

# NAB AGRIBUSINESS BANKER SURVEY AUGUST 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 third Agribusiness Banker Survey brings a somewhat more encouraging headline figure for agribusiness conditions but continues to show serious concerns in New South Wales and to a lesser extent Queensland. Conditions stood at -11 in August, still negative but an improvement from -20 earlier this year. Conditions are now positive in Western Australia, South Australia and Victoria, but remain negative (and weakening) in New South Wales and Queensland.
- Of the three components of the Agribusiness Conditions Index, two remain negative. Trading conditions continued to improve (now +1, up from -14 last survey) and profitability remained negative (although up to -10 from -31 last survey). Employment went backwards, down to -25 (compared to -14 last survey).
- Agribusiness confidence fell back to -2 following a fairly positive read last survey. Queensland fell back from a very high read while confidence in New South Wales went through the floor, likely in response to a generally poor winter crop in the state, with the clock ticking for rain ahead of summer crop planting.
- Seasonal conditions remain a key driver of the survey results and for their continued divergence across Australia. Conditions remained weakest in NSW, which continues to endure drought in large parts of the state. Western Australia eased somewhat, with rain needed soon to keep the crop going.

### KEY STATISTICS

Net balance

	March	August
Agri conditions - overall	-20	-11
- Trading	-14	+1
- Profitability	-31	-10
- Employment	-14	-25
Agribusiness confidence	+20	-2
Cash flow	-41	-33
Capital expenditure	-4	+1

- By industry, conditions were strongest in lamb and mutton, followed by mixed cropping and livestock. Lamb prices were hovering around record levels when this survey was taken. Wool dropped to third strongest place (from first), likely reflecting the recent fall in wool prices and concerns around the US-China trade war. Dairy remains the weakest sector nationally, but saw a big pick-up this survey. Victoria – which accounts for around two-thirds of Australia's dairy industry – saw conditions increase from -75 to 0 amid strong opening prices for 2019-20.
- Looking ahead, we will be closely watching the progress of the season and its impact on conditions and confidence. The autumn break was good – albeit late – in Western Australia, South Australia and Victoria, but failed in New South Wales. Spring rain (or lack of it) will likely be a major driver next survey.

## 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 August, although the headline print of -11 is an improvement of -20. Still, the result indicates that, on balance, the number of bankers who said conditions were weaker, outweighed the number of bankers who said it was stronger.

Trading conditions were much stronger, standing at +1, while profitability remained negative at -10 (but was much improved on last survey). Unfortunately employment fell from -14 to -25.

Agribusiness conditions continue to display wide variation across the country, although the relative performance of individual states has changed since last year. Western Australia is no longer the strongest performer as it moves on from last season's stellar grain harvest. While (with the delivery of timely rain) the West should produce a reasonable crop this season, it is likely to be lower.

South Australia and Victoria, which have seen a good (if late) break, now have the strongest conditions. This has been assisted by strong lamb prices and a very respectable dairy opening price. Meanwhile, conditions in New South Wales remain miserable.

## CONDITIONS BY SECTOR

Conditions continue to vary widely by agribusiness sector. After all, Australia is a large country with great diversity in its agricultural industries, so this is to be expected. According to our bankers, overall conditions were strongest for lamb and mutton, followed by mixed cropping and livestock and wool. It is unsurprising to see lamb and mutton at number one given this survey was conducted around the time of record lamb prices, although the National Trade Lamb Indicator has retreated somewhat since then. Likewise, mixed cropping and livestock (often with sheep) has many advantages for managing price and seasonal risks.

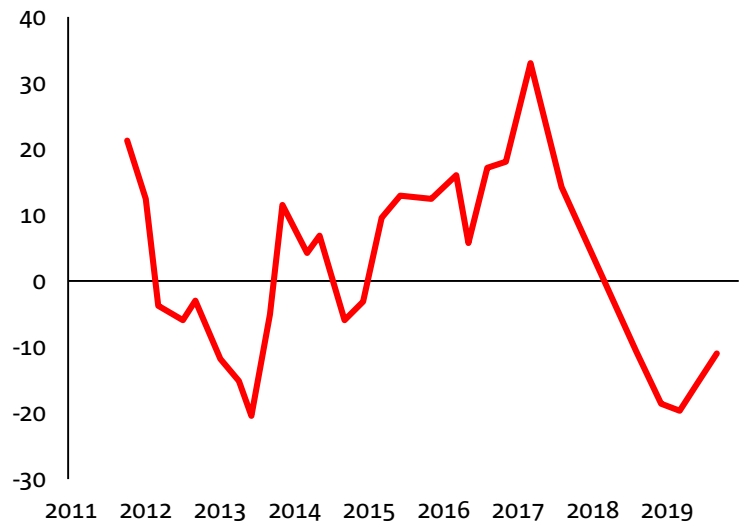
Wool fell from first to third this survey, likely reflecting a cooling wool market and concerns around the ongoing US-China trade war. Australia sends most of his wool to China and an protracted dispute will put pressure on the industry.

