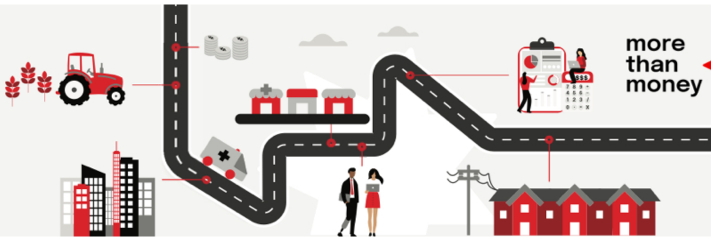
2023-2024
Federal Budget

What does this mean for Regional Australia & Agribusiness?



Summary

The significant budget announcements were in line with media reporting and prepositioning over recent days. The key headlines, in a budget sense, are the expectations for a small surplus ($4.2bn) this financial year, driven by strong employment and better than expected nominal wage growth, as well as very high commodity prices. The Government is claiming around 82% of cyclical benefits have been saved. Going forward, the surplus turns back to a deficit of $13.9bn in 2023/24 and around $35bn in the out years of the forward estimates as the impact of cyclical factors fade and a persistent – albeit improving – structural deficit continues. Nonetheless, the cumulative deficit over 5 years is now expected to be around $125bn lower. Gross debt is also expected to peak at a lower 36.6% of GDP in 2025/26.

Cost of living measures (totalling $14.6bn) take the focus on the expenditure side, including $3bn of energy bill relief, $3.5bn on Medicare bulk billing incentives, $4.9bn for an across-the-board Jobseeker increase and increasing rent assistance by 15%. Other areas of focus include Medicare, improving aged care services (including $11.3bn for a 15% award pay increase) and supporting the energy transition through incentives to small business for green investments and a $2bn Hydrogen HeadStart program to develop the industry.

Key revenue measures were as expected, with increased collections from the PRRT, tobacco excise and previously announced reductions in superannuation concessions. Elsewhere, Phase 3 Tax cuts stay – and will be needed if our forecasts are accurate, while the Low and Middle Income Tax Offset (LMITO) will end as expected.

Based on our early analysis of the budget, the impact on the economy is expected to be broadly neutral over coming years, notwithstanding a widening in the structural deficit in 2023/2024 before it levels off over the forward estimates. Further out the government projects a gradual tightening, with the structural deficit expected to narrow over the medium term. Consequently, we see little implication for monetary policy in the near term, with the RBA likely to continue to focus on the ongoing passthrough of rates and the pace of moderation in inflation.

The trajectory of the key economic forecasts matches our own outlook, albeit with a more optimistic outlook for growth in the near-term. For unemployment, wage growth and the CPI, the budget is only slightly more optimistic but sees a similarly shaped profile for each variable.

Economic outlook

In terms of the economic outlook, the expected pattern of forecasts is broadly similar to ours, albeit slightly more optimistic, particularly on growth. GDP is expected to grow below trend over each of the next two years at 1.5% and 2.25%, (around 0.75ppt stronger than our outlook on the back of stronger consumption growth). Unemployment is expected to rise from current lows to 4.25% by 2023/24 and 4.5% by 2024/25. Our expectations for wage growth are broadly similar, with an acceleration to 4% in the near-term before easing further out, while the outlook for inflation is broadly similar.

Fiscal & Debt Outlook

A budget surplus of $4.2b is expected for 2022/23, a $41b improvement on the October 2022-23 Budget estimate. If realised, it would be the first surplus since 2007-08. However, the budget is expected to return to deficit in 2023-24 (and subsequent years). Similarly, reflecting the improvement in the budget position, the net debt profile has been lowered and net debt (as % of GDP) is expected to fall in 2022-23 before rising in subsequent years.

State of Play: Regional Australia

The pandemic unleashed a wave of migration from Australia's cities to regional areas, although we are now seeing state capitals again become the engines for growth. While this wave of migration greatly boosted regional economies, it sharpened cost of living pressures, particularly around housing.

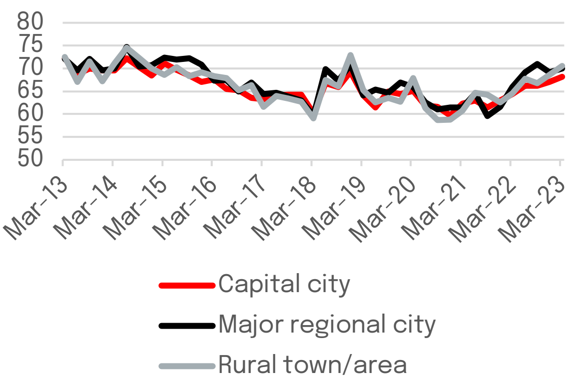
Prior to covid, major cities (which include places like Newcastle, Geelong and the Gold Coast as well as state capitals), generally outpaced regional Australian population growth. In the five years to 2019, major cities averaged 1.8% growth per year, compared to 1.2% in inner regional areas, 0.5% in outer regional areas, -0.4% in remote and -1.1% in very remote areas.

