nab regional & agribusiness

more than money

# A Changing Landscape

Expert NAB insights on the state of play for regional and rural Australia

**NAB Regional & Agribusiness Horizons Report 2024**

# Contents



Cover image: Muia Timoti, Causeway Beef

Introduction

# Regional Australia sets itself up to embrace what's next

You'll find compelling stories of innovation and ambition in every corner of the country – that's what the insights and data collected for the 2024 NAB Regional & Agribusiness Horizons Report are telling us.

**Khan Horne**
Executive – Regional and Agri,
NAB Business and Private Banking

Perhaps more than ever, 2023 reminded us what a privilege it is to be a banker to rural and regional Australian businesses. Every day, I'm afforded the opportunity to meet and speak with customers all across Australia who are working hard – and loving their work – in manufacturing, livestock and cropping, professional services and every other field of business you can think of.

It's the same for the team of regional and agri bankers at NAB. To be a banker is to experience the diversity of lifestyles and life experiences, perspectives, and business strategies and goals that our country produces in such wealth. The countless different narratives from across the continent that, together, make up the one big story we call Australia.

It's this story which we've prepared and present to you in this year's NAB Regional & Agribusiness Horizons Report.

Over recent years it feels we've seen every industry, every state, every commodity and seemingly every business in Australia going in the same direction. But in 2023, Australia developed a multi-speed economy. Some regions are slowing down to catch their breath, some are setting up for a new sprint, while others are already taking off with established or newly emerging industries.

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> In 2023, Australia developed a multi-speed economy.

We're seeing new rhythms of working and living emerge everywhere, and new and old businesses come together to produce exciting opportunities and diversifications.

Our country towns, now home to many recent arrivals from the cities, offer world-class services to businesses and communities. From accountants to restaurants, you can expect the best in regional communities. That's why business confidence and consumer sentiment remain strong, despite an interest rate environment at its peak and cost-of-living challenges.

Commercial premises are more affordable in regional areas than in our capital cities, while the talent on offer is just as good. At the same time, improved logistics links to the capitals and access to materials mean regional hubs like Albury-Wodonga – and many other locations around the

nation – are well-placed to continue to grow into industrial and manufacturing powerhouses. Renewable energy and transport technology and new sustainable farming practices are also making country Australia a greener place to do business.

Predictions can make fools of us all – just look at this summer's El Niño, which saw an expected drier season turn out to be a particularly wet one. And while NAB is projecting that we've entered the interest rate peak and that the Australian dollar will end the year around 73¢, there's always the risk of black swan events. The conflict in the Middle East, for example, is disrupting supply chains that were only just beginning to repair themselves.

> "Regional and rural Australia is entering a new phase of sustainable growth.

Two things I'm sure of though, consumers here in Australia and abroad will continue to demand good, nutritious food, and Australia's agribusinesses, with the support of regional businesses, will continue to meet this demand.

While preparing the 2024 edition of the Horizons report, what we've learnt from conversations with customers, our more than 650 regional bankers and our teams of experts – together with our keen eye on the Australian economy – is that regional and rural Australia is entering a new phase of sustainable growth. Our regions are not homogeneous – Cairns is as different from Mackay, just down the road, as it is from Port Augusta or Bunbury on the other side of the country. But while they may be travelling different paths, at different speeds, our regional industries and businesses have the right skillsets, experience, confidence and can-do attitude to take advantage of the good times and come through the tougher ones.

Our team of NAB bankers is right there with you: on the ground, supporting and advising and helping out however we can.

By the numbers

# Here's where the growth is

Across regional and rural Australia, confidence is looking strong as both lending and deposits grow, property marches on and the demand for equipment finance continues.

### ↑ 6.2% Confidence up across the board

Combined, rural and regional lending grew by 6.2%, indicating business confidence in the short and long term across every state.

### 11% Regional appeal continues

7% of Australians moved to regional Australia in the past five years, and just over 1 in 10 (11%) intend to make the same move in the next five years.

### ↑ 6% Manufacturing back into play

Demand for credit from the Manufacturing industry saw growth of 6%, while Agriculture recorded 9%, and Construction, Property and Accommodation all saw growth above 5%.

### 16.7% Migration hotspots

Queensland's Sunshine Coast took a 16.7% share of Australia's internal migration from capital cities, followed by Greater Geelong and the Gold Coast, both at 8.3%.

### ↑ 9.1% Agri borrowing booms

Despite adverse interest rates, weather and trading conditions, demand for credit from the agriculture sector grew by 9.1%.

### ↑ 9.4% Property standouts

South Australia topped regional residential valuation growth, at 9.4%, with its superstar the Barossa at 15.4% growth, followed by WA's Bunbury at 14.6%.

### ↑ 8.5% Regional deposits strong

Regional businesses prepared for any turbulence in the year ahead, growing their deposits by 8.5%.

### ↑ 10% Equipment finance up

Nationally, appetite for vehicles and equipment was up 10%, with Tasmania leading at 37% growth.

### ↑ 27% Farm Management Deposits swell

Farm Management Deposits saw 27% growth, with growth in most states strong – WA at 48%, NSW at 33% and Victoria at 29%.

### ↑ 283% Electric vehicles surge

The electric and hydrogen vehicles asset class powered ahead, with regional and agricultural demand for electric vehicles up 283% year on year.

The big picture

# Weathering the storms and primed for growth

For all 2023's challenges, those living and working in regional and rural Australia can afford to look forward with optimism.

**Khan Horne**
Executive – Regional and Agri, NAB Business and Private Banking

## The regional outlook

It's fair to say that the character of many country towns has changed over the past five years. They're not unrecognisable – the same entrepreneurial spirit and sense of community beat in all of them – but with plenty of fresh faces, and plenty of new shops and businesses, it's an exciting era to be living and working in the country.

> It's an exciting era to be living and working in the country.

While the regional migration boom has slowed, it's still one to watch, with figures up 11.7% on pre-COVID levels. However, our housing stock hasn't kept up, and housing remains the hot topic of conversation across the nation.

Regional dwelling valuations are up 45.9% on pre-COVID levels. That's great news for those already settled but it's making it difficult for younger people to get started – and for employers to get hold of new talent. Fortunately, we didn't see any real mortgage crisis emerge in 2023, with homeowners largely weathering the interest rate environment.

What's also exacerbating the housing shortage are our changing demographics: we're living longer and staying in our homes instead of community retirement facilities, and often with smaller household sizes at every age. At the same time, the construction sector's troubles are yet to dissipate, with even governments pulling back on infrastructure programs due to lack of available labour and materials.