Conditions remain very mixed for Broadacre Cropping. Western Australia, South Australia and Victoria all report strong conditions but New South Wales and Queensland are in very poor shape.

Dairy remains the weakest sector but improved a good deal in this survey. Victoria – which accounts for around two-thirds of Australia's dairy industry – saw conditions increase from -75 to 0 amid strong opening prices for 2019-20.

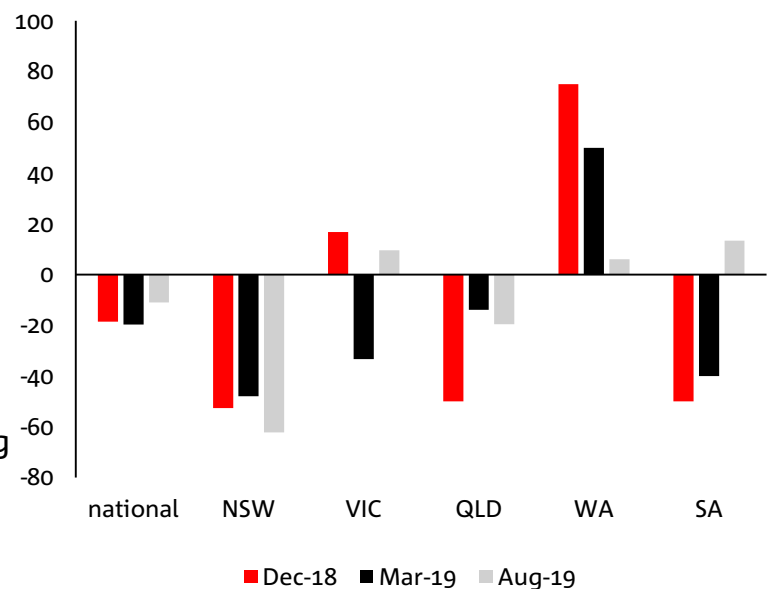
## AGRIBUSINESS CONDITIONS

Net balance



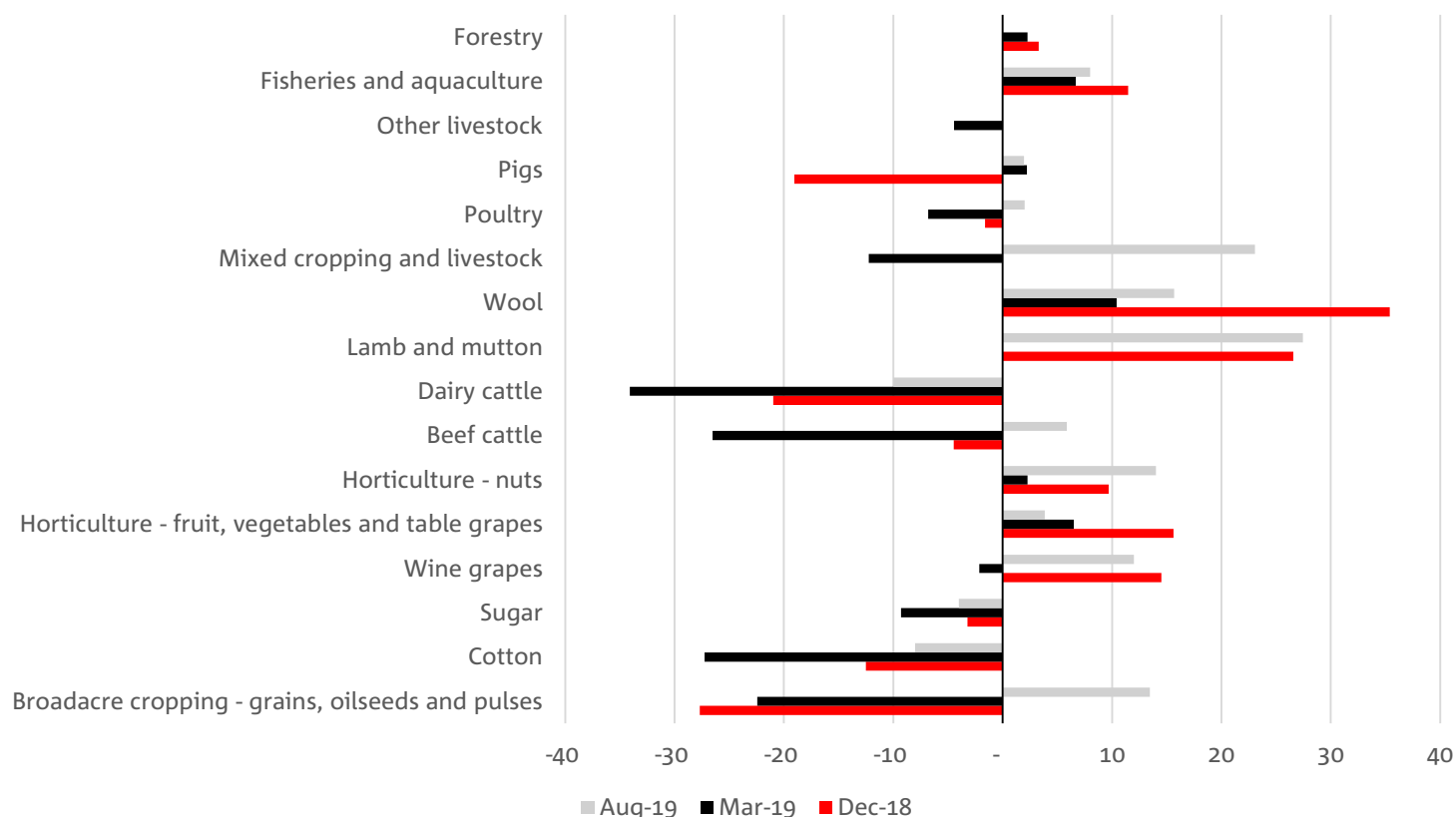
## CONDITIONS BY STATE

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	13	-36	41	-30	43	60
Cotton	-8	-18	-13	0	0	0
Sugar	-4	0	-13	0	0	0
Wine grapes	12	0	13	0	14	40
Horticulture - fruit, vegetables and table grapes	4	-9	0	9	0	0
Horticulture - nuts	14	9	13	30	14	0
Beef cattle	6	-45	20	0	57	-20
Dairy cattle	-10	-36	0	-20	-14	0
Lamb and mutton	27	-55	50	20	71	60
Wool	16	-45	31	30	29	20
Mixed cropping and livestock	23	-55	47	10	57	60
Poultry	2	-9	-7	10	14	20
Pigs	2	9	6	0	0	0
Other livestock	-	-9	0	10	0	0
Fisheries and aquaculture	8	0	13	0	14	20
Forestry	-	0	0	10	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. 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”.