But the pandemic saw a temporary shift to growth patterns – major cities recorded a population decline of 0.01% in 2021, the first decline this century, followed by a return closer to trend growth in 2022. Importantly, this rebound in major city growth has not come at the expense of the regions, with regional areas seeing growth rates at around trend in 2022. With migration now running hot, we expect strong growth in cities this year, but growth pressures to continue in the regions.

A key driver of higher regional consumer stress is cost of living. Since 2022, cost of living stress has grown more rapidly in regional areas. By Q1 2023, NAB's cost of living stress index hit 70.0 in regional cities and 70.5 in rural areas - above the 68.2 recorded in capital cities. This gap is likely driven in part by more acute housing shortages felt in high growth regional areas.

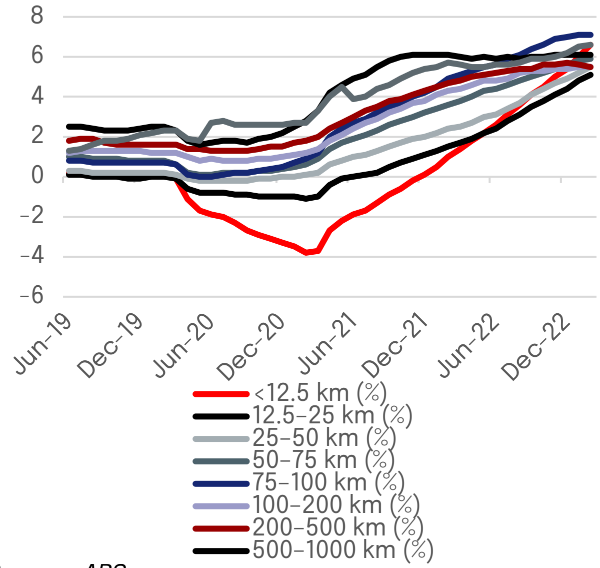
Rent price inflation surged in regional Australia during the pandemic, with rents increasing sharply further from capital cities. Annual rent inflation peaked in cities 500-1000km from the CBD at 6.1% in late 2021, before being overtaken by peri urban areas 75-100km from the CBD in mid-2022. Importantly, rents in inner-city areas (less than 12.5km from the CBD), fell from early 2020 to late 2021 but are now roaring back. Annual rent inflation reached 6.6% in the inner city by February 2023 and shows no signs of slowing.

Cost of living stress by region



Source: NAB

Annual rent Inflation by distance to capital city (per cent)



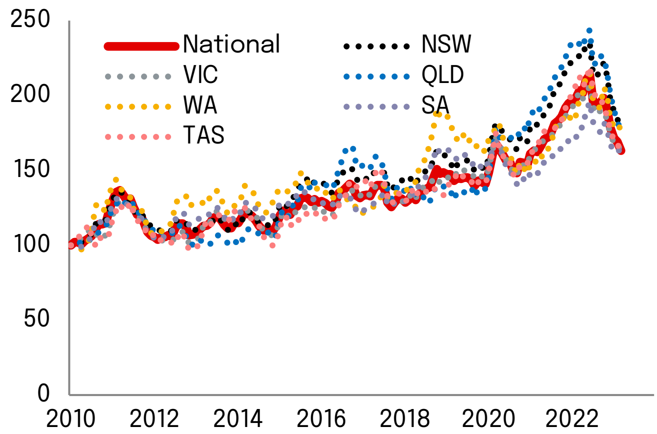
Source: ABS

State of Play: Agriculture

Australia's agricultural sector has broadly enjoyed three exceptional years since 2020, reflecting three consecutive La Nina events delivering well above average rainfall, combined with an almost unprecedented commodity price boom, sending NAB's Rural Commodities Index ever higher.

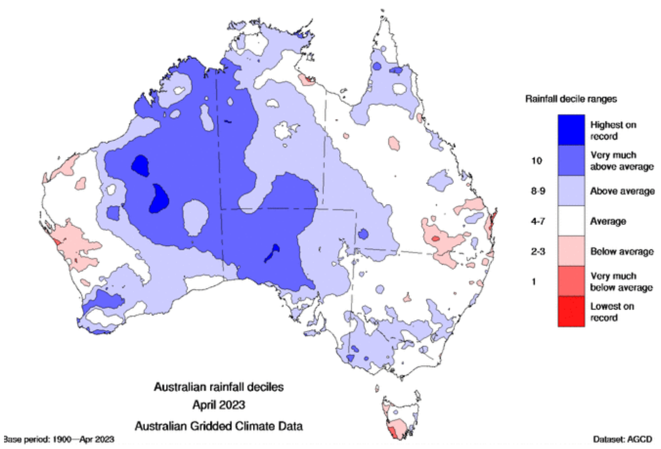
But since mid-2022, prices have trended generally lower, with our Index now down approaching 20% on a year-on-year basis. Livestock prices have been hit particularly hard. While the autumn break has been much better than expected, the Bureau of Meteorology's ENSO outlook points to El Nino developing this winter - a clear risk for spring-summer rainfall.