In response, businesses have had to think outside the box to find new ways to attract and retain talent. At NAB, our graduates are placed in regional business banking hubs across the country, and often tell me that they're excited about the quality of life on offer in the country and the professional opportunities and experiences available. They're passionate about supporting and getting to know their customers, and their customers' businesses, at a level that's just not possible for a banker in the city.

> Australians both young and old remain eager to join regional businesses and communities.


What that tells me is that Australians both young and old remain eager to join regional businesses and communities – they just need some support to crack the housing problem.

Fortunately, there's plenty of support available, in the form of excellent professionals including lawyers, accountants and financial advisers of every stripe. Regional professional services firms continue to grow.

As you will see in the report, industries like Manufacturing (6%), Transport (10%) and Personal and Household Good Wholesaling (9%) are borrowing more to invest, taking advantage of regional businesses' access to both inputs and markets.

With the COVID cash influx starting to ease, and interest rates settling down, the re-emergence of a more nuanced regional economy is the most interesting prospect on the horizon. Recent years have seen every region, business, industry and asset class advancing in lockstep. While the data in this report shows that there's fundamental strength across the Australian economy, now is the time for clear leaders – those businesses and industries that have the opportunities and the capacity to take advantage of them – to start establishing themselves.

## The agricultural outlook

In a year full of surprising turns of fortune, Australian producers once again demonstrated that they're prepared to meet good seasons and bad with the right finances, strategies, hard work and character that allow them to overcome and thrive.

And while recent bumper years may be behind us, there's every indication that the agricultural sector is set up for strong, sustainable growth.

> “There's every indication that the agricultural sector is set up for strong, sustainable growth.

In 2023, the predictions that were made didn't eventuate, causing markets to swing wildly. A forecast El Niño became a summer wet enough to cause serious flooding in Far North Queensland, damaging fruit crops and putting some roads out of action for months.

Readying for a dry season, beef and lamb producers were quick to destock, putting stock through the sale yards and offloading to processors wherever they could. In turn, prices fell, overcorrecting off strong levels to drop more than 50% at their lowest.

But the responses from businesses, community, government and markets have been rapid. Throughout the year, producers remained eager to invest, with NAB's agribusiness lending book growing by 9.1%. Repairs in Far North Queensland are well underway, bringing an influx of new people and new money into the region. Many producers had also prepared against weather events by diversifying land holdings across regions. And livestock commodities have rebounded almost as quickly as they fell, returning to robust prices and with an optimistic outlook for 2024 (particularly with an exchange rate remaining favourable for exporters).

These events demonstrate, once again, that Australian producers are no strangers to weathering the seasons

## The big picture

and working through tough trading conditions. They did it last year, and they'll do it this year and long into the future.

What's different, however, are the rapid changes in expectations on producers to innovate and adapt to global conditions and market expectations. This is likely to come in the form of new technology, new lines of business, or new practices or strategies. And as Australia's largest lender to agricultural businesses,[1] NAB is prepared to innovate alongside our farmers to help them achieve their goals.

We see this in the continuing evolution of green technology and practices. We're collaborating with partners to correlate sustainability metrics, such as on-farm biodiversity and emission baselines, and to provide opportunities for our customers to understand how to reduce emission profiles. We have invested in technology solutions for natural capital measurement on farm and are using satellite technology to provide confidence in regard to soil carbon projects. The carbon market also continues to mature, and NAB is participating in marketplace development to support our strategy to help our customers decarbonise.

Regional businesses were also keen to take advantage of NAB's Green Finance options, with significant growth in purchases of electric and hydrogen vehicles and plant. We're working alongside many of these businesses to take advantage of the opportunities available in the trend towards decarbonisation and climate resilience. All over the country, we see agricultural startups bringing advances in automation, soil science, big data, animal nutrition and welfare, and new fields of science and engineering into the paddock, many of them backed with NAB funding and support.

We see that innovation, too, in the evolving characters of agricultural regions. In the NSW coastal town of Coffs Harbour, the banana industry diversified into blueberries and, in recent years, several other berry varieties. Bird netting techniques are evolving into tunnel growing, and Coffs now produces more than 50% of Australia's berry crop – not bad for a town that once branded itself as the Big Banana.

That's why I'm confident that Australian agriculture is well-positioned to take advantage of the largest consumer trend on the next horizon: the increasing demand for healthier, more considered food.

The recognition of the importance of food in wellbeing and wellness is changing domestic and international markets, and consumers are more eager than ever to get their hands on Australian produce. We have a hard-earned and well-deserved reputation for leading the pack in almost every category of commodity; consumers recognise that Brand Australia is an assurance of good, nutritious food.

While 2024 may have more surprises on the horizon – whether that's tariffs shutting producers out of markets, active conflicts disrupting supply chains, or more adverse weather events – the combination of resilience, innovation and world-leading products will help Australia's farmers pull through again.

### VIEW FROM THE GROUND

Dairy has a positive outlook, with lots of customers looking to invest, and the agriculture sector in general is set for a strong year in Victoria. The challenges remain the housing squeeze and its effect on labour availability – for every industry. The outlook for Tasmania is positive with a strong focus across a number of sectors, including commercial real estate, trade, manufacturing, defence and technology, tourism and renewable energy.

**Nigel Rumble**
NAB State Business Banking Executive, VIC & TAS

### VIEW FROM THE GROUND

Make sure to book your hotel room well ahead of time when you're heading to Queensland. Anywhere that's a holiday market or a FIFO destination is doing well right now. Every plane is full of fluro, particularly those heading to Far North Queensland – the recovery from the floods is well underway and construction workers are flocking to the north.

**Alison Blanshard**
NAB State Business Banking Executive, QLD

# Why 2024 is the year to consolidate ahead of brighter times


We have recently released our monthly business survey and our local and global outlooks, as well as our NAB data insights. So where are we now?

**Alan Oster**
NAB Group Chief Economist

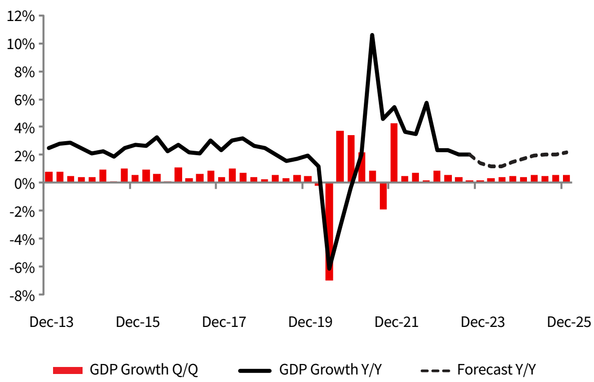
## The Australian economic outlook

To me, the NAB Business Survey for January showed further slowing in momentum, with business conditions, confidence and forward orders now all at below long-run averages. That said, the economy is still growing – albeit at a slow rate. There are, however, pockets of real weakness – especially retail/wholesale and manufacturing (which is obviously very rate sensitive). Forward indicators are also not shooting the lights out.

