

NAB AGRIBUSINESS BANKER SURVEY Q4 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

- The latest NAB Agribusiness Banker Survey sees agribusiness conditions flatlining at a negative level – falling slightly from -11 in Q3 to -12 in Q4. Victoria is the standout best performing state, with conditions standing at +24, while South Australia also recorded positive conditions (+7). Western Australia has slipped deeply into negative territory (-33) amid a poor finish to the winter cropping season. NSW was the worst performer, with conditions at -68.
- Of the three components of the Agribusiness Conditions Index, all are negative. Trading conditions dropped from +1 in Q3 to -9 in Q4, while profitability fell from -10 to -16. Employment improved but remained in negative territory, up from -25 to -11.
- Agribusiness confidence declined further in Q4, falling from -2 to -7. Victoria was the only state to record positive confidence at +21, but confidence in New South Wales was a moribund -80.
- Seasonal conditions remain a key driver of the survey results and for the large differences in results between states. There has been no relief to the drought in New South Wales and Queensland and the Western Australian winter cropping season has seen a very poor finish. Conditions in Victoria are much stronger, although a hot, dry summer could see the state come under pressure. There are some – very tentative – signs that seasonal conditions may improve in 2020.

KEY STATISTICS

Net balance

	Q3	Q4
Agri conditions - overall	-11	-12
- Trading	+1	-9
- Profitability	-10	-16
- Employment	-25	-11
Agribusiness confidence	-2	-7
Cash flow	-33	-22
Capital expenditure	+1	+1

- By industry, conditions were again strongest in lamb and mutton (+30), followed by fisheries and aquaculture (+8), mixed cropping and livestock (+7), fruit and vegetables and pigs (+6). Lamb prices have fallen somewhat from record levels but still represent excellent value for producers. Wool dropped into negative territory (-2), having been the strongest sector just two surveys ago. This largely reflects a decline in wool prices (albeit from very strong levels) and tough seasonal conditions in NSW. Dairy remains weak, but is no longer the weakest sector nationally. That dubious honour goes to cotton (-17), reflecting a very limited season amid drought conditions. Broadacre cropping recorded an also weak -14, with cropping in New South Wales recording -100 – the lowest possible score. We see the national wheat crop at 15.5mmt this season – the worst result in over a decade.

DROUGHT IN FOCUS

This survey, we asked our bankers a series of special questions of the impact of the drought on their customers' finances and wellbeing.

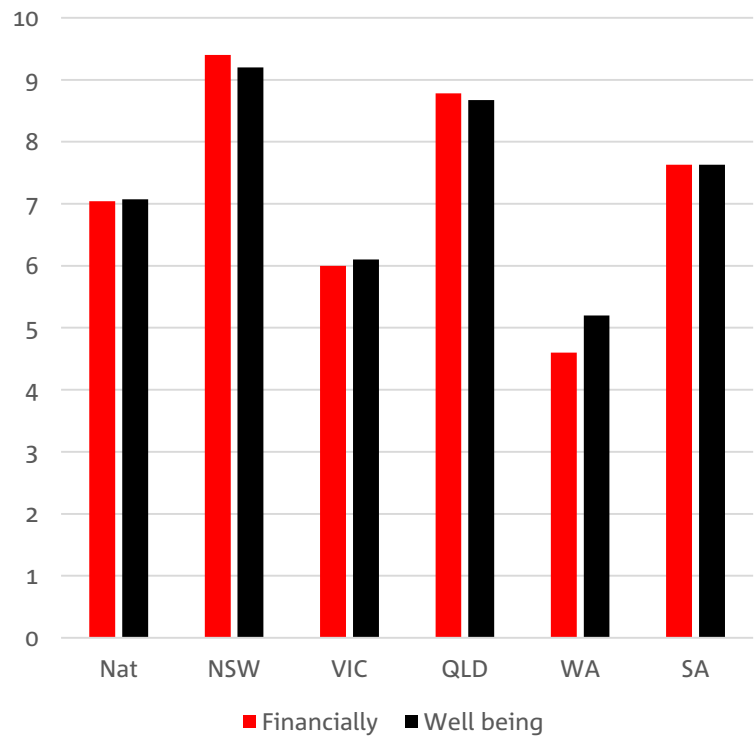
When asked the impact of the drought on their customers' finances (where 0 is not at all and 10 is very severely), respondents had a median score of 7.0 nationally. When asked about the impact of the drought on wellbeing, respondents also had a median score of 7.1.

