

# NAB AGRIBUSINESS BANKER SURVEY – Q1 2019

## A 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 second Agribusiness Banker Survey found that agribusiness conditions remained negative in Q1 2019. The index fell from -19 (the number of bankers who said conditions were weaker outweighed those who said it was stronger) in Q4 2018 to -20 in Q4 2019.
- All three components of the Agribusiness Conditions Index remain negative. Trading conditions improved a little (-14 compared to -18 last quarter), but profitability (-31 compared to -29 last quarter) and employment (-14 compared to -9 last quarter) both weakened.
- Agribusiness confidence jumped nationally, up from 0 to +20. The increase largely reflected a big improvement in Queensland, parts of which saw considerable rain in the quarter, while Western Australia remained buoyant. New South Wales and Victoria remained pessimistic however.
- Seasonal conditions remain a key driver of the survey results and for their divergence across Australia. Conditions remained weakest in NSW, which has endured severe drought in large parts of the state and strongest in WA, which has come off a very good season. Conditions improved in Queensland, but deteriorated in Victoria.
- By industry, conditions were strongest in wool, followed by fisheries and horticulture. Interestingly, both wool and lamb saw conditions decline in Q1, although this was driven largely by New South Wales and Victoria, suggesting that seasonal conditions may have been the underlying cause. Dairy was once again the weakest sector.

### KEY STATISTICS

Net balance, Q4 2018

	Q4 2018	Q1 2019
Agri conditions - overall	-19	-20
- <i>Trading</i>	-18	-14
- <i>Profitability</i>	-29	-31
- <i>Employment</i>	-9	-14
Agribusiness confidence	0	+20
Cash flow	-38	-41
Capital expenditure	-26	-4

- 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 wool, mixed cropping and livestock and lamb and mutton, while dairy and (unexpectedly) horticulture, were weak.
- 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 cattle.
- Looking ahead, we will be closely watching the progress of the season and its impact on conditions and confidence. The break has arrived, albeit very late, in the south and we would expect to see some impact on Victorian and South Australian conditions. However, if the drier than average three month outlook from the Bureau of Meteorology transpires, conditions could suffer.

## 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 remained negative in Q1 2019 at -20, 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 continued very weak profitability (-30) and employment (-14). Trading conditions were also weak, although somewhat improved on last quarter (-14, up from -18).

Agribusiness conditions continue to display wide variation across the country, although the relative performance of individual states has changed since last year.

Western Australia remains the strongest performer, although conditions dropped from a stratospheric +75 in Q4 to +50 in Q1. Meanwhile, Queensland, which had been among the weakest performers in Q4 amid severe drought conditions, was buoyed by rainfall (severe floods in some areas notwithstanding), jumping from -50 to -14.

Victoria, which was the second strongest state in Q4, dropped to third weakest in Q1. This likely reflects a very dry start to the year in the state, although hopefully recent rainfall will help in Q2. Meanwhile, NSW and SA remain weak.

## CONDITIONS BY STATE

Conditions continue to vary widely by agribusiness sector. After all, Australia is a large country with great diversity in its agricultural industries, so this result is to be expected. That said, some sectors moved perhaps counterintuitively in the quarter. According to our bankers, overall conditions were strongest for Wool (+10), reflecting a run of strong wool prices, followed closely by horticulture (+7). Somewhat surprisingly, lamb and Mutton fell from +27 to 0, largely influenced by weakness in New South Wales.

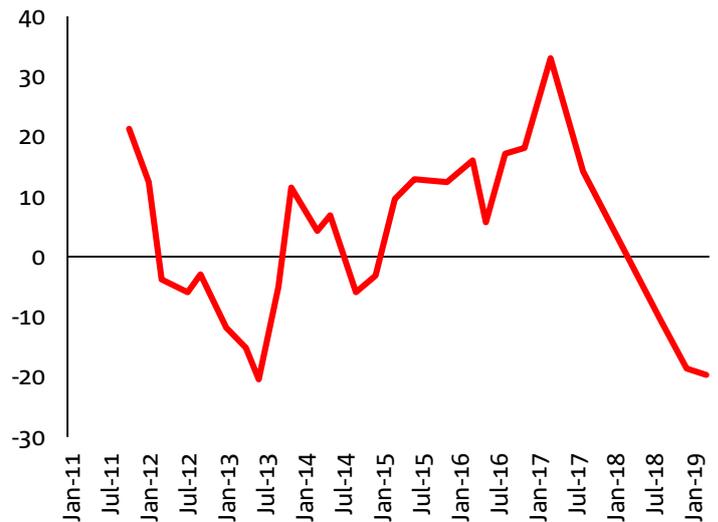
Conditions remain very weak for Broadacre Cropping overall, but the stark east-west divide continues, reflecting a very strong season in Western Australia but considerable weakness in the east.