Against that, our internal bank data suggested that retail spending was better in January – up around 1.5%. But business revenues suffered. The other part of the survey that was interesting was a kick up in retail and purchase costs. While not alarming, it appears that after significant discounting in late 2023, businesses returned to trying to improve their margins.

Our latest Consumer Survey suggested that individuals are now more concerned about their ability to get/keep their jobs. Obviously, the ABS labour market data reinforced that concern. But a word of caution, as this is an extremely seasonal period and the ABS noted that there were more than 20,000 individuals who had a job but were yet to start work. So, to me, I'd like to see further data before getting too nervous. That said, over the past six months unemployment has increased by around 0.5%. Clearly an easing from the very tight labour market we had seen over the preceding year.

**Real GDP growth**



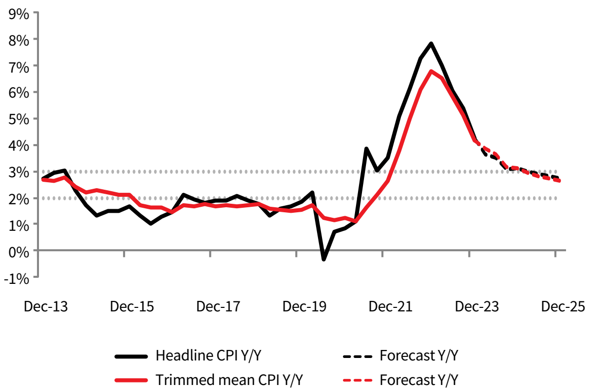

Source: NAB

## The Australian and global economic outlook

A couple of other data points are interesting. Our Q4 SME Survey showed weaker conditions and confidence at the SME level than did our NAB Quarterly Survey, which focuses on larger firms. And that the smaller the firm, the worse the results – especially their cash flows. Also, our Commercial Property Survey suggested that while CBD Hotels and Industrial are very strong, Office and CBD Retail are not.

So, there are lots of different pressures at present, but on our Australian forecasts we essentially have not changed much. As we look at the first half of 2024, we see no reason to expect much improvement from the current very slow growth. Indeed, the risks for the consumer are probably on the downside. That said, for the second half of 2024, we see government relief to cost of living pressures and the Stage 3 tax cuts helping to lift momentum, while the Reserve Bank may begin to gradually ease rates from November. Overall, we still expect GDP growth of only 1.7% through the year.

**Inflation**




Source: NAB

That means the economy will not produce enough jobs to keep the unemployment rate from rising to around 4.5% by the end of 2024. As we have seen, trend employment growth is currently running around 20,000 per month. To stabilise unemployment, the required rate is nearer 40,000.

In many ways, as long as unemployment does not run significantly higher than the gradual deterioration we expect, the consumer can probably struggle through to better times in late 2024 and the prospects of relief from both fiscal policy and rates. That will involve a juggling of their incomes (more hours worked) and their outlays – especially cutting back on non-essential purchases (such as household goods and expenditure on holidays, etc). Clearly there is much stress in both the bottom end of the income distribution (especially renters), as well as the mortgage belt.

For 2025 we are still expecting growth of around 2.2% with the unemployment rate remaining broadly unchanged at around 4.5%.

On inflation, despite some bumps along the road, we expect further progress, with the trimmed mean falling to just above 3% by the end of 2024 and the top half of the RBA's target band by the end of 2025. In short, businesses are becoming more concerned about maintaining market share rather than maintaining profit margins. That is how monetary policy works and we don't see any reason for that process to change in the near term.

Our forecasts for activity are now very similar to the RBA – albeit it sees core inflation not back to the middle of the target till early/mid 2026. As the RBA becomes more forward looking, and with policy already restrictive, we expect it will need to starting cutting in late 2024 as more focus turns to the deteriorating labour market. After the late 2024 cut, we see another 100 points of cuts in 2025 to bring the cash rate to 3.1% by late 2025 – effectively neutral in our view.

These forecasts always have risks. Much still depends on the reaction of the consumer and it is clear that consumption is not really doing much in real terms (and is much worse on a per capita basis). The risk of a larger negative reaction as consumers worry about job prospects cannot be ruled out. To me, the critical downside risk is a faster-than-expected increase in unemployment. Were that to happen, the consumer's ability to juggle cash flows (increased employment and lower consumption in the near term) could be severely compromised.

Also, global developments are an important issue that have the potential to produce shocks in either direction. But on net, our judgment remains that the global economy is more likely to be a headwind than a help in 2024.

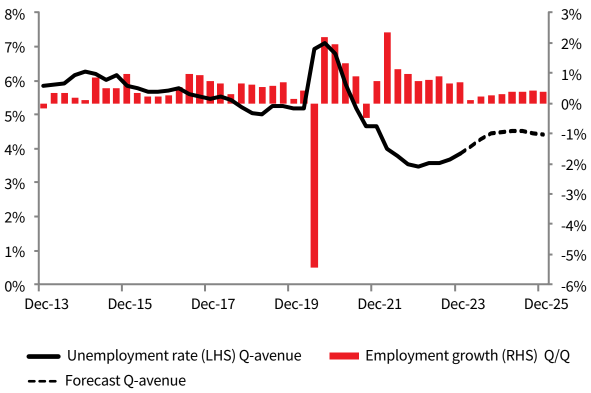
## The global economic outlook

Clearly geopolitical issues loom large – who knows what will happen in the South China Sea, the Middle East and Northern Europe. But setting those issues to one side, the world economy is clearly slowing. We expect global growth of only 2.8% in 2024 and 3% in 2025 – still below average (around 3.4%).

Looking at recent developments, most of the world, excluding the US, is really struggling. Japan, Germany and the UK are in technical recession and Europe overall is skirting recessionary times. So why has the US done so well? There are several reasons, but one factor was fiscal expansion in 2023. However, fiscal policy will turn

# The Australian and global economic outlook

**Labour market**




Source: NAB

to a headwind in 2024 and interest rate settings are still clearly restrictive. So, we are expecting GDP growth of only around 1.1% over 2024 – albeit year average numbers will be around 2%. China's growth prospects are not great in a world of much slower demand and internal property market concerns. Meanwhile, the Chinese consumer is very cautious. In brief, we only expect growth of around 4.5% this year.

Reflecting all of the above, lower inflation and higher real rates will see 2024 as a year of global central banks cutting nominal rates, albeit there is a risk that some recent higher-than-expected inflation readings may delay the expected timing of rate cuts.