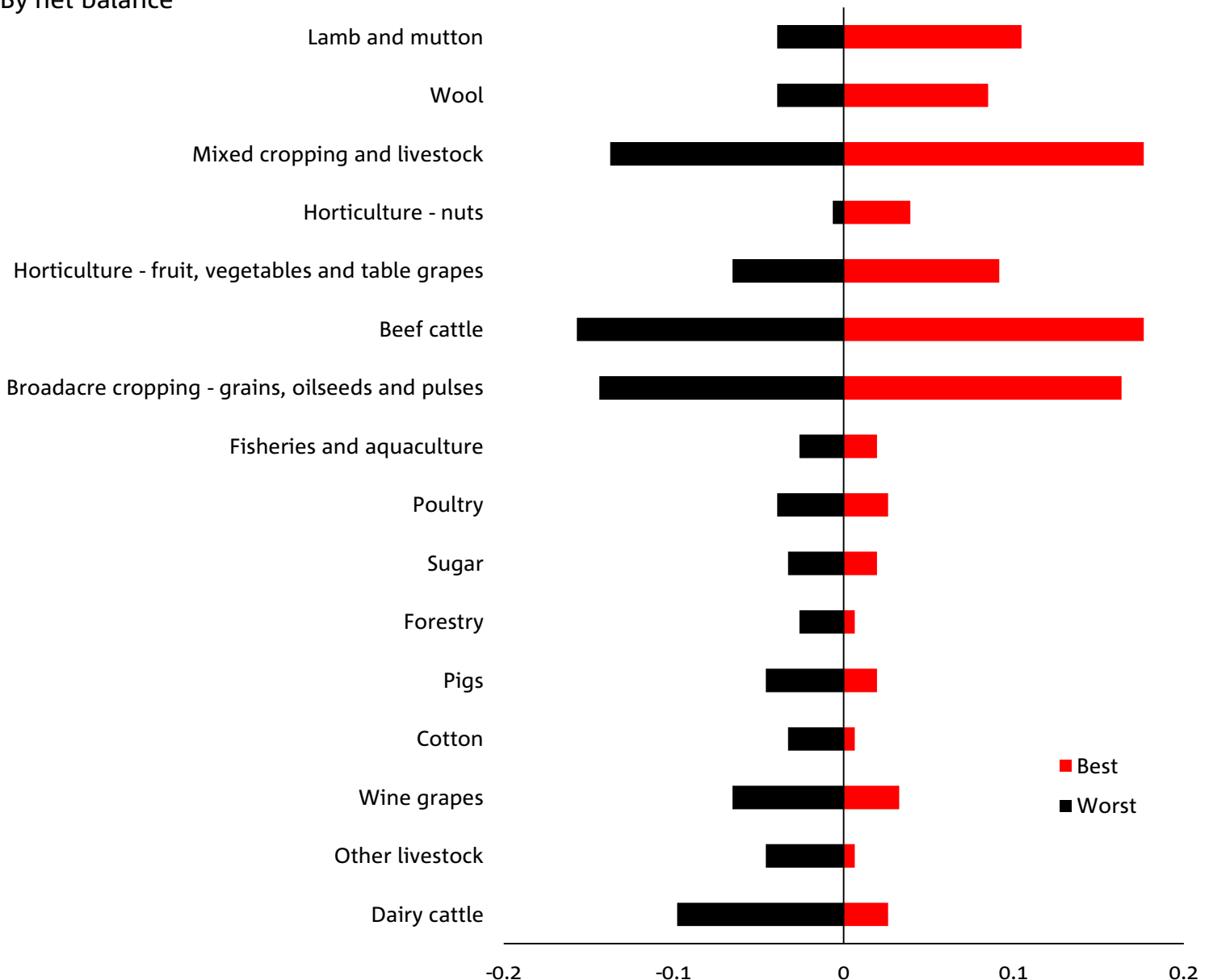
Based on this measure, the best performing agribusiness industries in Australia in August 2019, were lamb and mutton, wool, mixed cropping and livestock and livestock and nuts.

The weakest performer was Dairy Cattle, although on a net balance basis other livestock and wine grapes also struggled.

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 – fell overall in August.

While there was considerable variation between states, only Victoria and South Australia saw improved confidence and both moved into positive territory. Western Australia fell from very high levels to a still very reasonable +43 – the most confident state in the survey.

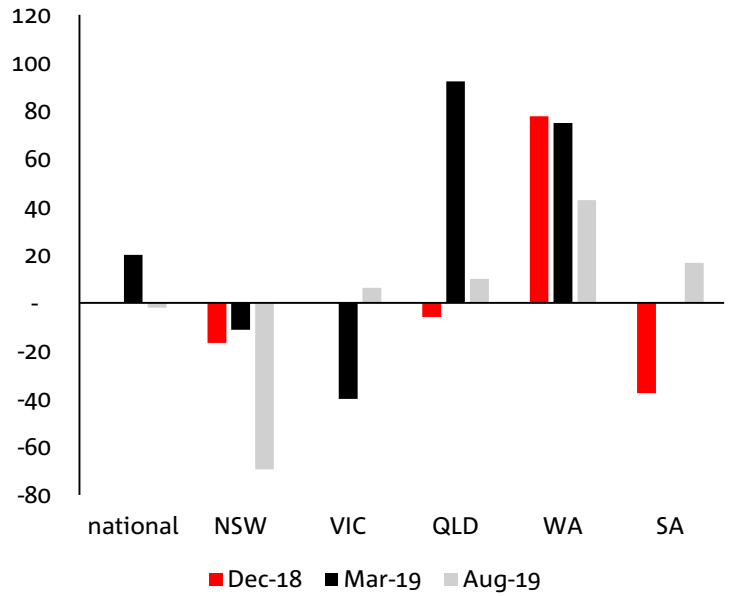
Queensland returned much more modest result this survey, while confidence in New South Wales plummeted.