New South Wales saw the worst results, with scores of 9.4 for financial impact and 9.2 for wellbeing. Western Australia recorded the best results, with scores of 4.6 for financial impact and 5.2 for wellbeing.

We also asked our bankers for a qualitative response to the question *what is one thing that might surprise people in the city about the impact of droughts on local communities*. We will let some of the responses speak for themselves below:

DROUGHT IMPACT ON AGRI CUSTOMERS

Mean score, by state



The impact to local retail and service businesses on the local town. Local Primary schools have lost up to 10% of their students to bigger townships like Toowoomba.

You don't just go 2 years without income. You go 2 years without income and continued fixed costs to be still in place.

That not all industry or business is actually affected by the drought and some prosper

lack of water infrastructure & vision to drought proof this country.

That there a several volunteer schemes that people from the city can participate in to assist those in need. Invest their time, not money can be just as rewarding.

That their food production and quality will decrease without the amazing people living it tough and tight in the country

The mental health impact and the flow on effect to families and other businesses in the community

The time it takes to recover (IE money to start flowing again)

How strong and supportive people are to each other when they have to be.

The drought does not just impact the farmer but it impacts the entire community regardless of what industry you operate within. People living in the city need to pay more for Australian produce to ensure Australian agriculture remains viable for the future. For farmers their cost of production continues to rise especially in drought conditions but the consumer does not want to pay more for the same produce therefore a clear disconnect between the farming community and city based people.

The length of time to recover fully on farm production and in post farm gate regional from impact post a drought break

I have clients who are carting water for 6-10 hours every day and have been since June

Drought affects not only the farm and farmers but the entire community around it - numbers at schools, sales at shops, viability for shops and businesses to stay open

It affects everyone in the community!!

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 essentially flatlined in Q4, falling from -11 to -12. 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 dropped 10 points, falling from +1 to -9, while profitability fell from -10 to -16. Meanwhile employment improved from -25 to -11 but remains in negative territory.

When this survey began a year ago, Western Australia was the standout performer on account of its second biggest winter crop on record. Now Western Australia is the second weakest performer after New South Wales due to a very poor finish on the winter crop. The latest GIWA forecasts point to the west harvesting 5.85mmt of wheat this season, down from over 10 last season.

Conditions in New South Wales remain extremely poor, standing at -68 in this survey. It will take an extended period of average to above average rainfall for the state to recover fully. Queensland recorded conditions of -20.

Victoria recorded the strongest conditions in the survey (+24), followed by South Australia (+7).

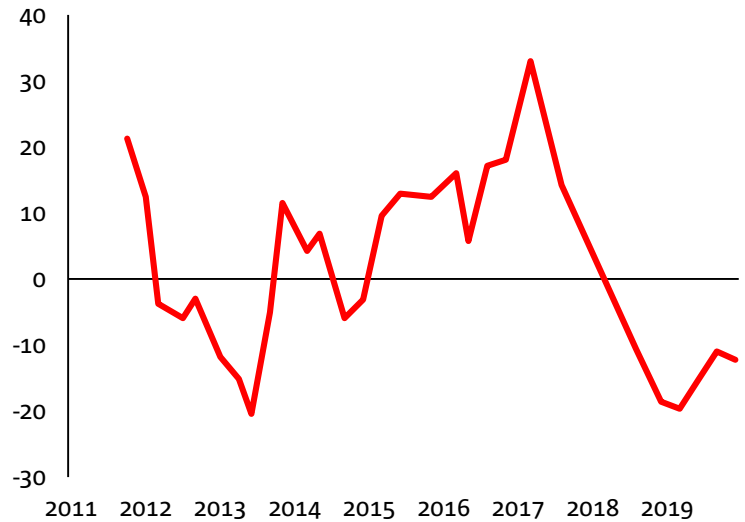
CONDITIONS BY SECTOR

According to our bankers, overall conditions were again strongest for lamb and mutton (+30). While lamb prices have declined from record levels since winter, it is normal to see a seasonal decline during the spring flush and lamb continues to perform very well overall. Fisheries and aquaculture was the second strongest performer(+8), followed by mixed cropping and livestock (+7), fruit and vegetables and pigs (both +6).

