

# NAB AGRIBUSINESS BANKER SURVEY - Q4 2018

## A NEW MEASURE OF AGRIBUSINESS AND REGIONAL PERFORMANCE IN AUSTRALIA



regional &  
agribusiness

As Australia's largest agribusiness bank, NAB is in a unique position to monitor movements in the agricultural sector and regional Australia. We believe if you really want to understand how regions are performing, ask a banker. In this report, we survey our specialist agribusiness bankers across the country and ask them a simple question: tell us about your customers. We don't ask them to speculate about the economy or what they think is a "good" or "bad" industry. Rather, we want to know how their customers are performing. We then align their observations to the industry their customer is in and the state they're located. From this we derive a unique measure of agribusiness conditions and confidence. It also allows us to explore agribusiness conditions at a much more detailed level than more traditional surveys.

### HIGHLIGHTS

- NAB's inaugural Agribusiness Banker Survey found that agribusiness conditions were negative in Q4 2018. The index measured -19 (the number of bankers who said conditions were weaker out-weighed those who said it was stronger). All three components of the Agribusiness Conditions Index were negative - trading conditions (-18), profitability (-29) and employment (-9).
- The strong divergence in seasonal conditions across Australia loomed large in the results. Conditions were weakest in NSW which endured severe drought in large parts of the state and strongest in WA which enjoyed CBH's second biggest winter harvest and solid grain prices.
- By industry, conditions were strongest in net terms for Wool, Lamb and Mutton, Horticulture and Wine. Conditions were weakest for Broadacre Cropping, Dairy Cattle, Pigs and Cotton.
- Overall confidence levels were flat but varied widely across the country. WA was the clear out-performer, with confidence flat or negative in all others states.
- By industry confidence was strongest for Mixed Cropping and Livestock, Horticulture - Fruit, Vegetables and Table Grapes, Wool, Lamb and Mutton, Beef Cattles and Wine Grapes. Confidence was weakest for Dairy Cattle, Poultry and Sugar.
- One in five bankers said weather events had the biggest influence on confidence. Other key factors were the outlook for their business, government polices and regulations, pressure on margins and labour availability.

### KEY STATISTICS

Net balance, Q4 2018

	Q4 2018
Agribusiness conditions – overall	-19
- <i>Trading</i>	-18
- <i>Profitability</i>	-29
- <i>Employment</i>	-9
Agribusiness confidence	0
Cash flow	-38
Capital expenditure	-26

- In addition to conditions, NAB bankers were also asked to identify their strongest and weakest performing customers, which were then matched to the industry they operate in. In net terms, the strongest were in Mixed Cropping and Live Stocking, Lamb and Mutton, Wool, Beef Cattle and Cotton.
- The weakest were Dairy Cattle, Pigs, Broadacre Cropping - Grains, Oilseeds and Pulses, Other Livestock and Sugar.
- By state, the top performing industries were: Mixed Cropping and Livestock (NSW), Lamb and Mutton (VIC), Beef Cattle (QLD) and Wool (WA and SA).
- The weakest performers were: Broadacre Cropping - Grains, Oilseeds and Pulses (NSW); Dairy (VIC, QLD and WA), and Pigs (SA).
- It is important to note that in some industries identified as weaker performing, a large number of bankers also identified them as their strongest. This was most apparent for Broadacre Cropping and Beef Cattle.

## AGRIBUSINESS CONDITIONS

NAB's Agribusiness Conditions Index is based on banker assessments of trading (i.e. sales/turnover) conditions, employment and profitability.

Overall, national agribusiness conditions were negative in Q4 2018 at -19, indicating that on balance the number of bankers who said conditions were weaker, outweighed the number of bankers who said it was stronger.

Conditions were led down by very weak profitability (-29) and trading conditions (-18). Employment conditions were also negative (-9).

Agribusiness conditions varied widely across the country in Q4 2018, reflecting the large discrepancy in seasonal conditions between east and west coast states.

Conditions in WA (+75) were by far the highest in the country, likely reflecting a generally excellent winter harvest in the state.

Conditions were also positive in VIC (+17), although this masked considerable divergence in conditions across different agriculture types in the state (see pages 3).

In contrast, conditions in NSW (-53), QLD (-50) and SA (-50) were all negative, with the impact of drought likely to have played a key role, particularly in the eastern states.

## CONDITIONS BY SECTOR

Conditions varied widely by agribusiness sector. According to our bankers, overall conditions were strongest for Wool (+35), reflecting a run of strong wool prices, followed closely by Lamb and Mutton (+27). Horticulture and wine also performed well, reflecting increased market access for some horticultural products and a more sustainable AUD for wine.

Conditions were weakest for Broadacre Cropping (-28). Dairy Cattle (-21) were also weak in line with high drought-induced input (feed and water) costs, more than offsetting a moderate recovery in prices. Pigs (-19) and Cotton (-13) were also subdued in line with limited water availability in the Murray-Darling Basin (see chart on next page).

The overall result masks disparities within industries and states. While Broadacre Cropping had the weakest conditions of any sector nationally, WA conditions for Broadacre Cropping were buoyant and one of the strongest performers in the state overall (see table on following page).