At this stage, the European Central Bank could be the first cab off the rank to cut. Most others – including the US Fed, Canada and the Bank of England – could be mid-year, while Australia (and New Zealand) could be nearer to the end of 2024 (November). The exact timing will clearly be related to how much the major economies suffer and how close inflation is to target.

In summary, what is clear is that the world outlook (the weakest year since 2002 excluding COVID and the GFC) will not be helpful to the Australian economy. Hopefully, however, the globe will avoid an overly hard landing, although geopolitical pressures do pose a risk.

Finally on a more positive note, if our and the RBA's forecasts for Australia in 2025 are approximately right then Australia will return to trend growth (around 2.2%), unemployment will still have a four in front of it (our forecast is 4.4%) and the RBA will be back into its inflation target with cash rates around neutral. That would be an excellent outcome and would cast Australia in a very positive light globally.

Agriculture trends

# Conditions are improving for Australian agriculture after 2023's challenges

Hot and dry conditions saw some relief at the end of last year, which has boosted the outlook for 2024.

**Lea Jurkovic**
Associate Director Economics

## The picture in agriculture

### Australian agriculture still looking at strong results

Australian agricultural production is set to remain strong by historic standards. And after a year of dry weather and declining commodity prices, the outlook has brightened along with improved seasonal conditions. As a result, NAB's Rural Commodities Index has risen since its spring lows in 2023.

> Australian agricultural production is set to remain strong by historic standards.

Prices for agricultural commodities trended lower over 2023, but recovered a little at the end of the year. Our index is now down around 5% year on year, but up around 15% from its October low. While El Niño saw much of the country under heatwave conditions last year, the Bureau of Meteorology's ENSO outlook suggests a return to neutral by autumn.

### Seasonal conditions improved into the new year, with El Niño past its peak

El Niño was tempered by summer rains at the end of 2023, which boosted producer prospects. Livestock prices, especially cattle, were particularly affected by dry weather in 2023, but improvements in seasonal conditions over the summer drove a recovery in prices.

While winter crop production will likely fall in 2023-24 due to drier seasonal conditions than in previous years, ABARES forecasts in the December quarter improved after rainfall in October delivered a better outlook for cropping in the southern part of the country.

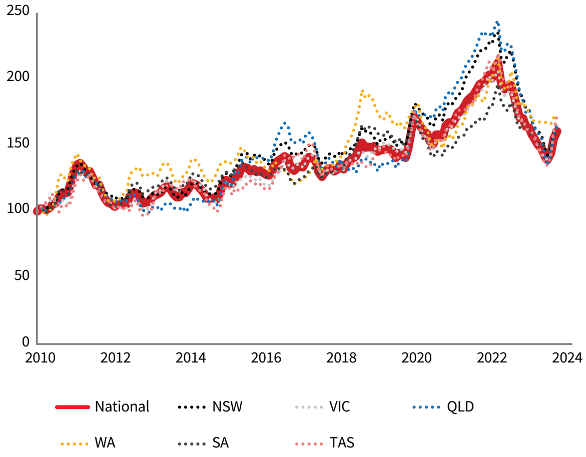
ENSO conditions are expected to return to neutral in April and ocean temperatures are past their peaks, while the positive Indian Ocean Dipole event, which brings dryness to the southern part of the country, is expected to pass by April. A positive Southern Annular Mode saw above-average rainfall in parts of the country over summer, which held up producer sentiment (January 2024 was the ninth-wettest January on record). The three-month rainfall outlook points to drier-than-average conditions across the northern and eastern coasts, with little indication as to wetter or drier conditions over the rest of the country.

## Declining input costs to provide some relief

Input costs have risen significantly since 2020, but continue to drift downwards. The decline in input costs will help producers navigate lower prices and production in 2024.

Fertiliser prices were relatively steady in 2023 and remain above pre-pandemic peaks. Electricity prices have eased, and energy costs are expected to continue to drop over 2024. Feed grain prices have come down a little recently, but remain elevated following dry seasonal conditions. Labour shortages continue, although hopefully relief is on its way: growth in Temporary Skills Shortage visas for agriculture, forestry and fisheries jobs in regional areas has been strong over the past few years. Some interest rate relief is also in the horizon; we currently forecast the RBA to begin cutting rates in November this year.

### NAB Rural Commodities Index




Source: NAB Group Economics, ABARES, Australian Bureau of Statistics, Australian Pork, Ausmarket Consultants, Bloomberg, Meat and Livestock Australia, Refinitiv

Consumer trends

# The appeal of life in regional Australia continues to grow

We explore consumer attitudes and behaviours of those who live in regional areas – and what they reveal. While there are challenges, a growing number of Australians intend to make the move from our capitals.

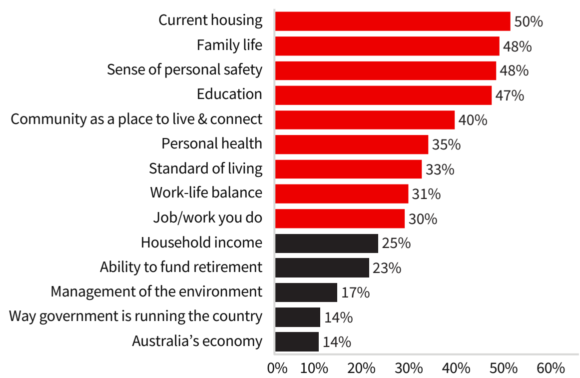
**Dean Pearson**
Head of Behavioural & Industry Economics, NAB

Over the past few years, the appeal of a sea- or treechange has become a reality for a growing number of Australians as the pandemic encouraged remote working and a reassessment of how and where many of us chose to live. But how is life in regional Australia today? Each quarter, NAB surveys over 2,000 Australians across the nation, including those living in regions, exploring issues including consumer stress, spending patterns, buying behaviours and wellbeing. The results explain why so many Australians are making the move, along with bringing attention to the challenges those in regional areas are facing due to the rising cost of living. Importantly, regional Australians are making deliberate trade-offs to manage household balance sheets, support their lifestyle and cope with unexpected expenses.

## The appeal of life in regional Australia continues to grow

Around seven million people, or around 28% of our population, live in rural and remote areas (ABS 2022e). Australia has hundreds of regional communities and each one is unique, shaped by those who have long known the benefits of life in the regions, and now through an influx of new residents. NAB research suggests 7% of Australians moved to regional Australia in the past five years. The appeal of a regional life remains strong – and for a growing number of Australians, with just over 1 in 10 (11%) intending to move to regional Australia in the next five years.

**Living in regional Australia: very high satisfaction**




Source: NAB

This is not surprising – life in our regions offers many unique lifestyle opportunities. When we asked those already living in regional areas what contributed most to their life satisfaction, a number of factors stood out, including the quality of homes, family life, sense of personal safety, education and sense of community.

