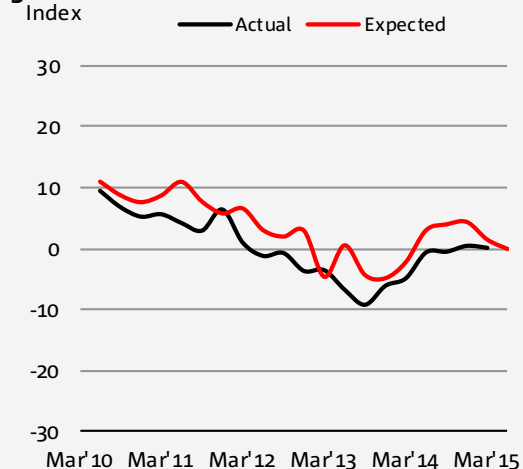
Employment expectations are -14 for the June quarter, the lowest expected level since the September quarter 2009. However, the majority (61%) of those surveyed plan to keep their number of employees steady over the next year.

**Figure 9: Agribusiness employment gains**



Source: NAB Group Economics

**Figure 10: Total business employment gains**



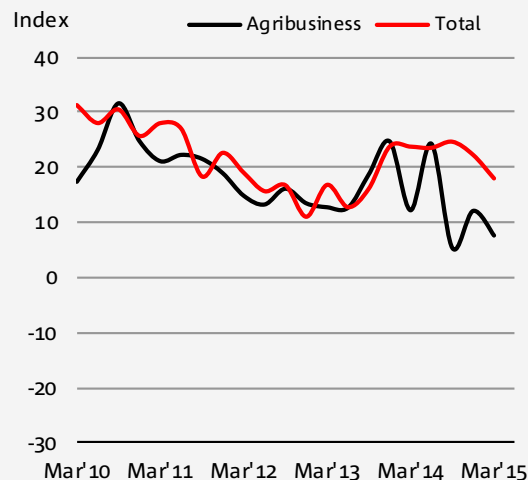
Source: NAB Group Economics

## Expected Conditions

Post-farmgate agribusiness expectations of future conditions fell somewhat in the March quarter after rising in the December quarter 2014. Expected business conditions for the next 12 months was down from an optimistic +12 in the December quarter 2014 to a sanguine +8 in the March quarter. This fall in expected conditions was mirrored in overall business expectations.

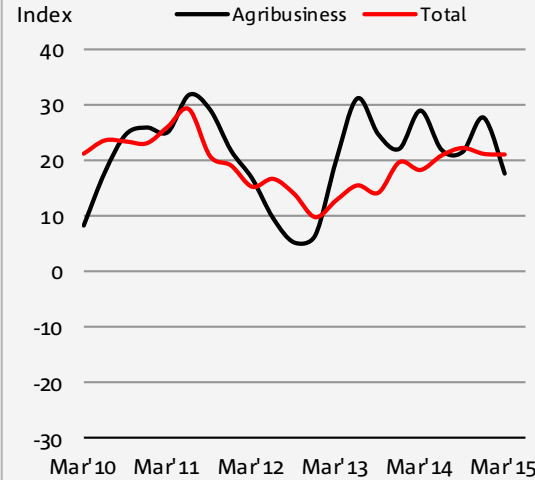
Agribusiness capital expenditure expectations for the coming year also fell, down from +28 to +18, less confident than overall business expectations of +21.

**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 further in the March quarter, falling from +2 in the December quarter 2014 to -4. Expectations for the June quarter 2015 also fell, but remain positive at +2.

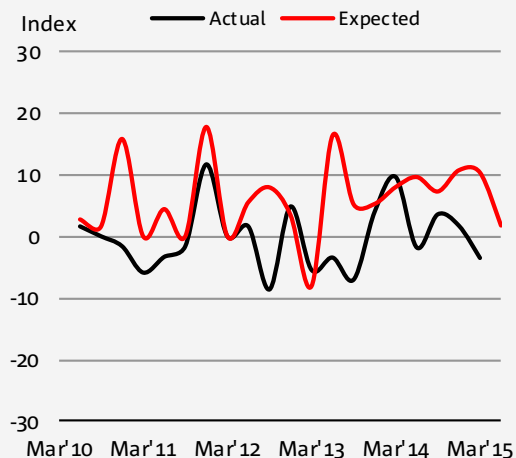
This trend is not mirrored by businesses overall, with total business forward orders flat-lining on a seasonally adjusted basis at +2. Total business expectations for the March quarter 2015 stand at +5 (seasonally adjusted). However, caution should be exercised when comparing results as the NAB Post-farmgate Agribusiness survey is not seasonally adjusted.