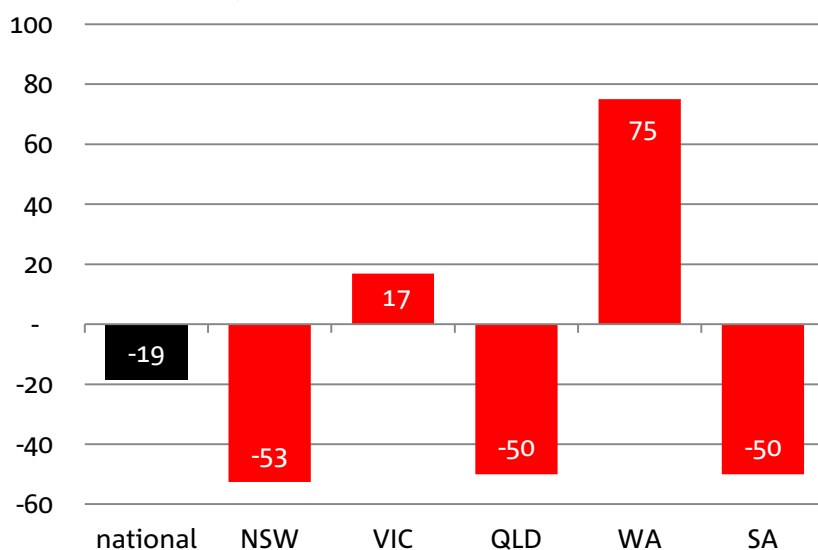
## CONDITIONS

Net balance, by components, Q4 2018



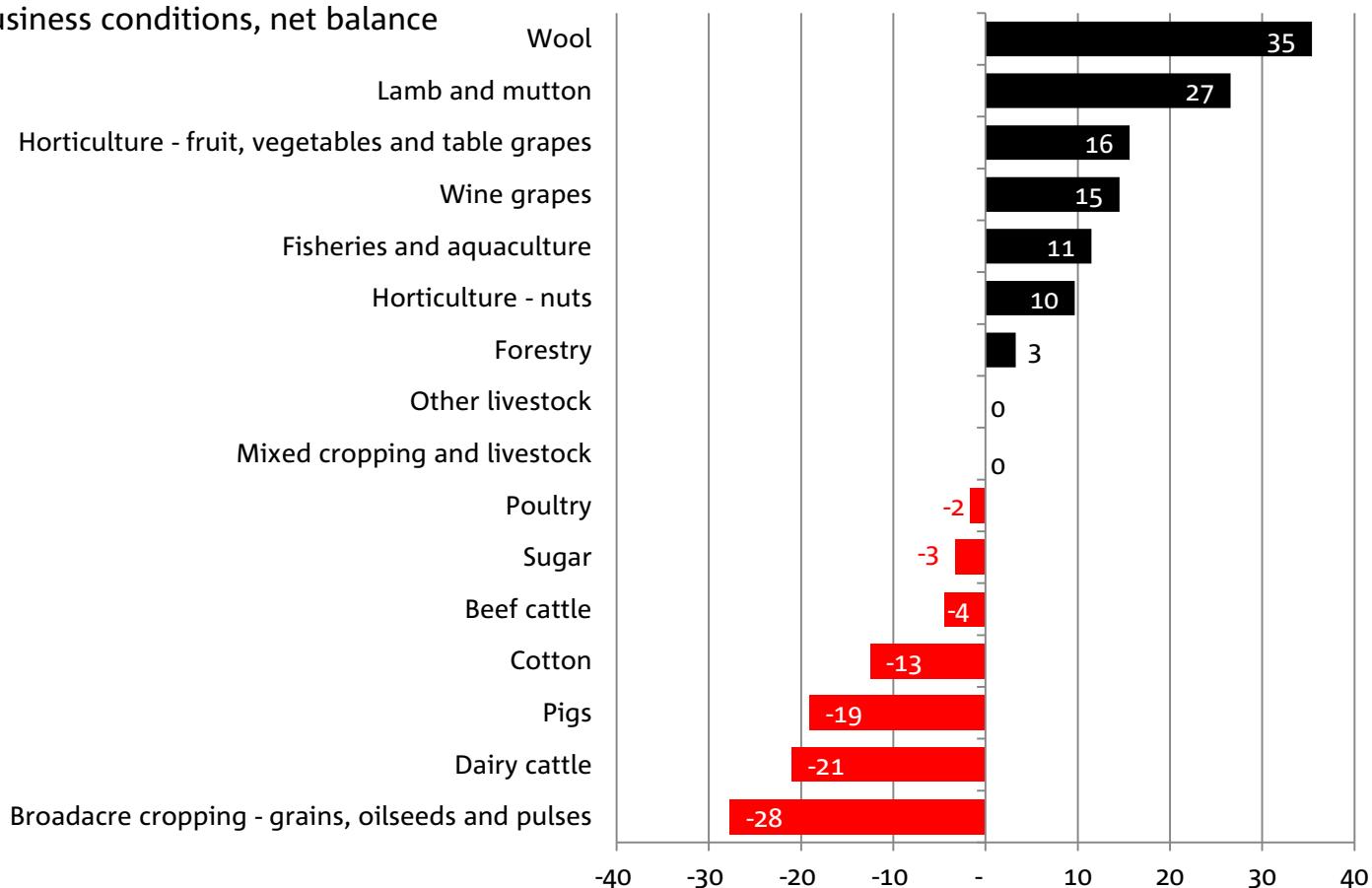
## CONDITIONS BY STATE

Net balance, Q4 2018



## CONDITIONS BY INDUSTRY

Business conditions, net balance



## CONDITIONS BY STATE AND INDUSTRY

Business conditions, net balance

	AUS	NSW	VIC	QLD	WA	SA
Wool	35	-6	63	23	50	63
Lamb and Mutton	27	-6	38	25	38	50
Horticulture - Fruit, Vegetables and Table Grapes	16	17	50	-25	-13	25
Wine Grapes	15	17	19	0	13	13
Fisheries and Aquaculture	11	11	7	10	13	13
Horticulture - Nuts	10	0	31	10	0	0
Forestry	3	6	7	0	0	0
Other Livestock	0	6	-7	0	0	0
Mixed Cropping and Livestock	0	-3	25	-50	63	25
Poultry	-2	0	-7	0	-13	13
Sugar	-3	0	0	-18	0	0
Beef Cattle	-4	-39	20	-19	38	-13
Cotton	-13	-22	-7	-23	0	0
Pigs	-19	-6	-19	-27	-13	-38
Dairy Cattle	-21	-11	-63	0	0	-25
Broadacre Cropping - Grains, Oilseeds and Pulses	-28	-72	-19	-8	50	-25

## AGRIBUSINESS CONFIDENCE

Confidence - based on bankers' perceptions of conditions facing their agribusiness customers in 3 months' time - was flat (0) in Q4 2018.

However, there was considerable variation between states. WA (+78) enjoyed very strong confidence.

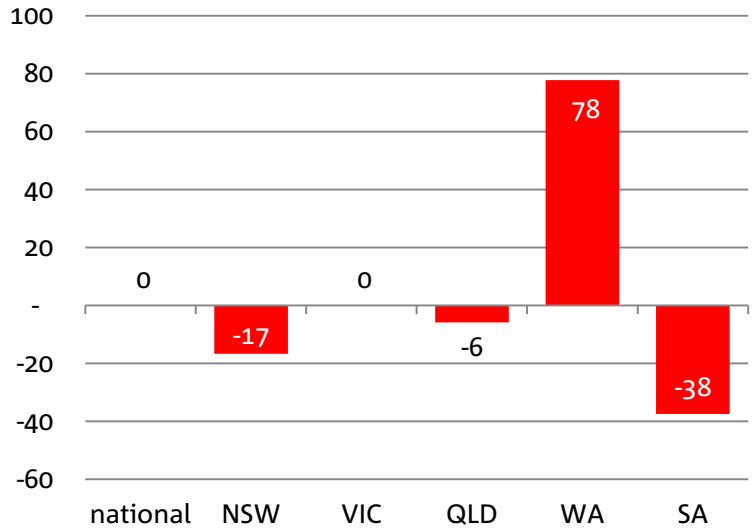
By contrast, SA recorded very low levels of confidence (-38), with confidence also negative in NSW (-17) and QLD (-6). Confidence in VIC was flat.

When NAB bankers were asked to identify what was having the biggest influence on confidence, around one in five (19%) cited weather related events as the top issue. This result lends further weight to the sense that seasonal conditions is the major issue affecting the industry at present.