# Consumer trends

The COVID-19 pandemic also prompted Australians to focus more closely on their health. Encouragingly, this has continued in regional Australia, with 1 in 2 regional Australians telling us they have made their health a greater priority over the past year. NAB research has also found the greatest number of Australians who scored their preventative health mindset 'very high' live in regional areas.

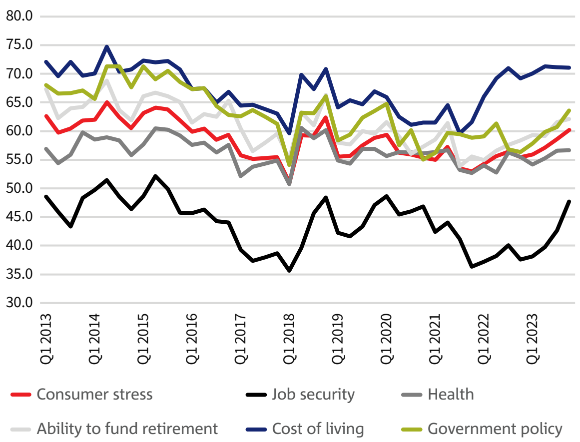
As with the rest of the country, however, life in regional Australia does come with some challenges, amid higher interest rates, burgeoning cost of living pressures and more difficult economic conditions. This is clearly impacting regional consumers.

## Cost of living concerns are easing but other pressures are emerging

Consumers are central to any economy, and regions are no exception, with household expenditure making up almost 60% of GDP. NAB's measure of consumer sentiment (the NAB Consumer Stress Index) is based on typical household stresses, including job security, health, the ability to fund retirement, the cost of living and government policy.

**NAB Consumer Stress Index**

**Regional Areas (100 = extreme stress)**



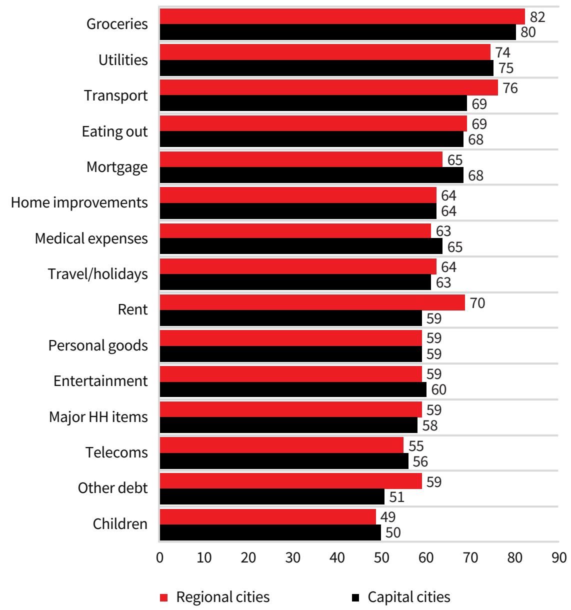

Source: NAB

The NAB Consumer Stress Index in regional Australia rose for the fourth straight quarter in December to 60.2 pts, reaching its highest level in five years. While cost of living pressures remain the biggest cause of stress for almost 2 in 3 people in regional areas, stress levels over living costs appear to have stabilised and were unchanged in the 2023 December quarter after easing over the previous two quarters as inflation continued to moderate. However, concerns related to job security continue to climb, rising quite sharply in the December quarter. Job concerns are not limited to regional areas but are also rising in capital cities.

Consumers across the country remain particularly sensitive to higher prices for groceries, utilities and transport. Noticeably more people in regional areas, however, pointed to higher rent costs. While normalisation in regional migration trends has taken some heat out of rental demand, in the absence of a material response in new housing supply, concern around regional rents is likely to remain elevated in 2024. And with fuel prices high, transport costs are also not surprisingly a greater worry for consumers in regional areas.

**Extent costs changed in the past 3 months**

**(net balance)**




Source: NAB

In addition to job stress, consumer concern over the impact of government policies has also increased noticeably over the past year. Just over 1 in 5 regional consumers are now reporting 'very high' levels of stress arising from government policies. Regional consumers also reported the highest level of stress stemming from their ability to fund their retirement since the 2018 December quarter.

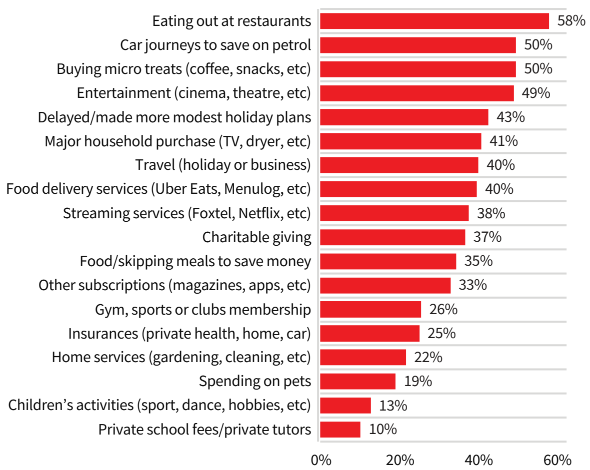
## While consumer stress is high, regional Australians are responding

Regional Australians also continue to undertake so-called 'consumption smoothing', making deliberate spending trade-offs to manage household balance sheets, support their lifestyle and cope with unexpected expenses. Almost 6 in 10 cut back on eating out, and 1 in 2 on car journeys, entertainment and buying micro treats such as coffee and snacks. Combined, these cutbacks amounted to monthly savings for regional consumers of $300 (creating a potential savings buffer of around $3,600 a year if continued). Around

## Consumer trends

4 in 10 regional consumers also saved on holidays, major household purchases, food delivery services, streaming services such as Foxtel and Netflix, and charitable giving, and 1 in 3 on other subscriptions such as newspapers and magazines. Even in areas where savings from spending cuts were smallest – subscription streaming services ($30) and other subscription services ($24) – potential annual savings are around $650. Consumers remain least inclined to cancel or cut spending on private school fees and tutors, children's activities such as sport and hobbies, and spending on their pets.

### Spending changes in regional areas in past 3 months due to cost of living pressure




Source: NAB

But spending patterns and consumer behaviours have become nuanced depending on age group, income level, housing status and type of purchase. Far fewer regional consumers over 65, for example, have cut or reduced their spending relative to other age groups. A much higher number of those on lower incomes have cut spending on food, car journeys and insurances.