When NAB bankers were asked to identify what was having the biggest influence on confidence, one in five once again cited weather related events as the top issue.

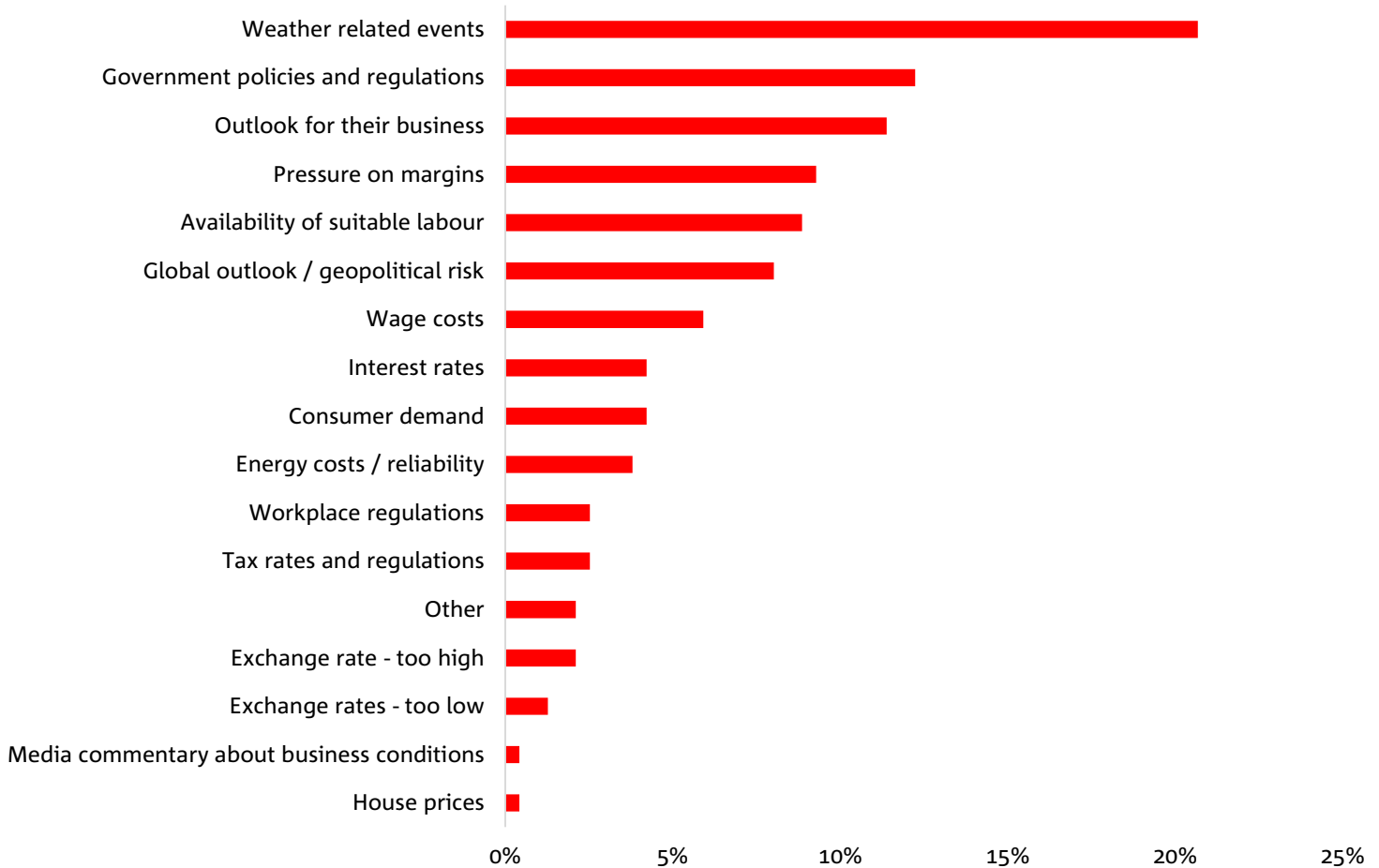
Other key issues included government policies and regulations (12%), the outlook for their business (11%) and pressure on margins (9%). This is the first agribusiness banker to be taken since the election and government policies and regulations in fact increased slightly as an issue affecting confidence.