## Capacity Utilisation

Post-farmgate agribusiness capacity utilisation was down in the March quarter to 77.4%, compared with 79.0% in the December quarter 2014. This partly reflects lower seasonal capacity utilisation, although the result for the March quarter is below the five year March quarter average.

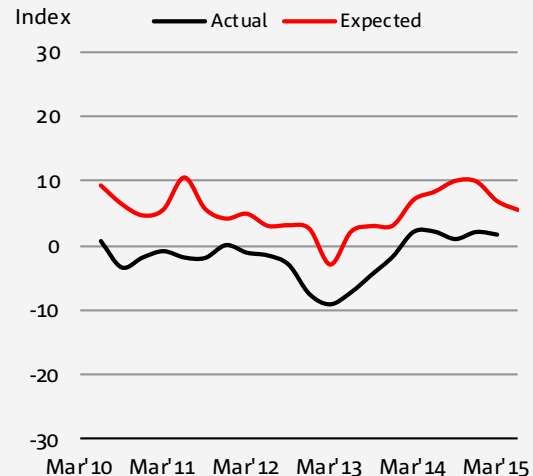
Post-farmgate agribusinesses continue to report lower capacity than the total business average, reflecting a greater need by agribusinesses to maintain excess capacity to meet considerably more volatile agricultural production.

**Figure 13: Agribusiness Forward orders**



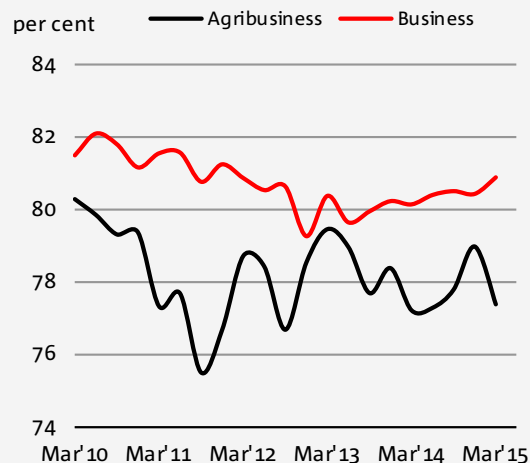
Source: NAB Group Economics

**Figure 14: Total business forward orders**



Source: NAB Group Economics

**Figure 15: Capacity utilisation**



Source: NAB Group Economics

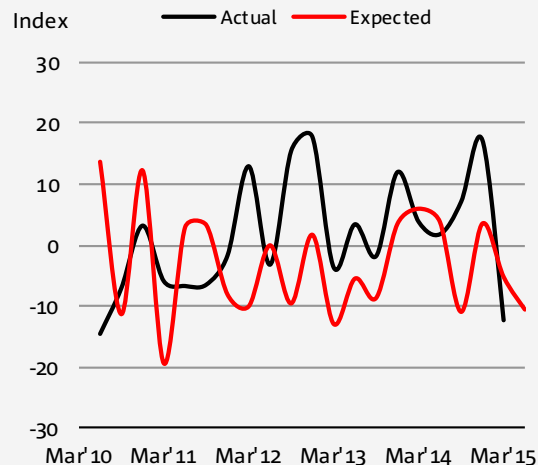


## Inventories

Inventories plummeted in the March quarter to -12, down from +17 in the previous quarter. This is below expectations reported in the December quarter 2014, which stood at -5 for the March quarter. While the March quarter often sees a run-down in inventories, this result is the lowest since 2010, unwinding the otherwise upward trend over the past five years.

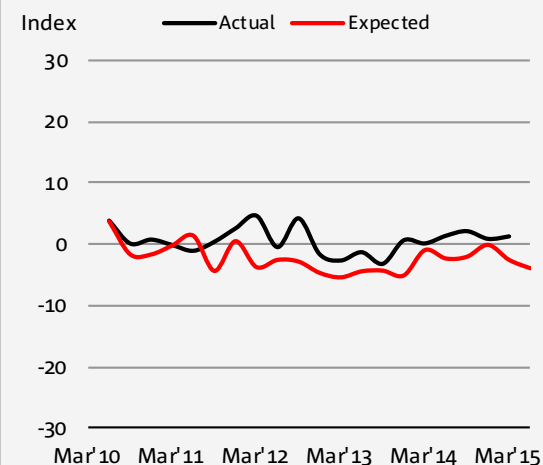
Expectations for the coming quarter are also lower, falling to -11.