Dairy remains the weakest sector nationally, driven by a particularly weak print in Victoria. The industry has seen major headwinds from high input costs over the last year, although we hope that better export prices will bring at least some optimism back to the sector this year.

Cotton and beef were equal second weakest, also reflecting seasonal conditions. However, Queensland's beef conditions have returned to neutral on higher rainfall.

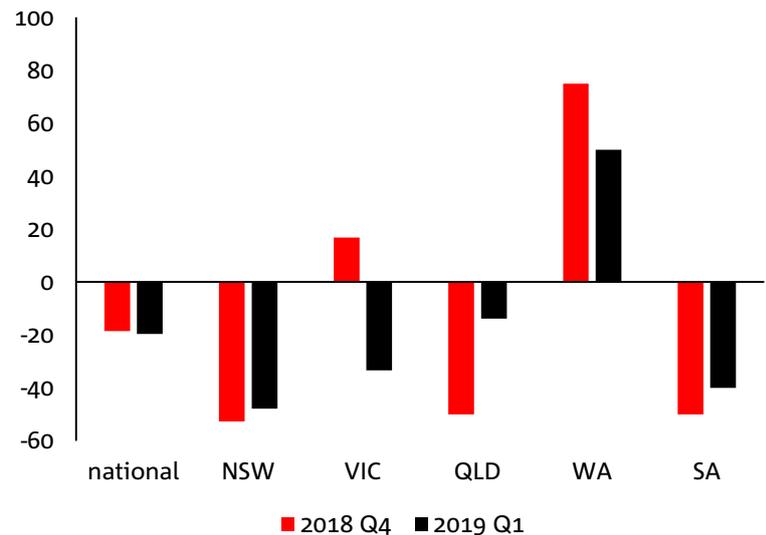
## AGRIBUSINESS CONDITIONS

Net balance



## CONDITIONS BY STATE

Net balance



## CONDITIONS BY SECTOR

Business conditions, net balance



## CONDITIONS BY STATE AND SECTOR

Business conditions, net balance

	AUS	NSW	VIC	QLD	WA	SA
Broadacre cropping - grains, oilseeds and pulses	-22	-56	-33	-8	100	-80
Cotton	-27	-56	0	-25	0	0
Sugar	-9	-20	0	-8	0	0
Wine grapes	-2	-13	25	0	0	-40
Horticulture - fruit, vegetables and table grapes	7	0	0	-8	25	0
Horticulture - nuts	2	0	0	8	0	0
Beef cattle	-27	-63	-63	0	50	-40
Dairy cattle	-34	-40	-75	-8	-33	-33
Lamb and mutton	-	-19	13	17	0	-20
Wool	10	-6	33	8	33	-20
Mixed cropping and livestock	-12	-44	-11	-8	75	-60
Poultry	-7	-13	13	0	-33	0
Pigs	2	-13	22	17	0	0
Other livestock	-4	-19	0	8	0	0
Fisheries and aquaculture	7	7	13	0	25	-33
Forestry	2	-7	0	8	0	0

## AGRIBUSINESS CUSTOMER PERFORMANCE BY INDUSTRY

NAB’s specialist agribusiness bankers across the country were also asked how *their customers* were performing, over and above the conditions in the industry overall. We then aligned their observations to the industry their customer was in and the state they’re 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”.