NAB was also keen to learn what regional consumers were doing with the extra money from these cutbacks. Almost 6 in 10 redirected it towards day-to-day living expenses, while just over 4 in 10 put this money into savings or offset accounts. Over 1 in 5 paid down other debt, 1 in 6 their mortgages, and 1 in 14 splurged on something they wanted.

Rising living costs continue to drive a range of other consumer behaviours among regional consumers who, across the income spectrum, are looking for ways to save money. Regional consumers are becoming more intentional in the allocation of their disposable income and the purchasing journey is becoming more complex. NAB research continues to show the most common behavioural change among regional consumers is being mindful where they spend their money (on balance, 48% of consumers exhibited this behaviour in the 2023 December quarter), switching to less expensive products to save money (39%), researching brands and product choices before buying (25%) and purchasing because of great deals (17%). When consumers want to purchase a product or service, more than ever they are turning to the internet and search engines to provide greater transparency and ease of comparing prices, highlighting the importance of search engine optimisation.

In terms of future spending intentions on major items in the next 12 months, among regional Australians they are most negative for major household items, holidays, investment property, their investments outside of property and home renovations and cars.

That said, sentiment is likely to improve in 2024 with inflation moderating further and the RBA likely cutting rates later in the year. The impact of a higher tax burden will also ease somewhat as the Stage 3 tax cuts come into effect from July 2024. The scale of these cuts is significant for a large proportion of the income distribution. While these pressures will ease, economic growth is expected to remain modest in the near term.

# 2023 sees a little less property-buying heat

Buyers still abound for assets of all kinds, but last year brought a story of greater regional diversification.

**Mark Browning**
National Head of Valuations & Property Advisory, NAB

There's a sure bidder (or two or three) for every asset type, regardless of its size or purpose. But where 2022 was a year in which you'd buy whatever you could get your hands on, 2023 saw more thoughtful, deliberate transactions.

Regional dwelling values continued to grow – up 4.4% in 2023 to finish 45.9% above pre-COVID levels – but for the first time in years we're seeing markets differentiate themselves.

> "Some markets are merely hot while others are super-heated.

As a result, different narratives are emerging across states and regions. While there's positivity and growth in asset values almost everywhere, some markets are merely hot while others are super-heated. Regional South Australia, for example, boomed at 9.4%, while regional NSW grew at a more moderate 2.4% (although the Far West/Orana region leapt 12%).

**Regional residential valuations growth**

| | 2022 | 2023 |
|---|---|---|
| Regional NSW | -2.7% | +2.4% |
| Regional Vic | -1.3% | - 1.6% |
| Regional Qld | +1.9% | +8.7% |
| Regional SA | +17.1% | +9.4% |
| Regional WA | +5.7% | +8.4% |
| Regional Tas | +2.4% | - 0.1% |

Source: CoreLogic for NAB – end of December 2023

## Regional and rural property

**Top 10 performing regional housing markets, annual value movement**

| | |
|---|---|
| Barossa - Yorke - Mid North (SA) | **15.4%** |
| Bunbury (WA) | **14.6%** |
| Darling Downs - Maranoa (QLD) | **12.8%** |
| Gold Coast (QLD) | **12.5%** |
| Western Australia - Wheat Belt | **12.1%** |
| Far West and Orana (NSW) | **12.0%** |
| Townsville (QLD) | **11.7%** |
| South Australia - South-East | **11.6%** |
| Mackay - Isaac - Whitsunday (QLD) | **11.5%** |
| Cairns (QLD) | **10.8%** |

Source: CoreLogic for NAB – end of December 2023

**Top 5 Local Government Areas by share of regional migration**

Percentage share of total regional migration from capital city residents, YTD2023

| | |
|---|---|
| Sunshine Coast (QLD) | **16.7%** |
| Greater Geelong (VIC) | **8.3%** |
| Gold Coast (QLD) | **8.3%** |
| Fraser Coast (QLD) | **6.5%** |
| Moorabool (QLD) | **5.8%** |

Source: Regional Movers Index September 2023 (Regional Australia Institute)

Most markets remain at or near their 2022 peaks, but have approached them at a more sustainable pace this time around. Regional Queensland (8.7%) and regional WA (8.4%) set new record peaks. Those states which returned lower growth or declined in 2023 did so only marginally: regional NSW was up 2.4%, while regional Tasmania and regional Victoria eased -0.1% and -1.6% respectively.

Given that regional migration figures have slowed but remain 11.7% elevated above pre-COVID trends – and with interest rates looking more attractive to borrowers – it seems likely that the demand side of the property equation will continue to contribute to valuations in the coming year.

On the supply side, construction companies are still struggling with fixed-price contracts. While supply chain issues and material costs eased somewhat in 2023, labour accessibility remains a top concern (as it does for all regional and metro employers). There'll be no easy solution to the shortage of housing stock in the near future.

### Property markets diverging

2023 was a year in which bidders paused before putting up their hand: to take stock of their business strategy, the interest rate environment, commodity cycles and weather, and all the other usual concerns.

That reflects an encouraging return to normality for a strong economy and strong regional businesses. There's still plenty of activity and interest across the board, but property markets are showing differentiation across commodity types and regions.

The sharp acceleration in Darling Downs (12.8%) residential values, for example, comes as the Gold Coast starts to ease up the pace. It also demonstrates a larger national narrative: the lifestyle regions are still attractive, but treechangers are more price-conscious and willing to look further inland (as long as they can access hospitals and good coffee).

In SA, regions like Barossa (15.4%) continue to pick up steam, reflecting overflow from the businesses and migrants relocating to Adelaide. Bunbury (14.6%) in regional WA was a big winner in 2023.

### No quick fix for housing

While a tight housing market is supporting strong valuations, we are now into the second year of regional rental availability under 1%, and with no signs of abatement.

## Regional and rural property


For communities, this does impact demographics and lifestyle. Younger people raised locally can struggle to afford to buy locally, although they can benefit from the employment opportunities, improved services and quality of life that internal migration has introduced.

For employers, the housing shortage is having a negative impact on the capacity to find and retain labour. This year, we've begun to hear of employers going to extraordinary lengths to recruit, with some large businesses even entering the property market by buying and converting hotels or motels into employee accommodation.

While housing will continue to trouble Australia for some time, those businesses that address the problem creatively are getting ahead.

### Consolidation the key word in farmland

As the pace settles and the agriculture industry starts to look further into the future, market participants and strategies are evolving. Further consolidation and segmentation, rather than diversification, are expected over the horizon.

In recent years, we've seen new records set in some commodity prices, swinging overcorrections, and bouncebacks almost as fast. But rural property markets are not too tightly tied to the short term or commodity cycles. Buyers are generally more concerned with longer-term factors and business planning – investing in good cropping or grazing land is a decision made with an eye decades beyond the next sales season.