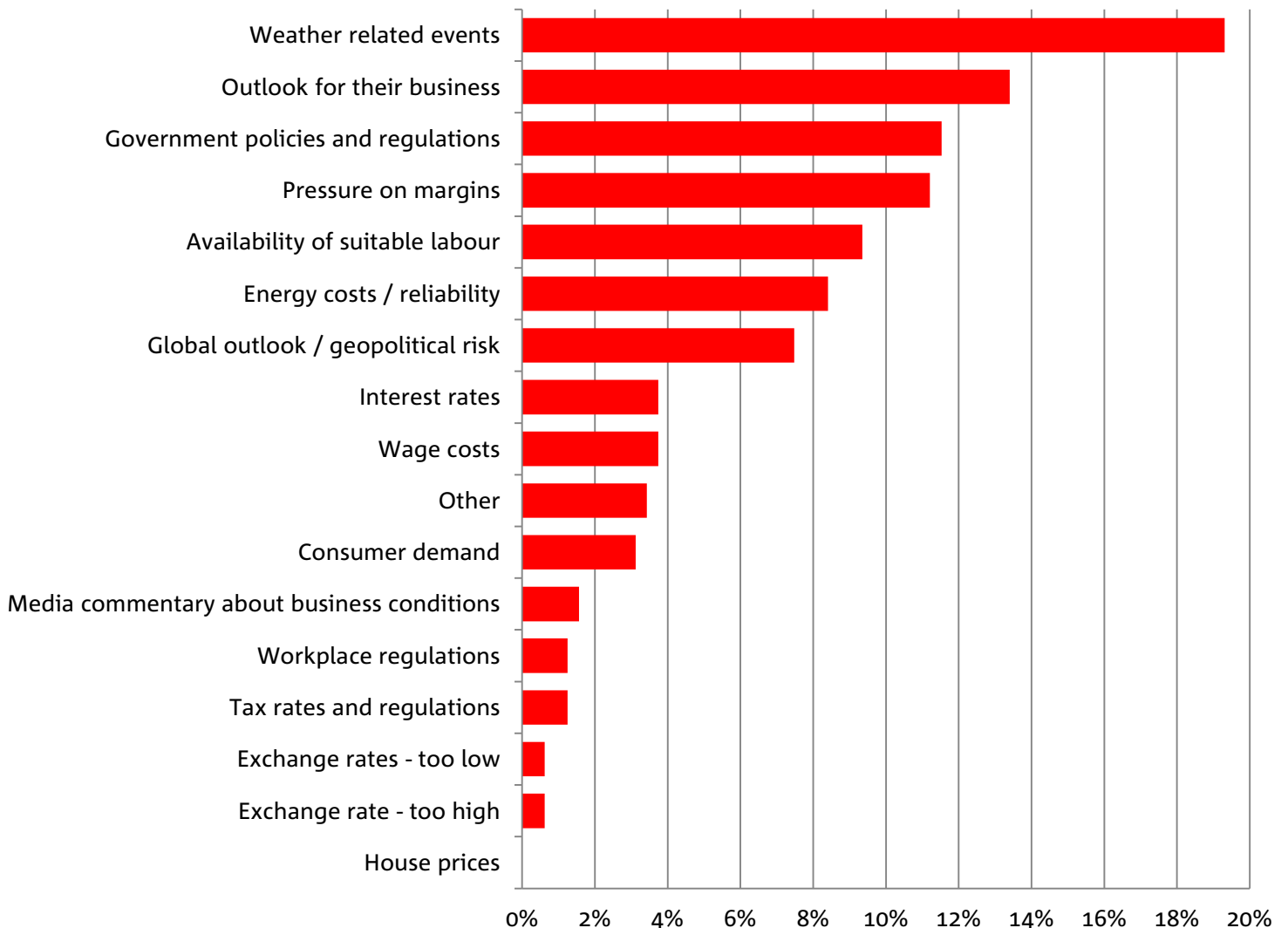
Other key issues included the outlook for their business (13%), government policies and regulations (12%), pressure on margins (11%), the availability of suitable labour (9%), energy costs/reliability (8%) and the global outlook/geo-political risk (8%).

## CONFIDENCE

Net balance, by state, Q4 2018



## TOP ISSUES AFFECTING CONFIDENCE (%)



## AGRIBUSINESS CONFIDENCE BY INDUSTRY AND STATE

Agribusiness confidence also varies considerably by sector. According to our bankers, overall confidence levels in the next three months are strongest for Mixed Cropping and Livestock (+30), Horticulture - Fruit, Vegetables and Table Grapes (+22), Wool (+22), Lamb and Mutton (+22), Beef Cattles (+15) and Wine Grapes (+15).

Confidence was weakest for Dairy Cattle (-5), Poultry (-2) and Sugar (-2).

Ultimately, a sustained improvement in confidence will require seasonal conditions in eastern Australia to return to something resembling normality.

At this stage of the season, most of the country (and essentially all winter of the winter cropping area) has below average root zone soil moisture and the Bureau of Meteorology's three month outlook is for drier than average conditions across the east and most of the north. With planting less than two months away, this is not an ideal situation.

The overall result does however mask some important differences by state.