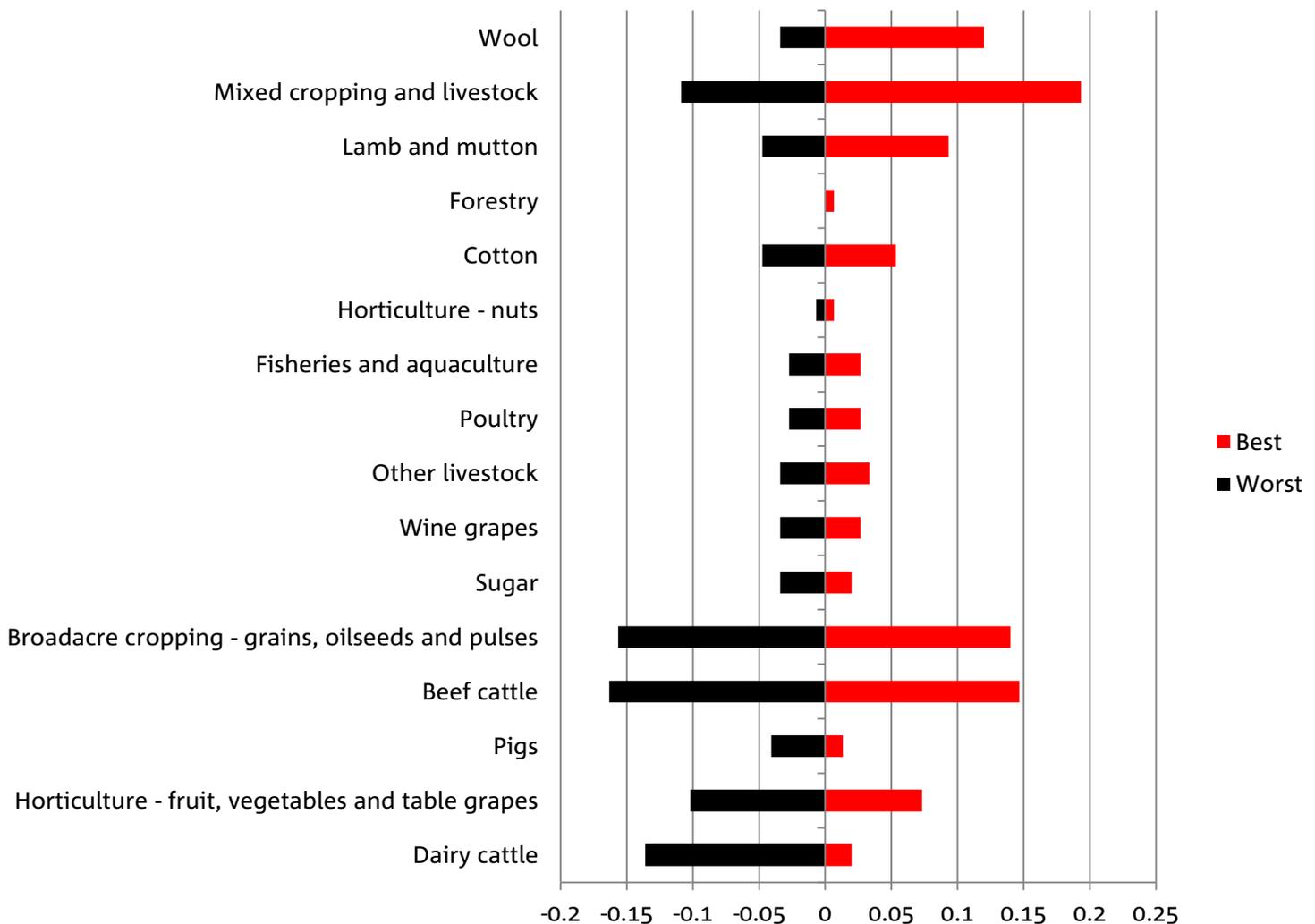
Based on this measure, the best performing agribusiness industries in Australia in Q1 2019, were wool, mixed cropping and livestock and lamb and mutton.

The weakest performer was Dairy Cattle, although on a net balance basis horticulture also struggled. This result runs somewhat counter to our expectations, suggesting that some parts of the industry are performing much better than others.

Indeed, a weaker performer in one region can be an outperformer in another, and often many customers perform well despite the industry facing headwinds.

## AGRIBUSINESS INDUSTRY PERFORMANCE RANKED

By net balance



## AGRIBUSINESS CONFIDENCE

Confidence – based on bankers’ perceptions of conditions facing their agribusiness customers in 3 months’ time – improved overall in Q1.

While there was considerable variation between states, only Victoria saw a major decline in confidence. Western Australia essentially flatlined at a high level (+75) while Queensland skyrocketed from -6 to +92 on rainfall.