Foreign and institutional funds are making up a larger share of buyers, and are interested in cropping and enterprise properties over $50m. For foreign buyers in particular, any transaction made while the Australian dollar is under 70¢ reflects a favourable purchase.

Owner-operator bidders are still buying through the fence, but more selectively. Neighbour-to-neighbour transactions will remain typical, with producers interested in growing their core business while conscious of access to capital, trading conditions and long-term plans. We'll likely see fewer intra-regional purchases as farmers consolidate and grow their home holdings.

**THE HEADLINES**

- Markets are still hot, but bidders are more thoughtful
- Housing availability remains a core concern for the regions
- Farmers are looking to consolidate their holdings

**VIEW FROM THE GROUND**

Stock prices dropped in 2023 and that had a knock-on effect for regional property. But markets have repaired some of the overcorrection in cattle and sheep, and property purchasers who walked away are returning in 2024. Builders are still struggling with fixed-price contracts, but we might be starting to see signs of improvement. Businesses are better positioned for the future, surrounding themselves with more advisers than in previous years.

**Peter Steele**
NAB State Business Banking Executive, Northern NSW

# Data paints picture of regional good life

Across multiple sectors, 2023's demand for credit revealed the changing face and the entrepreneurial spirit of regional and rural Australia.

A fascinating set of lending and cash flow data from 2023 tells a story about regional Australia enjoying the good things in life, as well as the basic necessities. After a transformative period in which Australians flocked to the country, migrating from the capitals at unprecedented rates, regional Australia is experiencing a boom in new businesses and industries, with overall demand for credit growing by 3.7%.

Farmers also showed appetite to invest. Despite an adverse interest rate environment, a projected dry summer and some difficult trading conditions, demand for credit from the agriculture sector grew by 9.1%.

Combined rural and regional lending grew by 6.2%, indicating business confidence, both in the short and long term, across every state.

Construction (7%) and Property Services (7%) both grew their borrowing, demonstrating that work is underway on alleviating the housing squeeze. And lending to the Hospitality sector grew by 6%, up from 4.4% in 2022, as hotels and motels met the continuing demand for domestic tourism options and pubs and restaurants served ever-improving cuisine.

Mining and Mining Services (6%) had a strong year, with the Australian dollar likely to support resources exports in the year ahead, while Motor Vehicle Retailing and Services (5%) grew at a healthy pace.

### 2023 growth in lending by industry

| Industry | % Growth | Rank |
|---|---|---|
| Transport | 10% | 1 |
| Agriculture | 9% | 2 |
| Personal and Household Good Wholesaling | 9% | 3 |
| Construction | 7% | 4 |
| Property Services | 7% | 5 |
| Mining and Mining Services | 6% | 6 |
| Accommodation, Cafes, Pubs and Restaurants | 6% | 7 |
| Manufacturing | 6% | 8 |
| Motor Vehicle Retailing and Services | 5% | 9 |
| Basic Material Wholesaling | 4% | 10 |

Source: NAB data, December 2023

## Debt and cash flow

Industries like Personal and Household Good Wholesaling (9%) and Manufacturing (6%) showed strong upticks in borrowing to invest. That represents the continuing rise of regional industries and businesses that benefit from access to regional inputs as well as metro markets.

The access to agricultural or mining resources makes manufacturing an ideal proposition for new businesses and the regional communities they set up in. As transport infrastructure links across the nation expand and improve, and with commercial property in the country looking cheap relative to the capitals, regional manufacturing is likely to become a driver of significant opportunities for other businesses, and for local employees.

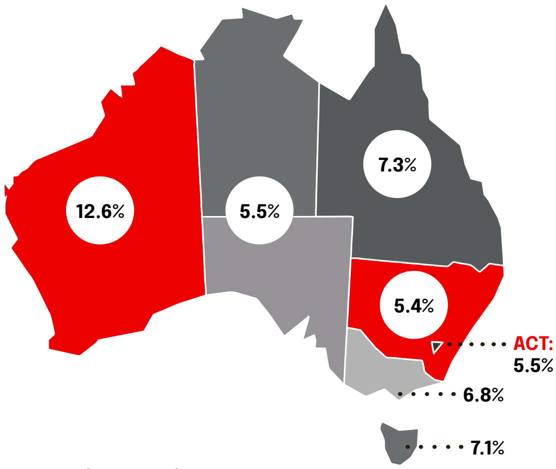
> Regional manufacturing is likely to become a driver of significant opportunities for other businesses.

Transport (10% growth in demand for credit) is an example of those industries that will support and benefit from the growth of manufacturing in the regions. Regional businesses can now take advantage of logistics infrastructure that allows them to put products on supermarket shelves anywhere in the country.

Across the nation, regional businesses demonstrated similar appetite for investment opportunities. WA led the way with 12.6% lending growth.

NSW (9.6% down to 5.4%), Victoria (11.6% down to 6.8%) and Queensland (9.2% down to 7.3%) saw a lower demand for credit compared to the year prior, after realignments in cattle and lamb prices spilled over to other regional businesses. But with healthy growth figures nonetheless, regional communities and businesses in those states marked out their clear confidence for the future, and a willingness to borrow and invest to prepare for it.

**Demand for credit – state by state growth**




Source: NAB data, December 2023

**VIEW FROM THE GROUND**

Australians have discovered the hidden gem that is Adelaide in recent years, and that's spilled over to a population boom in regional South Australia. Businesses are borrowing to invest across the board. New heavy industries like hydrogen manufacturing are emerging, and established ones like steel processing and manufacturing are entering a new phase of growth.

**Joe Paparella**
NAB State Business Banking Executive, SA & NT

Deposits

# Healthy deposits a strong defence against 2024's hurdles

Sustainable growth likely to be the name of the game as regional and rural businesses make the most of higher interest rates.

2023 saw an impressive growth in deposits as interest rates continued to tick upwards, albeit at a slower rate than in 2022. Total deposits grew by 8.1%, with the cash rate finishing the year at its peak of 4.35%.

Regional businesses prepared for any turbulence in the year ahead, their deposits growing by 8.5%. Customers' interest in term deposits remains high, as they seek more certain returns, with many customers shifting from transactional accounts into term deposits. With new community infrastructure and services continuing to roll out, and new businesses and industries to service local and intra-regional demand for luxuries and basics alike, it's fair to project that 2024 will be another exciting year of growth and transition for regional Australia. And with burgeoning cash accounts, regional businesses are prepared for any hurdles.

Agricultural deposits declined by 3.3% in calendar year 2023. That figure may tick upwards, with farmers yet to settle on harvests from a strong summer. Once again, customers have utilised Farm Management Deposits,

> It's fair to project that 2024 will be another exciting year of growth and transition for regional Australia.