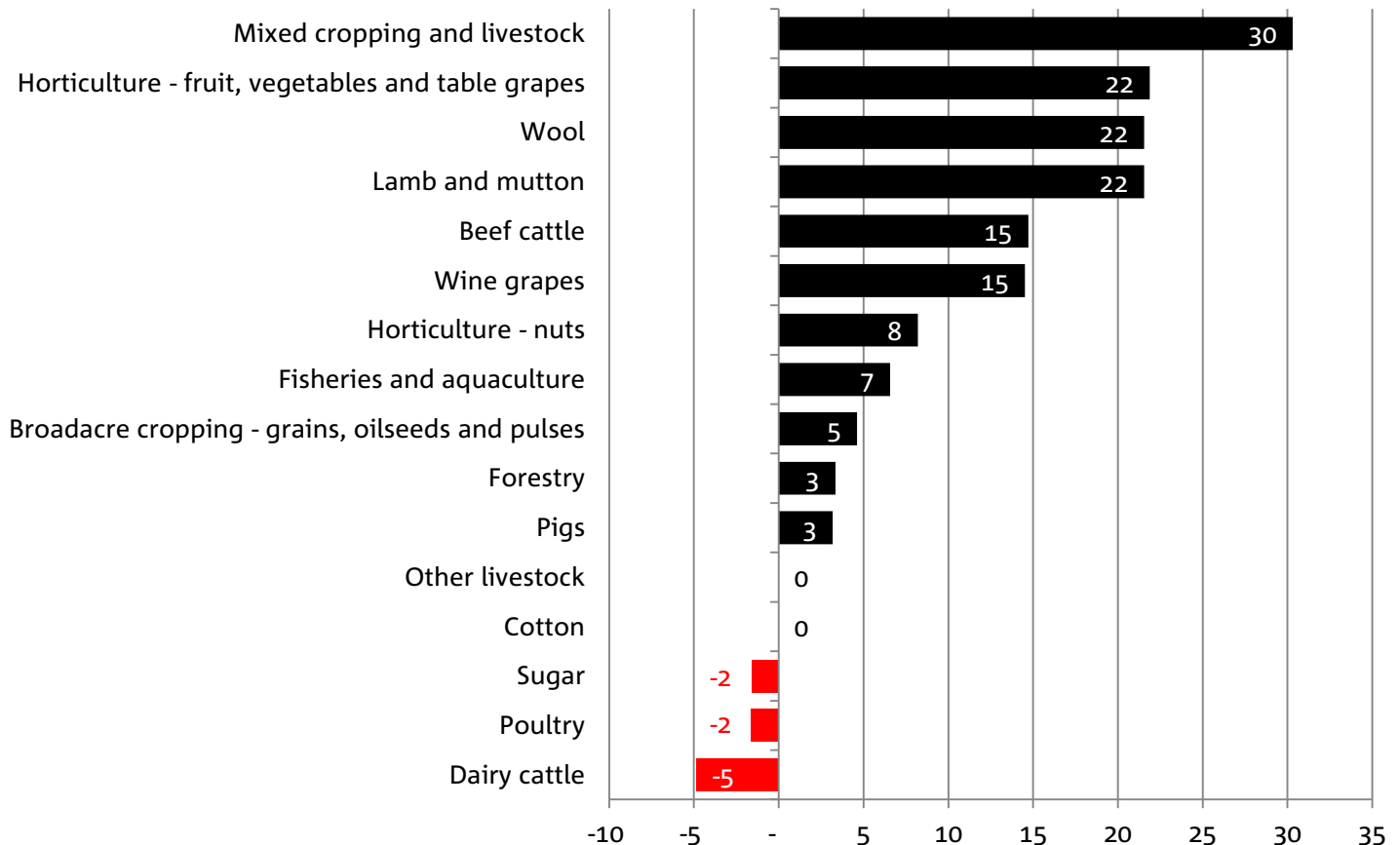
For example, confidence levels among bankers in WA were significantly higher for Mixed Cropping and Livestock (+63) and Broadacre Cropping - Grains, Oilseeds and Pulses (+63) than for bankers in other states.

In contrast, NAB agribusiness bankers in VIC were by far the most confident about Horticulture - Fruit, Vegetables and Table Grapes (+50), while bankers in QLD were the most confident about Pigs (+36) and Beef Cattles(+25).

See table on the following page for more detail.