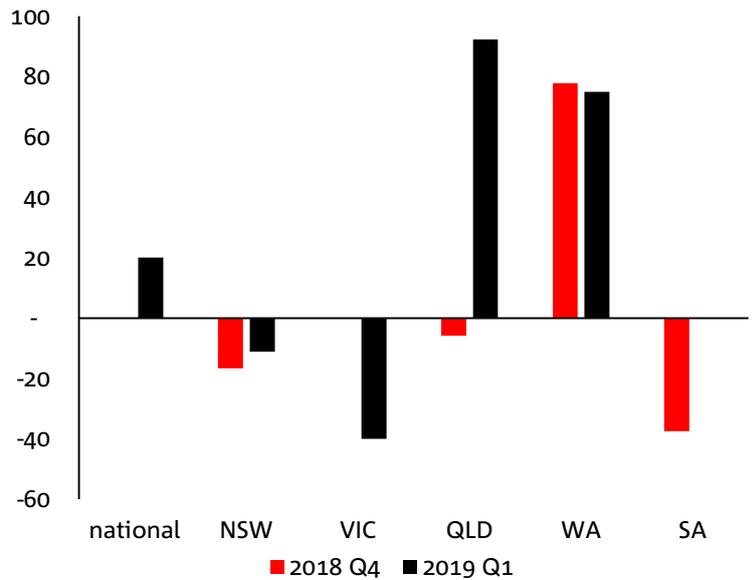
Meanwhile, New South Wales saw a small improvement and South Australia a somewhat larger improvement.

When NAB bankers were asked to identify what was having the biggest influence on confidence, one in five 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.

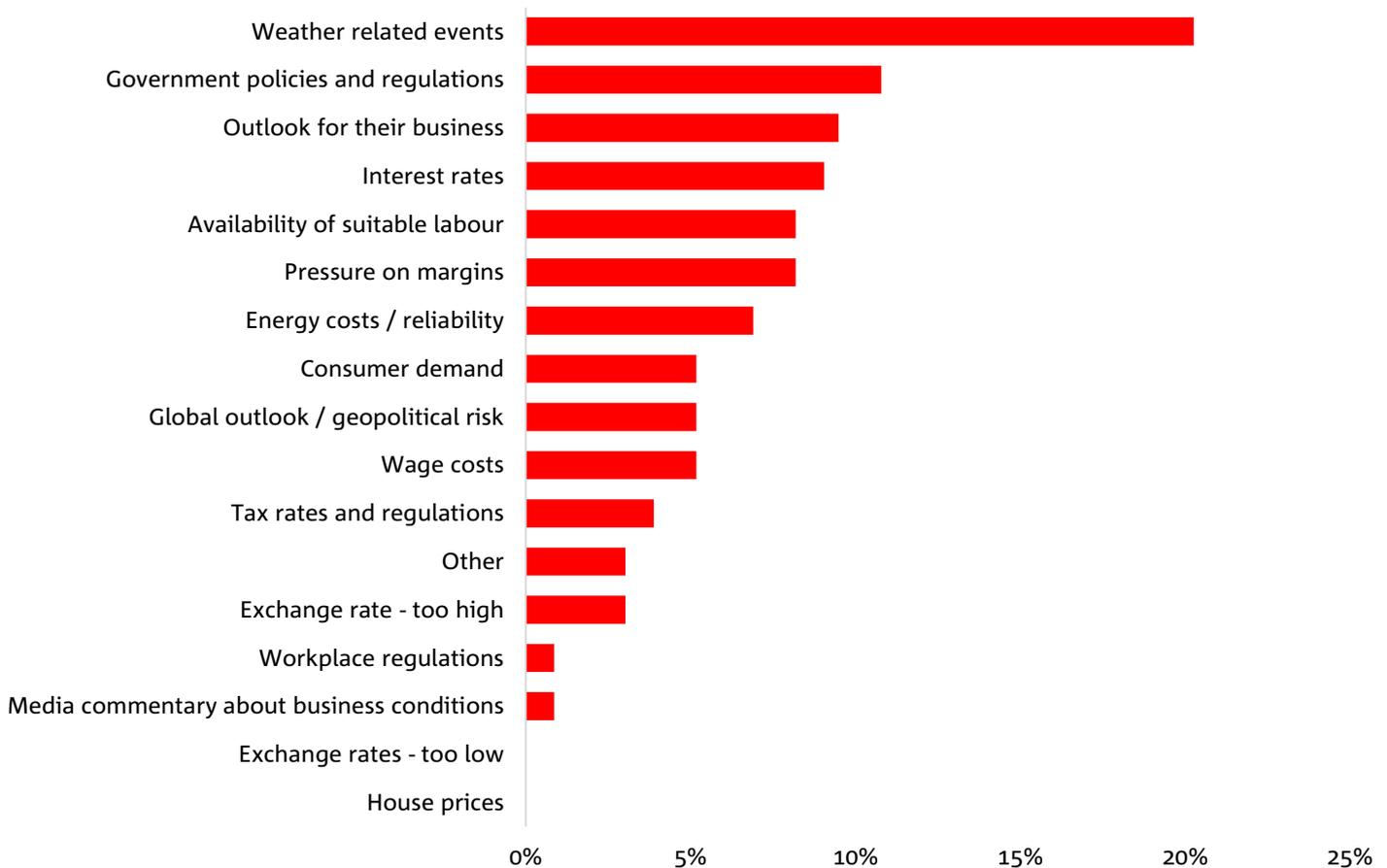
Other key issues included, government polices and regulations (11%), the outlook for their business (9%) pressure on margins (11%) and interest rates (9%). The exchange rate was not generally considered important (cited as a top issue by only 3%), although this may change if the AUD appreciates this year in line with our forecasts.