## Deposits


**Deposits growth 2023 vs 2022**

| | |
|---|---|
| Agribusinesses | -3.3% |
| Regional businesses | +8.5% |
| **All businesses** | **+8.1%** |

Source: NAB data, December 2023

with 27% growth, Western Australia increasing by 48% compared to 33% for NSW and 29% for Victoria. Department of Agriculture reporting shows that Farm Management Deposits grew from $5.8bn nationally at the close of 2022 to $6bn at the close of 2023, despite a slight decline in the number of accounts to 43,477. That growth is a positive indicator of a cashed-up agricultural sector, ready to weather whatever 2024 brings.

It also reflects a more sustainable pace of growth after several years of rapid investment. As shown in the sharp decline in the price of cattle and lamb, market participants were conscious that there was a little too much heat in commodities. However, the rapid price rebound shows, equally, that there's an underlying demand for Australian livestock and confidence in the farmers who produce it.

With prolonged stability in the interest rate environment (projected to subside from the target cash rate peak of 4.35% in the year ahead), and with the Australian dollar likely to end the year at around 73¢, farmers can look forward to a 2024 more conducive to trade and export.

**VIEW FROM THE GROUND**

Despite managing skilled labour shortages and cost challenges, the future looks bright for businesses. In Southern NSW and ACT we have seen a strong year across many industries, including agribusiness. Businesses are well positioned to take advantage of improving economic conditions in the second half of the year and into 2025. Increasingly, businesses are turning to professional advisers and consulting services to provide strategic guidance on investment plans.

**Naomi Stuart**
NAB State Business Banking Executive, Southern NSW & ACT

# Appetite for investment

A healthy year of equipment finance growth points to the confidence customers have in their regional and rural businesses.

The number and value of equipment finance transactions headed upwards in almost every state in 2023, with only WA declining slightly. That growth shows confidence among regional businesses in current and future trading conditions, despite tax and interest rate headwinds.

Nationally, the appetite for new and used vehicles and equipment was up 10% among NAB's regional and agricultural customers. Broader industry data shows, however, that our customers were an exception to the norm, with the rest of the Australian business community registering a 0.4% fall in demand for equipment finance.

**2023 growth by state in NAB new equipment funding**

| | |
|---|---|
| New South Wales/ACT | **4%** |
| Queensland | **14%** |
| South Australia | **6%** |
| Tasmania | **37%** |
| Victoria | **21%** |
| Western Australia | **-3%** |
| **National** | **10%** |

Source: NAB data, December 2023

## A new era for equipment sales

The big stories in equipment sales this year were the end of the instant asset tax write-off scheme and the easing of supply chain woes that have caused frustration for purchasers.

Those two factors have dominated equipment sales trends in recent years. Combined, they've produced abnormally high demand and low supply. With a run of good seasons in the mix, we've seen assets snapped up at any price where they've been available, wait times to delivery extending beyond two years and frenzied bidding at second-hand auctions with used equipment selling at as-new prices.

There will be a hangover for both of these factors: supply chain issues in particular, while easing, have not yet been fully worked through. And the risk of new, unforeseen disruptions (such as the conflict in the Middle East) is always present.

It's fair to say, however, that 2023 marked the beginning of a new phase for equipment sales, with more assets entering the country.

## Strong growth across asset classes

The regional and agricultural sector showed demand for vehicles and equipment across the board. Transaction numbers for trucks were up 8%; for agricultural equipment and machinery up 15%; and for motor vehicles up a whopping 35%.

## Equipment finance trends

In part, the growth in appetite for new cars reflects the greater availability of imported vehicles. Regional businesses are continuing to muscle up by adding new vehicles and equipment to their fleets and portfolios, despite higher interest rates and the end of the advantageous instant asset tax write-off scheme. That demonstrates both strong trading conditions in 2023 and confidence they'll continue into the near future.

**2023 category growth in NAB new equipment funding**

| | |
|---|---|
| Motor Vehicles | **35%** |
| Trucks (all) | **8%** |
| Ag Equipment & Machinery | **15%** |

Source: NAB data, December 2023

Heavy trucks (>3.5t) actually declined in number of transactions, with supply chain issues lingering and a two-year wait time for delivery of a new vehicle. However, the number of transactions for light trucks and utes jumped 15%. And both classes advanced in value of transactions: heavy trucks up 15% and light trucks up 22%.

### Green growth for sustainable equipment

While electric and hydrogen vehicles are still maturing as an asset class, there was some impressive growth in 2023, with regional and agricultural demand for electric vehicles up 283% year on year.

Since NAB rolled out the Green Finance initiative for equipment in mid-November 2022, hundreds of Australian businesses have taken advantage of favourable contracts and government support while reducing their carbon footprint.

The list of qualifying equipment extends beyond electric and hybrid vehicles to solar installations, waste management and recycling plant, and sustainable agricultural and manufacturing equipment.

In 2023, a handful of advanced sustainable equipment started to come through in transactions, including agricultural motorcycles and headers.

With electric charging infrastructure set to triple in 2024, new electric vehicles hitting the market at a price point of around $30,000 (as opposed to the $100,000 for premium vehicles) and continuing innovation in agricultural equipment, there's every expectation that this segment is getting ready to take off.

### An eye on the next horizon

Another year of strong growth is expected for Australia's regional and agricultural businesses as they take advantage of improved access to equipment, continuing positive trading conditions and an improving interest rate environment.

Although the global supply chain has begun to normalise, with additional resilience built into production and shipping systems, we've learnt that it's always best to keep abreast of the logistics of equipment sales, and to plan asset purchases with an eye on any potential disruptions.

The other factor that will influence equipment sales markets in the near future is commodity cycles. As the cattle and sheep markets have shown, a great year can easily be followed by a shakier one. Fortunately, there are no indications of any significant drawdowns in agricultural or mining sectors in the near future.

**THE HEADLINES**

- Despite a flat year for equipment sales nationally, NAB customers bucked the trend and were eager to purchase
- With the end of the instant asset tax write-off and loosening of supply chains, Australia is entering a new phase for equipment sales
- 2024 is expected to be another strong year for equipment purchases, with sustainable infrastructure set for an interesting year

**VIEW FROM THE GROUND**

Businesses in WA are healthy and confident about the year ahead. Australian and offshore businesses are looking for – and finding – diverse investment opportunities in mining, agriculture and energy. And businesses servicing those sectors are reaping the benefits.

**Jeff Pontifex**
NAB State Business Banking Executive, WA

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1. NAB is Australia's largest business lender according to Monthly Authorised Deposit-taking Institution Statistics lending data (table 2, non-financial corporations) for March 2023 published by the Australian Prudential Regulation Authority as at February 2024.