## CONFIDENCE BY INDUSTRY

Business confidence (next 3 months), net balance



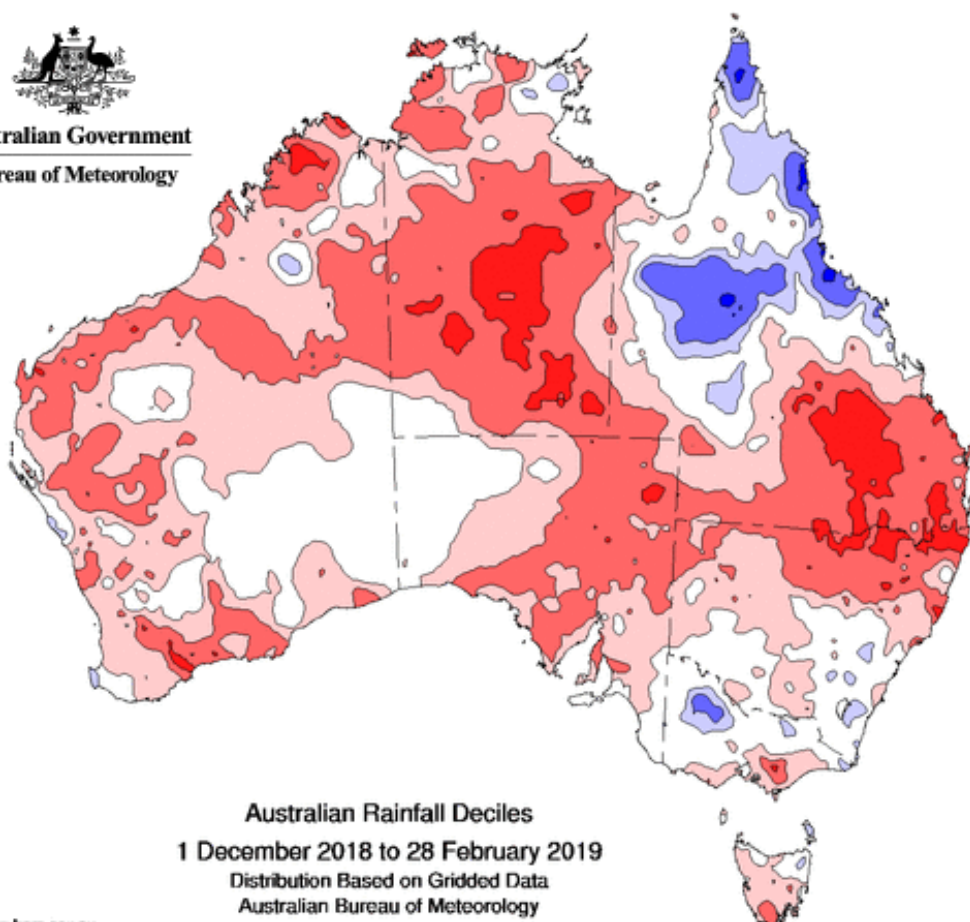
## CONFIDENCE BY STATE AND INDUSTRY

Business confidence (next 3 months), net balance

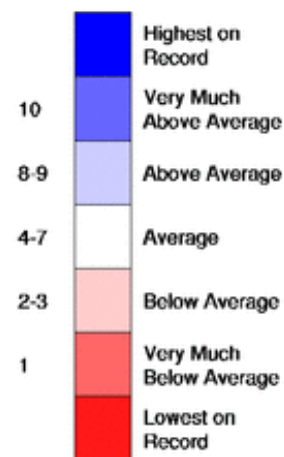
	AUS	NSW	VIC	QLD	WA	SA
Mixed cropping and livestock	30	22	38	7	63	38
Horticulture - Fruit, vegetables and table grapes	22	17	50	8	13	13
Wool	22	17	38	-	38	25
Lamb and mutton	22	17	31	15	13	25
Beef cattle	15	11	13	25	13	-
Wine grapes	15	17	19	-	25	13
Horticulture - nuts	8	11	20	-	-	-
Fisheries and aquaculture	7	11	7	-	-13	-
Broadacre Cropping - Grains, oilseeds and pulses	5	-39	31	23	63	-25
Forestry	3	11	-	-	-	-
Pigs	3	-6	-6	36	-	-13
Cotton	-	0	-7	8	-	-
Other livestock	-	6	-7	-	-	-
Sugar	-2	-	-	-9	-	-
Poultry	-2	-5	-7	20	-13	-
Dairy cattle	-5	-	-13	-10	13	-13

## RAINFALL DECILES

Summer 2018-19



Rainfall Decile Ranges



Australian Rainfall Deciles  
1 December 2018 to 28 February 2019  
Distribution Based on Gridded Data  