## CONFIDENCE

Net balance, by state



## TOP ISSUES AFFECTING CONFIDENCE (%)



## CAPITAL EXPENDITURE

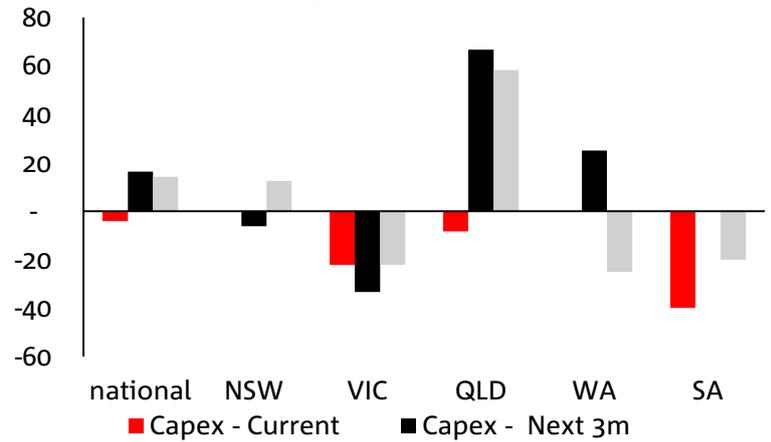
Capital expenditure was negative in Q1 2019, but only slightly, and well in excess of the -26 recorded in Q4.

The outlook for capital expenditure is expected to turn positive nationally over the three and 12 month time horizons.

On a state by state basis, Queensland had the most optimistic projections for future capital spending, while Victoria was the weakest and is expected to remain so.

## CAPITAL EXPENDITURE

Net balance, Q1 2019



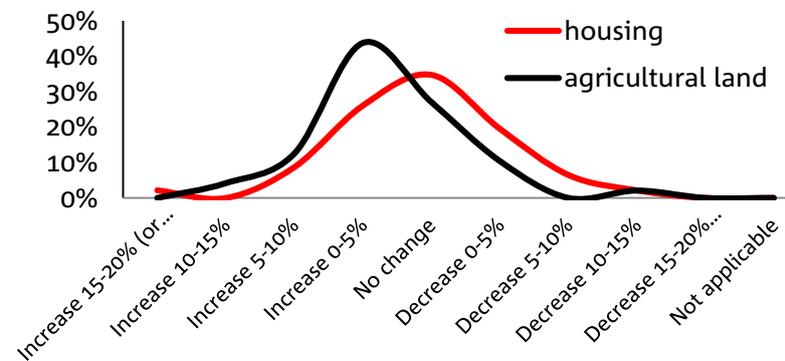
## OUTLOOK FOR LAND PRICES

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.

## 12 MONTH LAND PRICE EXPECTATIONS

% change, for housing and agricultural land



## FOR FURTHER INFORMATION

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