**Figure 16: Agribusiness stocks**



Source: NAB Group Economics

**Figure 17: Total business stocks**



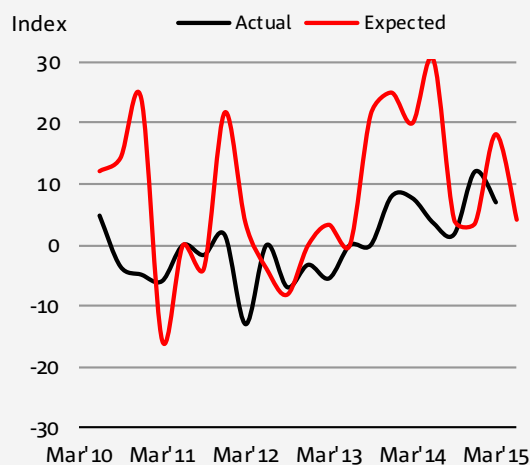
Source: NAB Group Economics

## Exports

While the lower AUD in the March quarter signalled good news for exporters, it ultimately provided little assistance to the exports series. Export sales fell in the March quarter, although they remain positive at +5. Overall, export sales have been trending broadly upward since 2012.

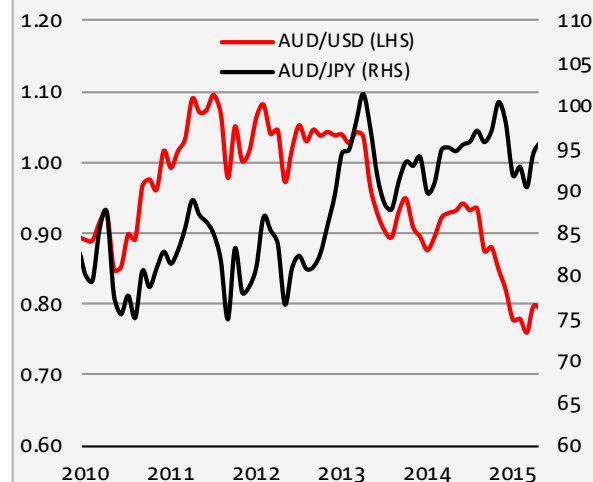
Expectations for the June quarter are lower, but remain positive at +4, and the AUD has since recovered somewhat in April and May.

**Figure 18: Agribusiness export sales**



Source: NAB Group Economics

**Figure 19: Monthly currency movements**



Source: NAB Group Economics, DXdata

## Confidence by sector

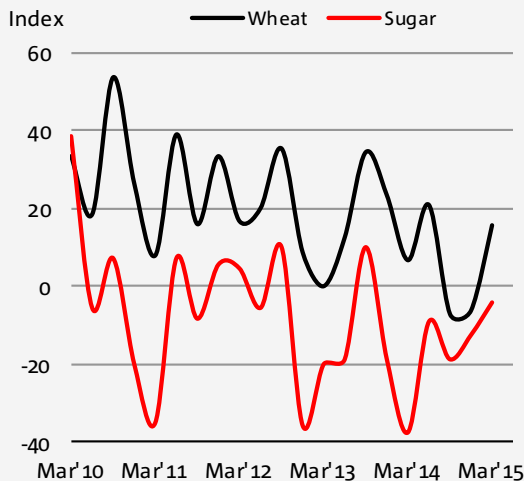
Expected confidence for the coming three months was mixed overall in the March quarter. Wheat was up sharply to +16, compared to -6 in the previous quarter, defying the usual seasonal trend. Sugar was up slightly but still in negative territory at -4, with the fall in the Brazilian Real weighing on sentiment. Other crops and wine both rose to +21 and 0 respectively.

Confidence in proteins was more mixed but still mostly in positive territory: sheep meat was essentially steady at an optimistic +30 while beef was down somewhat to +24 with higher saleyard prices putting pressure on processors. Poultry rebounded to +12 while dairy fell from +32 in the previous quarter to just +6.

Confidence in fibres was mixed: cotton was down to -6, perhaps reflecting lower domestic planting on account of lower irrigation water availability. Confidence in wool rose to +15, likely reflecting healthier prices for exporters.

Confidence in farm inputs stabilised after a sharp fall in the December quarter 2014. Farm equipment was down to 0, likely reflecting the impact of a lower AUD putting pressure on importers' margins. Farm chemicals was up to +14.