Australian Bureau of Meteorology



## AGRIBUSINESS PERFORMANCE BY INDUSTRY

NAB's specialist agribusiness bankers across the country were also asked how their customers were performing. We then aligned their observations to the industry their customer was in and the state they're were located. From this we derive a unique insight into the current performance of agribusiness industries.

The chart below ranks all industries in net balance terms. The red bars show the share of bankers who identified the industry as their "best performer" while the black bars show the share of bankers who identified the same industry as their "weakest performer".

Based on this measure, the best performing agribusiness industries in Australia in Q4 2018, were Mixed Cropping and Livestock, Lamb and Mutton, Wool, Beef Cattle and Cotton.

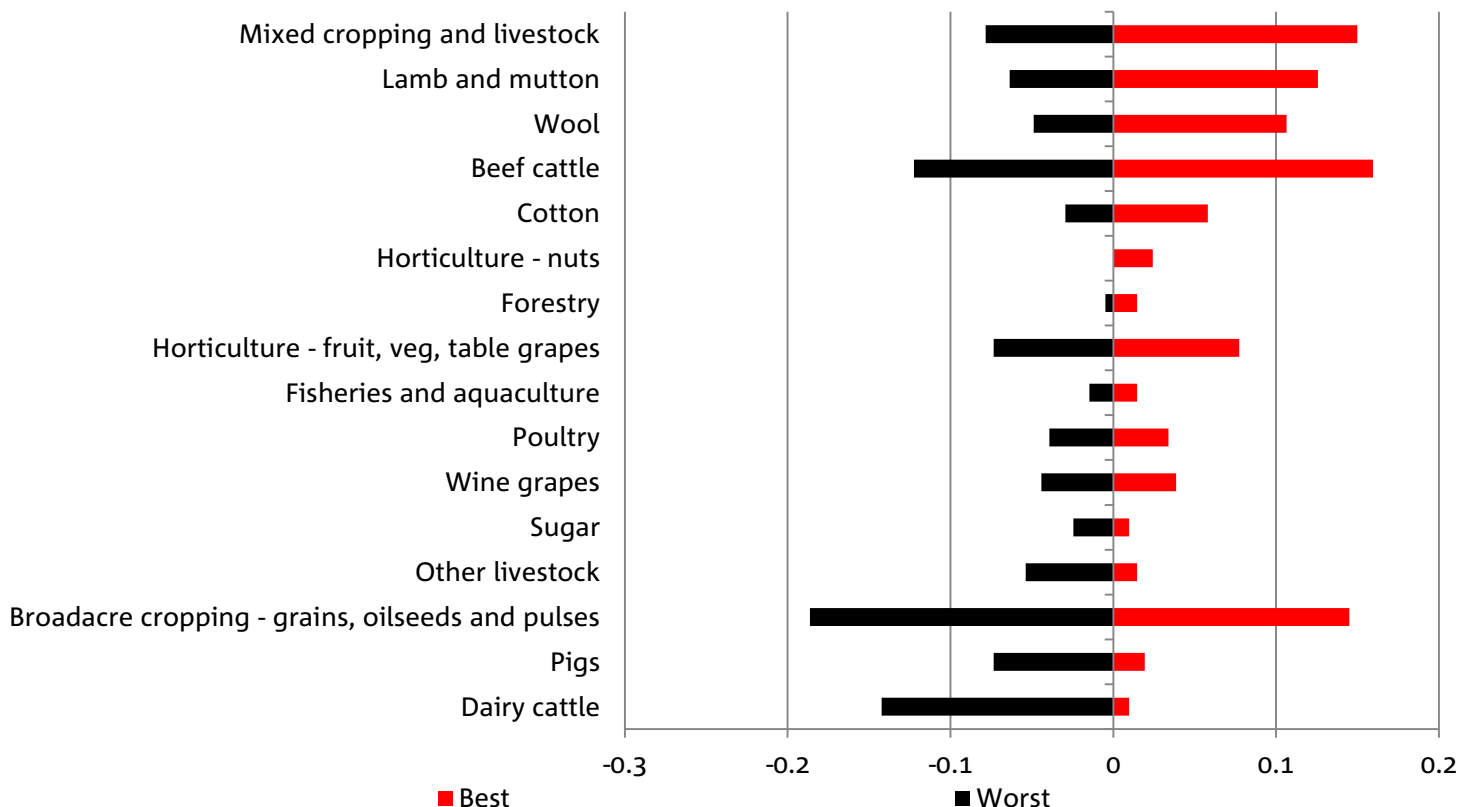
The weakest performers were Dairy Cattle, Pigs, Broadacre Cropping - Grains, Oilseeds and Pulses, Other Livestock and Sugar.