Wool dropped into negative territory (-2), having been the strongest sector just two surveys ago. This largely reflects a decline in wool prices (albeit from very strong levels) and tough seasonal conditions in NSW. Dairy remains weak, but is no longer the weakest sector nationally. That dubious honour goes to cotton (-17), reflecting a very limited season amid drought conditions. Broadacre cropping recorded an also weak -14, with cropping in New South Wales recording -100 – the lowest possible score. We see the national wheat crop at 15.5mmt this season – the worst result in over a decade.

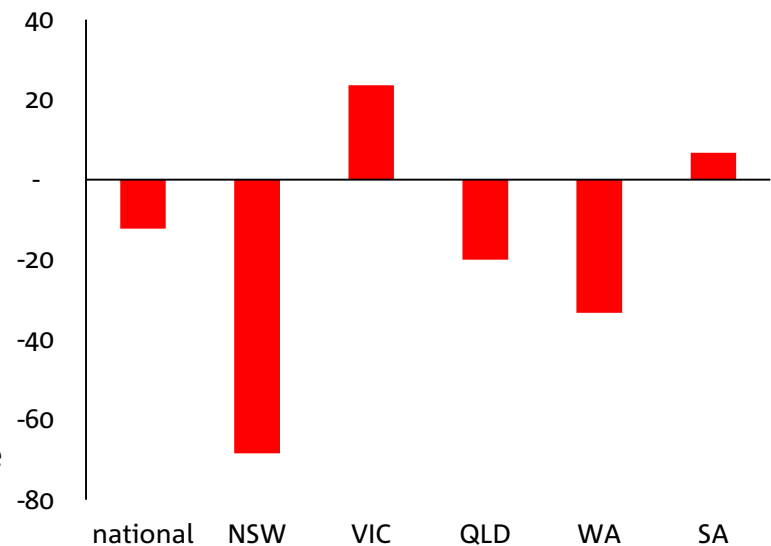
AGRIBUSINESS CONDITIONS

Net balance