NAB Rural Commodities Index



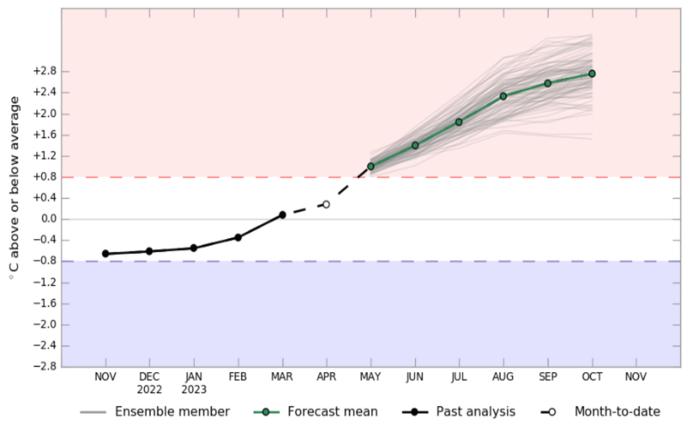
Source data: NAB Group Economics, ABARES, MLA, Australian Pork, Ausmarket, ABS, GDT, Bloomberg, Refinitiv

Rainfall deciles - April 0223



Source: BoM

BoM ENSO outlook



Source: BoM

What did Industry lobby for?

The National Farmers Federation (NFF) highlighted the important contribution made by Australian agriculture to Australia's social, economic, and environmental fabric, with around 85,000 farm businesses contributing 1.9% to Australia's total GDP (at farm gate, 2019-20).

Despite recent success, the NFF noted that Australian agriculture faces multiple headwinds. While Australian farmers are no strangers to variable climate, the NFF reiterated that climate change will play a major role in agriculture's next decade, exacerbating climate risk while creating diverse new income opportunities. While Australia's policy response could position us as a global leader in low emissions agriculture, done poorly, the NFF believes the government's policy response could burden farm businesses with additional costs and barriers in accessing international markets to sell our goods and to access finance.

Moreover, the pandemic highlighted the risk of disruption to supply chains. The NFF called on Government to proactively minimise the risk of disruption, volatility, and associated costs. It also believes industry along with relevant government portfolios must regularly agree on specific activities that work through a long-term strategy for trade. The NFF also highlighted the gap between the skills and labour needs of the sector and Australians available for the work.

Finally, the NFF called on the Government to ensure Australia's biosecurity system was adequately resourced and operates effectively. While the NFF endorsed The National Biosecurity Strategy (released in 2022) as a framework for the evolution of Australia's biosecurity system, it noted that the ability to implement it would be significantly hampered if the system was not resourced appropriately.

The 2023-24 budget submission was framed around the organisation's $100b farm sector by 2030 target. Specific initiatives called for by the NFF include:

Biosecurity - perpetual funding of the system and co-Investment across all states
Natural environment - $2b for carbon, $2b for the Murray Darling Basin. $50m for AASF projects
Infrastructure - $1b for road Infrastructure floods repair, an additional $300m Roads to Recovery funding, $300m for road freight productivity
Farm workforce - $64m for various programs, Including skill development, PALM concierge service and farmsafe funding
Smarter regional growth - $375m to develop a regional development precincts Initiative

More generally, the Regional Australia Institute (RAI), noted that being home to one-third of Australia's workforce, the well-being of Australia's regions was critical to the future of the nation as a whole and that a more balanced Australia would foster stronger prosperity and productivity for both our regions, and major capitals.

Regional Australia is already projected to increase its population to just under 10.5 million by 2032, based on the most recent combined state and territory growth projections (this, the RAI argues appears conservative). To further help address uneven population growth and economic development between urban and regional Australia, the RAI sought additional supports to encourage migrants to live and work in regional areas (with a specific focus on providing opportunities for fast tracking secondary migration through education programs and targeted marketing and advocacy).

In addition, to attract new workers and their families the RAI recommended incentivising industry, harnessing overseas talent through attraction and settlement support for both international migrants and the skilled expat community living abroad, financial support for young people to pursue further studies, and more regional VET and tertiary opportunities. It was noted that currently the Year 12 certificate attainment rate for regional students was 65% on average in 2020, compared to 76% nationally.