As can be seen below, often a weaker performer in one region can be an outperformer in another. Hence it is important to look at these results by State.

For example, a large number of bankers in QLD identified Beef Cattle as a strong performer, despite this industry being among the weakest in WA.

## AGRIBUSINESS INDUSTRY PERFORMANCE RANKED

By net balance



By State the top performing industries were: Mixed Cropping and Livestock in NSW, Lamb and Mutton in VIC, Beef Cattle in QLD and Wool in WA and SA.

The weakest performers were: Broadacre Cropping - Grains, Oilseeds and Pulses; Dairy in VIC, QLD and WA, and Pigs in SA.

See the tables on the following page for the top and bottom performers by state.

## TOP 5 PERFORMING INDUSTRIES - BY STATE

Based on net balance, last 3 months

	AUS	NSW	VIC	QLD	WA	SA
1	Mixed Cropping and Livestock	Mixed Cropping and Livestock	Lamb and Mutton	Beef Cattle	Wool	Wool
2	Lamb and Mutton	Cotton	Wool	Mixed Cropping and Livestock	Other Livestock	Lamb and Mutton
3	Wool	Lamb and Mutton	Horticulture - Nuts	Horticulture - Nuts	Mixed Cropping and Livestock	Wine Grapes
4	Beef Cattle	Forestry	Beef Cattle	Fisheries and Aquaculture	Cotton	Mixed Cropping and Livestock
5	Horticulture - Nuts	Beef Cattle	Broadacre Cropping - Grains, Oilseeds and Pulses	Poultry	Sugar	Horticulture - Fruit, Vegetables and Table Grapes

## BOTTOM 5 PERFORMING INDUSTRIES - BY STATE

Based on net balance, last 3 months

	AUS	NSW	VIC	QLD	WA	SA
1	Dairy Cattle	Broadacre Cropping - Grains, Oilseeds and Pulses	Dairy Cattle	Dairy Cattle	Dairy Cattle	Pigs
2	Pigs	Dairy Cattle	Pigs	Broadacre Cropping - Grains, Oilseeds and Pulses	Poultry	Dairy Cattle
3	Broadacre Cropping - Grains, Oilseeds and Pulses	Other Livestock	Other Livestock	Other Livestock	Beef Cattle	Other Livestock
4	Other Livestock	Pigs	Fisheries and Aquaculture	Pigs	Horticulture - Fruit, Vegetables and Table Grapes	Poultry
5	Sugar	Horticulture - Fruit, Vegetables and Table Grapes	Mixed Cropping and Livestock	Sugar	Broadacre Cropping - Grains, Oilseeds and Pulses	Beef Cattle



## CAPITAL EXPENDITURE

Capital expenditure was negative in Q4 2018 (-26) - and in all states bar WA (positive) and VIC (flat).

The outlook for capital expenditure is expected to remain negative in the next three to 12 months in SA, and for drought affected QLD and NSW, highlighting risks for farm equipment and service suppliers in these states in 2019.

Only WA and VIC recorded positive capital expenditure expectations for the next 12 months, with WA also expecting a big increase in the next three months.

## OUTLOOK FOR LAND PRICES

Most agribusiness bankers expect agricultural land prices to increase in the next year, with a 0-5% increase the most common response (44% of responses).

This outpaces expectations for housing over the period.