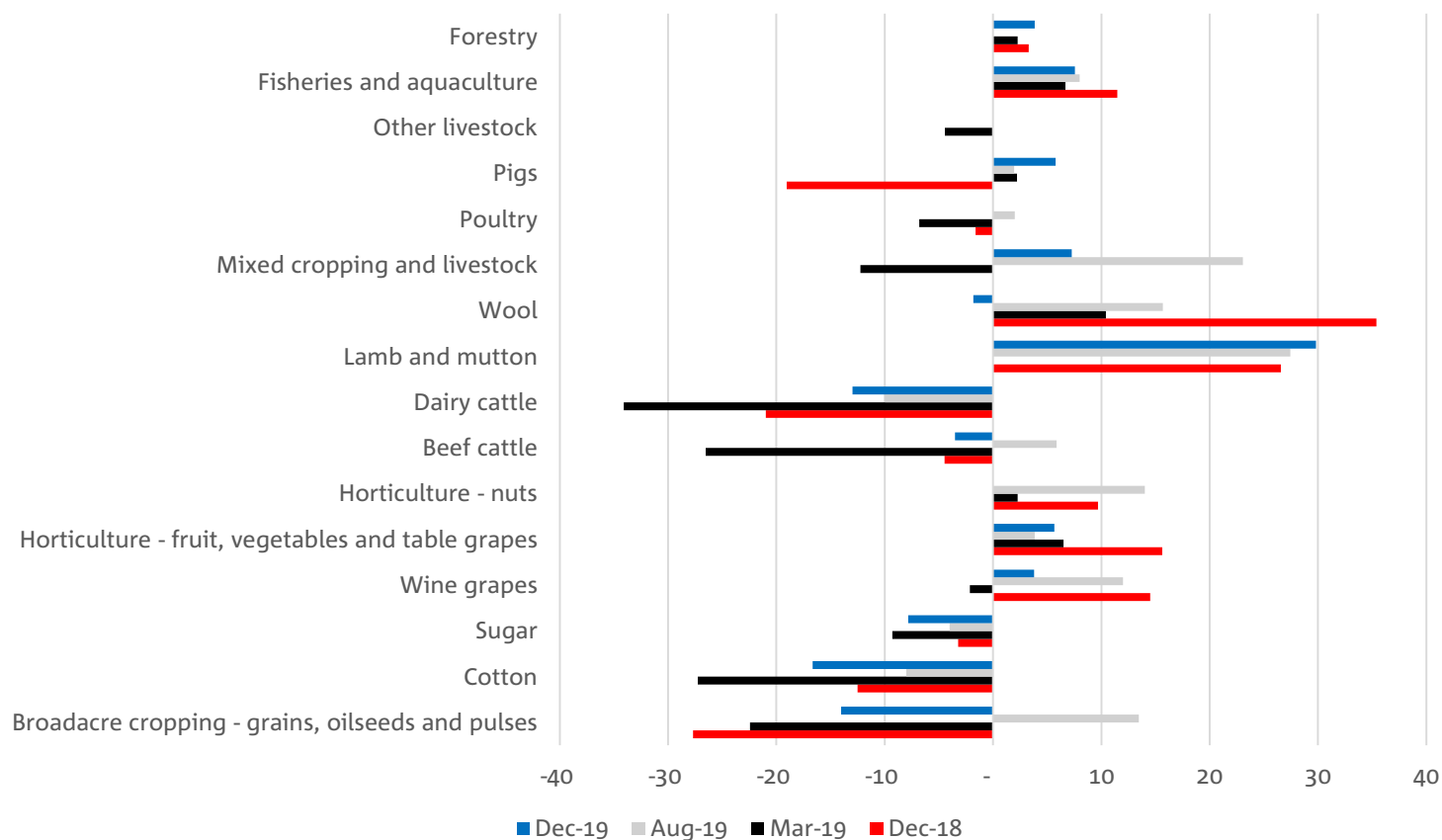
CONDITIONS BY STATE

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	-14	-100	29	11	-60	-13
Cotton	-17	-40	-10	-33	0	0
Sugar	-8	-22	-5	-13	0	0
Wine grapes	4	-11	-5	-13	20	14
Horticulture - fruit, vegetables and table grapes	6	-22	0	25	0	0
Horticulture - nuts	0	-22	10	0	0	0
Beef cattle	-4	-60	19	-11	-20	38
Dairy cattle	-13	-22	-14	0	-40	-14
Lamb and mutton	30	-20	57	-11	40	63
Wool	-2	-20	16	0	20	-13
Mixed cropping and livestock	7	-78	29	0	0	57
Poultry	0	0	-5	13	-20	17
Pigs	6	11	5	-13	0	0
Other livestock	0	-11	0	11	0	0
Fisheries and aquaculture	8	0	15	13	20	0
Forestry	4	0	10	25	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”.