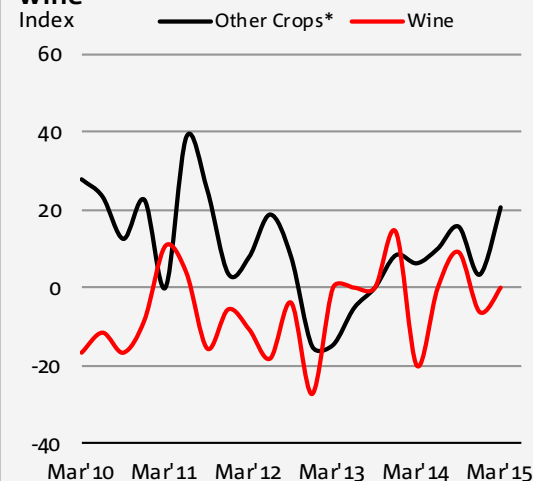
**Figure 20: Confidence – wheat and sugar**



Source: NAB Group Economics



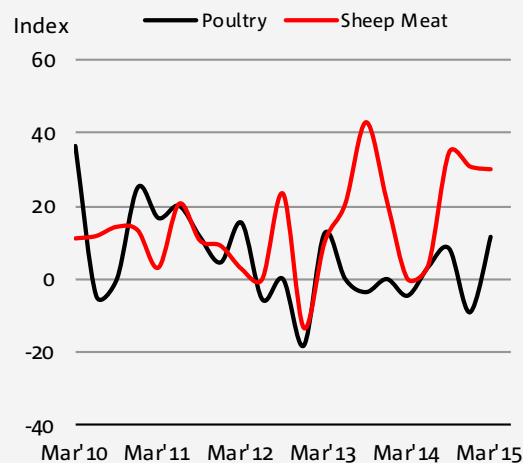
**Figure 21: Confidence – other crops and wine**



Source: NAB Group Economics

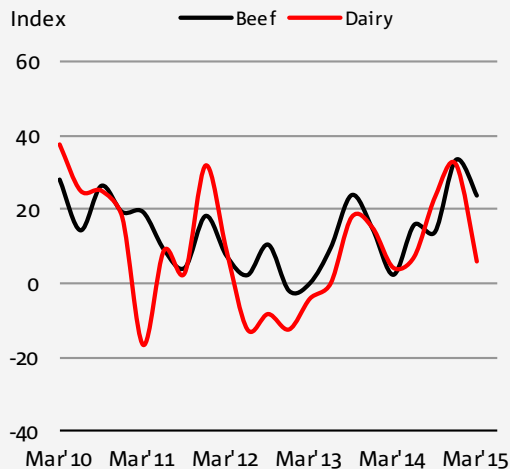


**Figure 22: Confidence – poultry and sheep**



Source: NAB Group Economics

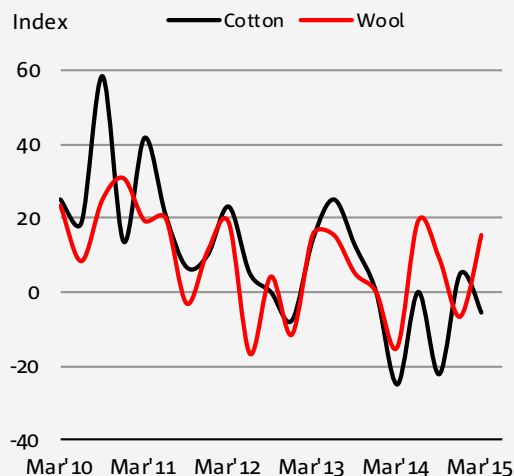
**Figure 23: Confidence – beef and dairy**



Source: NAB Group Economics

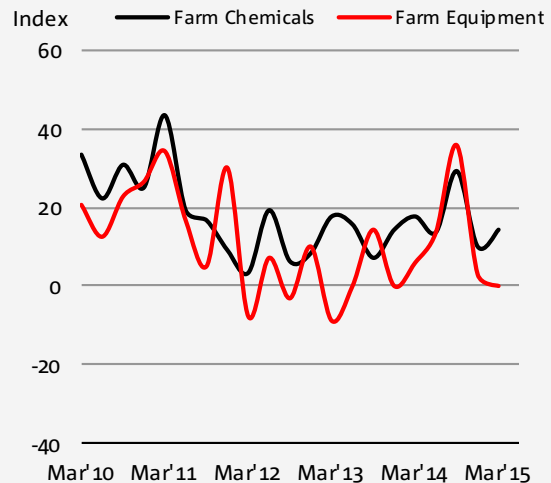


**Figure 24: Confidence - fibres**



Source: NAB Group Economics

**Figure 25: Confidence – farm inputs**



Source: NAB Group Economics



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