## BUSINESS AMBITIONS - THE VIEW FROM OUR BANKERS

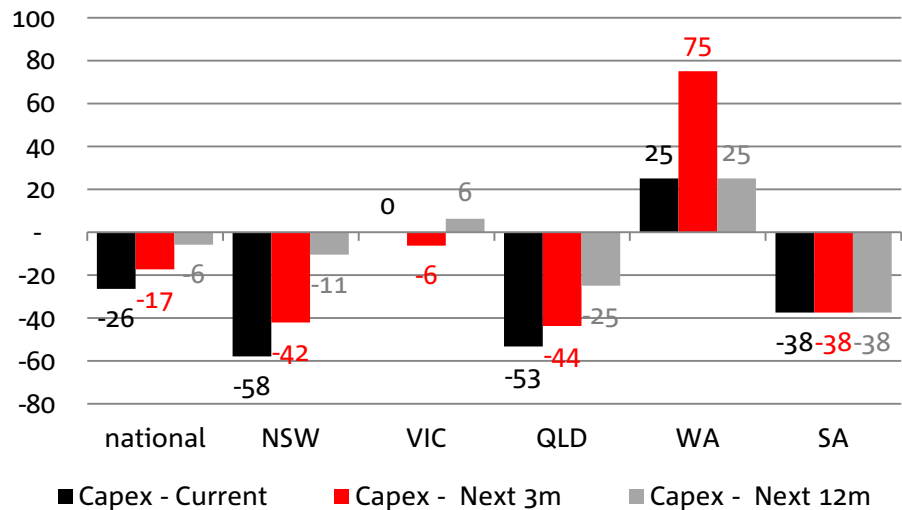
NAB agribusiness bankers were asked to rate the extent they believed their customers had the following ambitions for their businesses over the next three years.

Overall, they scored their intentions highest for growing an existing business (7.4 out of 10 points where 10 is completely), followed by growing by acquiring other farms or businesses (6.9) and growing slowly and not making much change to the way they do business (5.7).

They rated their intentions lowest for no growth or change (3.8) and exiting the industry (3.1).

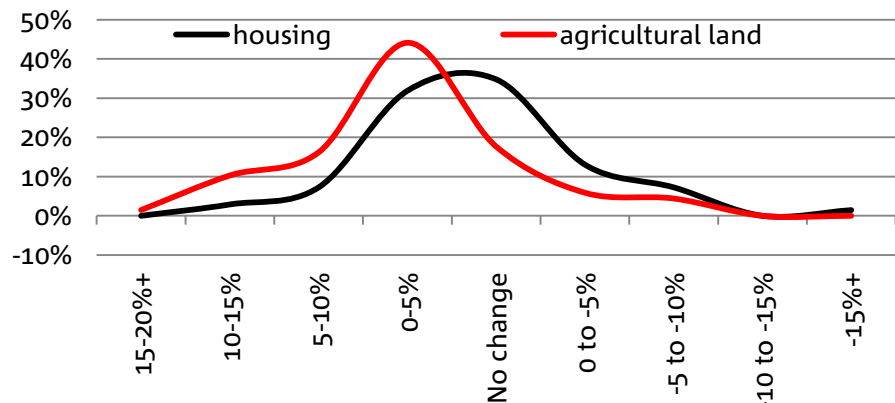
## CAPITAL EXPENDITURE

Net balance, Q4 2018



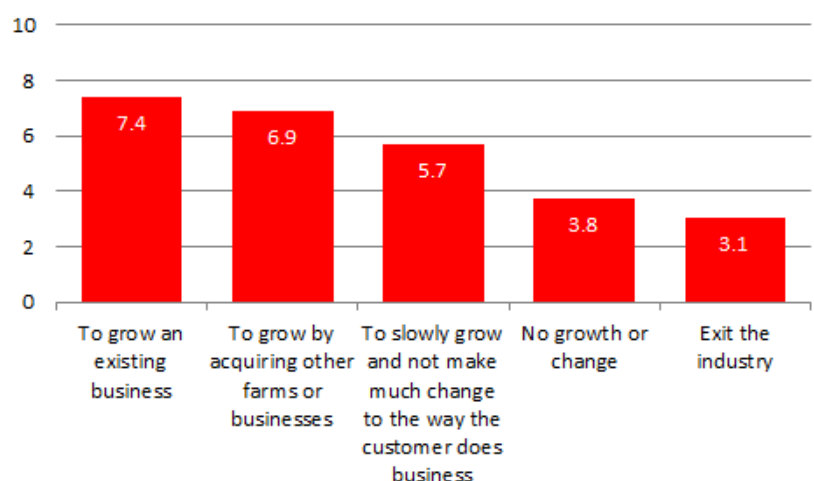
## 12 MONTH LAND PRICE EXPECTATIONS

% change, for housing and agricultural land



## EXTENT CUSTOMERS HAVE FOLLOWING AMBITIONS FOR THEIR BUSINESSES IN NEXT 3 YEARS

score out of 10 where 10 = completely



Customer ambitions did however vary by state.

Bankers in NSW were far more positive about the ambitions of their customers to grow an existing business (8.1) and grow by acquisition (7.8) than in any other state. NSW bankers also rated the slow growth and little change option the highest (6.3).

In contrast, bankers in QLD rated their the highest for no growth or change (4.9) and bankers in SA for exiting the industry (4.0)

## BUSINESS AMBITIONS - BY STATE

Score out of 10 where 10 = completely

	AUS	NSW	VIC	QLD	WA	SA
To grow an existing business	7.4	8.1	6.9	7.0	7.6	7.3
To grow by acquiring other farms or businesses	6.9	7.8	5.8	6.6	6.9	7.3
To slowly grow and not make much change to the way the customer does business	5.7	6.3	5.2	5.7	5.8	5.3
No growth or change	3.8	3.4	4.2	4.9	3.0	2.6
Exit the industry	3.1	3.4	3.3	3.0	1.9	4.0

## FOR FURTHER INFORMATION

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