In terms of liveability, the RAI called on the Government to support a range of additional measures designed to: improve access to transport services; raise the number of medical practitioners in regional Australia; lift investment in access and affordability of digital connectivity; and combat low rental vacancy rates. In terms of the later, the RAI noted that jobs were still going unfilled due to a lack of suitable housing. Finally, it was noted that regional Australia was on the frontline of climate change (including rising incidence of natural disasters), but also well placed to seize the opportunities of a reduced-emissions future.

What did the budget deliver?

Agriculture

The centrepiece of this year's budget for the agricultural sector is $1b over the forward estimates (and $268m annually ongoing) and for a **strengthened biosecurity system**. There is an additional $127m for DAFF departmental funding in 2022-23 to cover the gap for increased operational activities.

Most of this funding ($845m over the forward estimates), will be directed on policy, operational and technical funding to enable the department to cover increased biosecurity activity.

The government continues to allocate funds from the Natural Heritage Trust funding special account. In this budget, existing resourcing is allocated to protect nature, threatened species, the BushBlitz, and Natural resource management ($341.2m over 5 years), $302.1m for 'climate smart' Agri, the protection of wetlands and catchments($50m) and world heritage properties ($48m). Note again that this is not new money, but money from an existing account that has now been allocated to projects.

The Budget also provides for $38.4m for agricultural sustainability, $5m for **animal welfare**, $5.6m for an independent assessment of the **phase-out of live sheep export** and $20m for a **National Soil Action Plan**.

The **instant asset write-off** continues on a temporary basis for 2023-24, although in pared-back form. Multiple assets can be claimed, but the maximum amount per asset is $20,000.

The Budget also funds a new **National Net Zero Authority**, which was welcomed by the NFF, although with some concerns around electricity transmission easements.

Infrastructure

While the government has a large infrastructure pipeline (around $120b over a decade), the future of these **projects will now be subject to an independent strategic review**. While the government has committed to prioritising projects currently under construction and election commitments, it is unclear whether other projects will be amended, delayed or cancelled.

The government will also increase the **Heavy Vehicle Road User Charge** rate from 27.2c/l in 2023-24 to 32.4c/l in 2025-26. This is expected to raise around $1.1b, which will reduce expenditure on the fuel tax credit. With much agricultural produce moved by road, this change will have implications for transport costs.

Cost of living

Cost of living pressures have been felt acutely across the country, but out data shows regional Australia seeing even higher pressures than capital cities. The budget provides a number of cost of living measures nationwide, including:

- up to $500 electricity bill relief;
- an increase of $40 a fortnight to Jobseeker, Austudy and Youth Allowance, as well as increases to the age for the single parenting payment;
- higher childcare subsidies costing the budget around $4.7b; and
- substantial reductions to the price of many PBS medications
- expanded eligibility for the First Home Guarantee and Regional Home Guarantee, allowing non-couple joint applicants and non-first home buyers who have not owned a property in Australia for 10 years to access the scheme

Regional Australia enjoys a specific boost in GP payments. The government is investing $3.5b to encourage GPs to bulk bill under-16s, concession card holders and pensioners. Regional GPs will receive a higher payment than metropolitan GPs.

The government has also expanded eligibility for the First Home Guarantee and the Regional First Home Buyer Guarantee. From July 1 it will include any two eligible borrowers, such as friends and siblings, beyond married or de facto couples, and be available to non-first home buyers if they haven't owned a property in Australia in the last 10 years.

How did business react?

National Farmers' Federation President, Fiona Simson, said the budget did nothing to get to the heart of rampant food price inflation, noting that the budget "ignores practical solutions that could have provided a double-whammy of price relief for households and a stronger more vibrant agriculture sector." The NFF also pointed to road funding, tax incentives and measures to address worker shortages as areas where the budget fell short. "Right along the supply chain, the businesses which grow, process and transport our food and fibre are under immense pressure. Whether it's workforce shortages, damaged roads, or the cost of capital upgrades – there are issues that need urgent attention if we want to achieve price relief for consumers.

Sadly, tonight's budget fails to act on these in any meaningful way."

The NFF welcomed the increased biosecurity funding but noted that it includes a tax whack for farmers. "The move to have farmers foot the bill is a bitter pill to swallow. We're already significant financial contributors. What's more, we bear the cost of managing historical pest and disease incursions and face the enormous threats posed by pests and diseases on our doorstep."

The NFF also welcomed clarity on the Natural Heritage Trust's $302.1 million over five years to support farmers' transition to a low emissions future and strengthen agricultural sustainability, along with the support for small businesses to invest in electrification and energy efficiency through the Small Business Energy Initiative. However, noted that calls for urgent funding to repair and improve Australia's regional and rural road network were unanswered by the budget.

The NFF also cautiously welcomed the Government's investment in the Pacific Australia Labour Mobility (PALM) program.

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