## CONFIDENCE

Net balance, by state



## TOP ISSUES AFFECTING CONFIDENCE (%)



## CAPITAL EXPENDITURE

Capital expenditure was (just) positive in this survey, standing at +1. Still, this result is well in excess of the -26 recorded at the end of 2018.

Capital expenditure is positive in Western Australia, South Australia and Victoria, with these states additionally reporting an expected increase in capex in the next three months.

In contrast, capex is negative in New South Wales and Queensland and is expected to decline further in New South Wales in the next three months.

## OUTLOOK FOR LAND PRICES

Almost six in ten agribusiness bankers expect agricultural land prices to increase in the next year, with a 0-5% increase the most common response (34% of responses).

That said, more respondents are becoming less optimistic about the trajectory for agricultural land. Around one in five expect agricultural land prices to fall over the next year and 23% expect no change.

## FOR FURTHER INFORMATION

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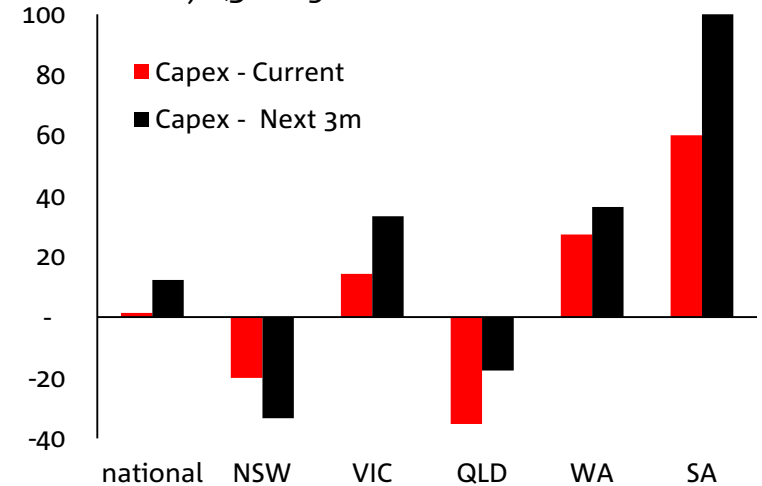
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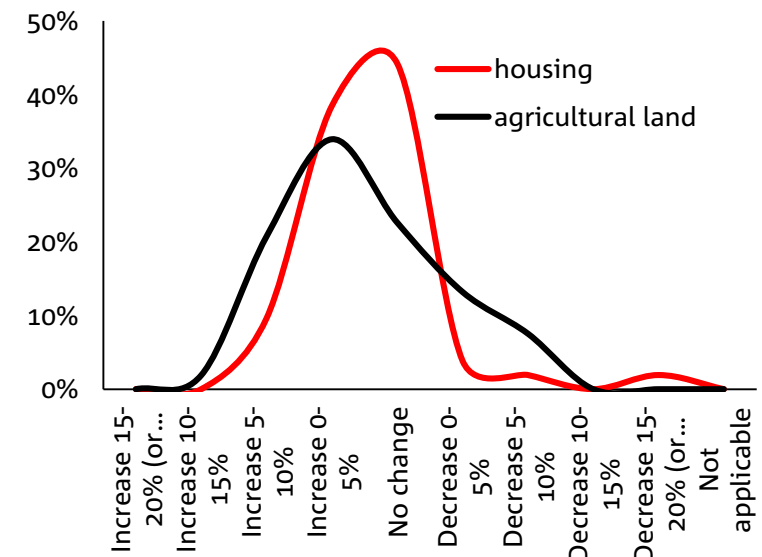
## CAPITAL EXPENDITURE

Net balance, Q3 2019



## 12 MONTH LAND PRICE EXPECTATIONS

% change, for housing and agricultural land



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