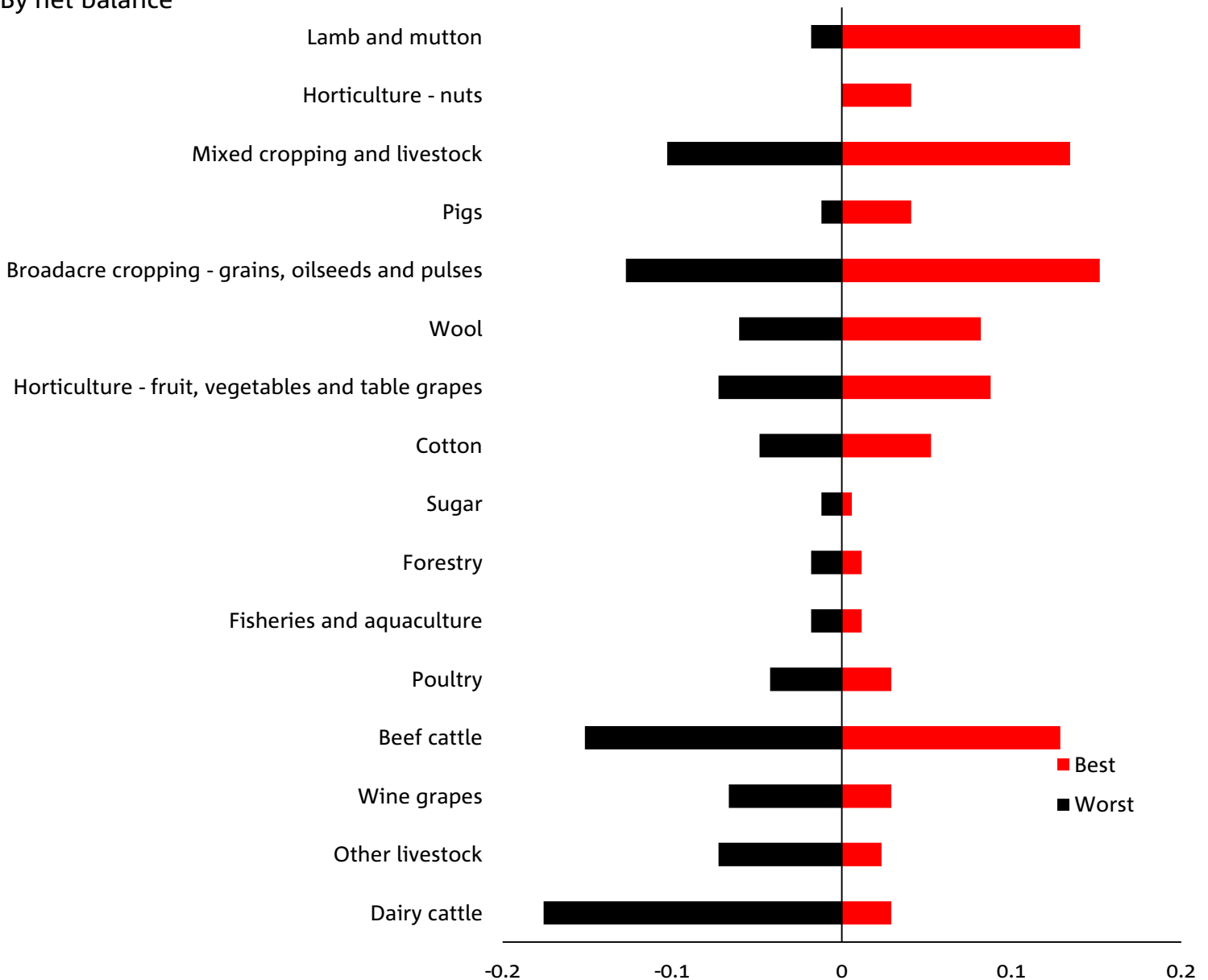
Based on this measure, the best performing agribusiness industries in Australia in Q4 2019, were lamb and mutton, nuts, mixed cropping and pigs.

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 – continued to decline in Q4, falling from -2 to -7.

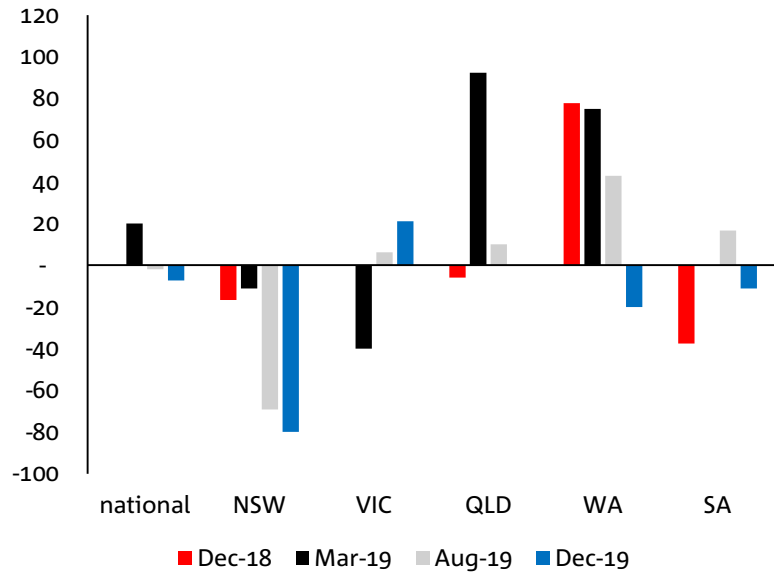
Confidence in New South Wales is by far the weakest and continues to decline, while Victoria was the only state to see confidence increase in Q4. Western Australia has gone from being an outperformer to having the second weakest confidence overall.

When NAB bankers were asked to identify what was having the biggest influence on confidence, almost one in five once again cited weather related events as the top issue. Weather has consistently been the biggest issue affecting confidence across the agribusiness banker surveys of 2019.

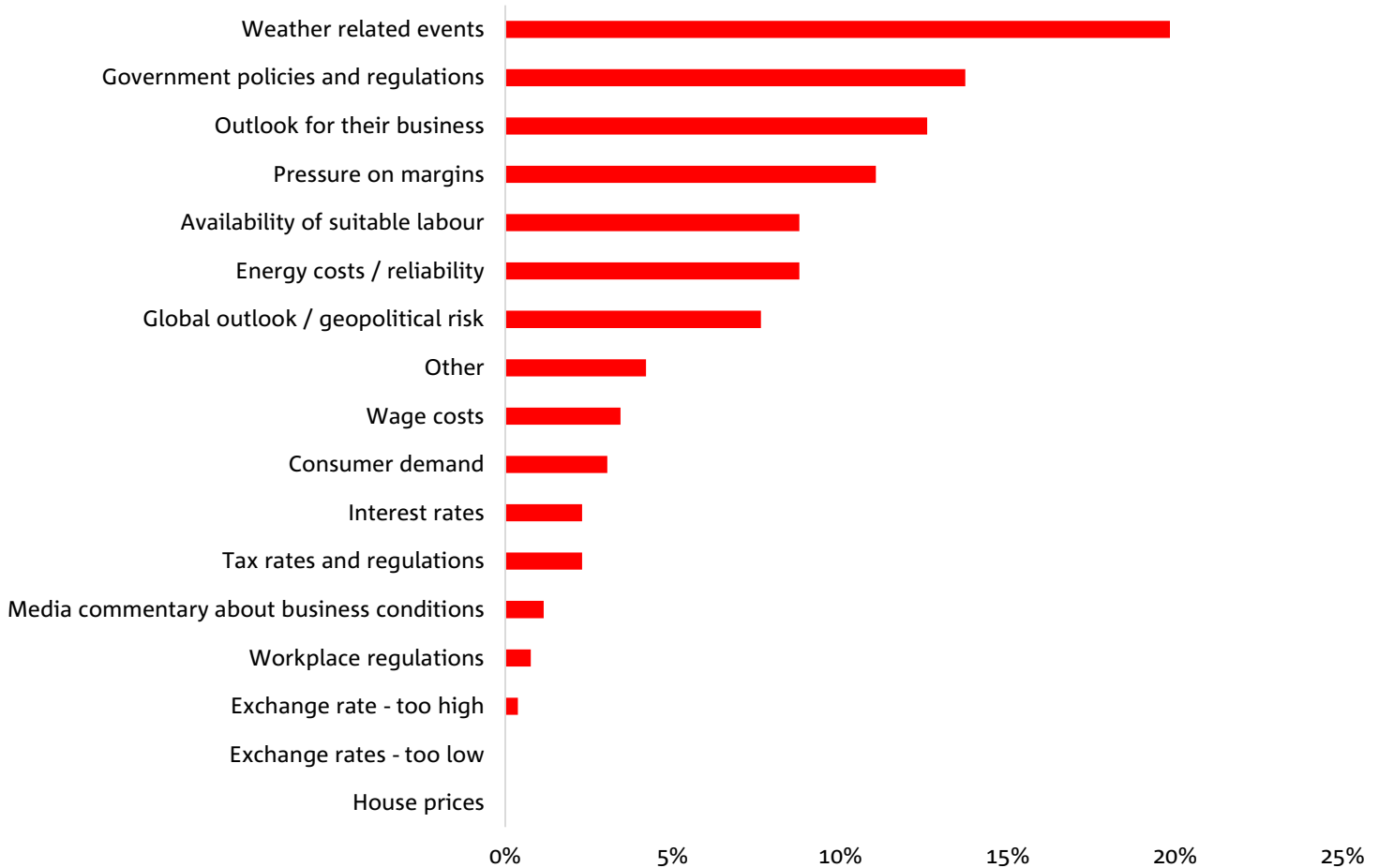
Other key issues included government policies and regulations (14%), the outlook for their business (13%) and pressure on margins (11%).

CONFIDENCE

Net balance, by state



TOP ISSUES AFFECTING CONFIDENCE (%)



CAPITAL EXPENDITURE

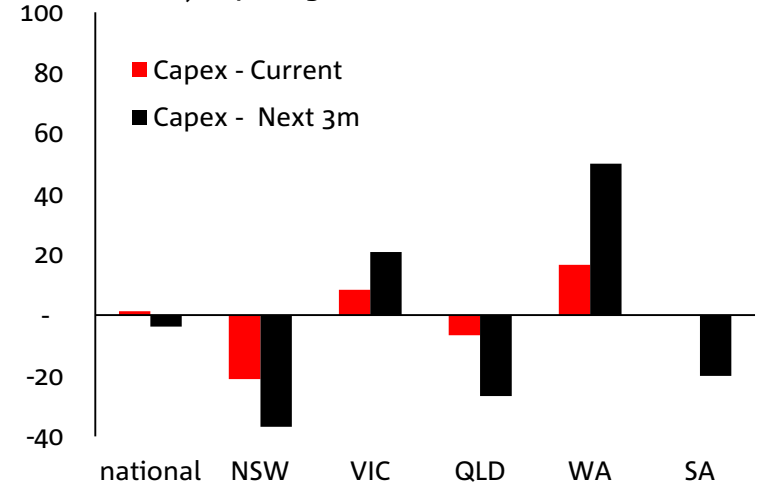
Capital expenditure held (just) positive in this survey, remaining +1. Expectations for the next three months are -4.

Capital expenditure is (perhaps surprisingly) very positive in Western Australia, followed by 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 flat in South Australia.

CAPITAL EXPENDITURE

Net balance, Q4 2019



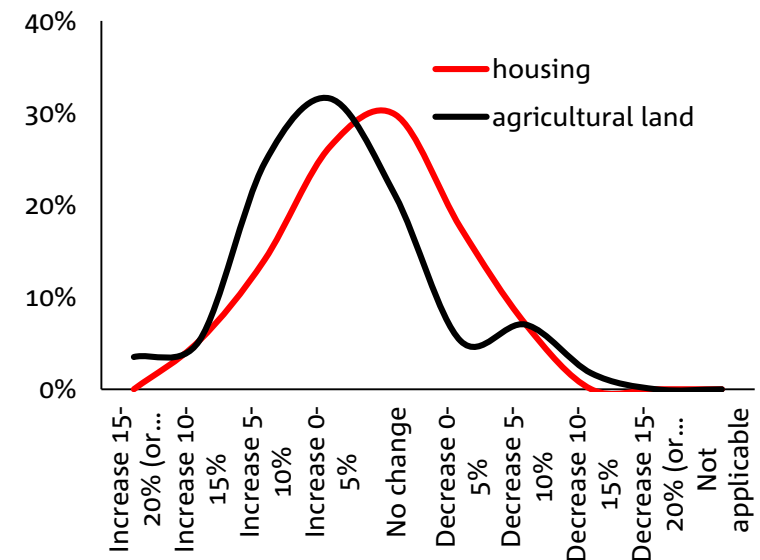
OUTLOOK FOR LAND PRICES

65% of agribusiness bankers expect agricultural land prices to increase in the next year, with a 0-5% increase the most common response (36% of responses).

21% of respondents expect no change to agricultural land prices in the next year, while 14% expect prices to decline.

12 MONTH LAND PRICE EXPECTATIONS

% change, for housing and agricultural land



FOR FURTHER INFORMATION

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