2024-2025 Federal Budget

What does this mean for Regional Australia & Agribusiness

Summary

The significant budget announcements were in line with media reporting and pre-positioning over recent days. In many ways the Budget is much more interventionist in its strategy – aiming to boost growth in critical areas and directly easing cost of living pressures.

In terms of new policy announcements, the key headlines include the Future Made in Australia program (including solar panel manufacturing in the Hunter Valley and Quantum computing investments) and the extension of the small business instant asset write-off applicable to around 4 million businesses. There is also a health package with around $3.4bn for new PBS medicines and a freeze in the price of PBS medicines for a year for all individuals and 5 years for pensioners.

The education sector sees some significant policy announcements with cuts to HECS debts (around $3bn on 2023 indexation). A student cap has been introduced but the exact amount will depend on a formula including how much accommodation each university provides for their students.

In addition to the stage 3 tax cuts cost of living relief comes via the Energy bill relief packages ($3.4bn) and the rental assistance package ($2bn). Beyond that there are large spending programs on funding wage increases in aged-care and childcare sectors.

With added spending in these areas and the increased drag from lower commodity prices and a weaker labour market alongside the stage 3 tax cuts the Budget surplus of around $9.3bn in 2023-24 quickly returns to deficits of around $28.3bn in 2024-25 and nearer $43bn in 2025-26. The potential for more election-related spending remains a risk.

Overall, the budget is expected to see a small structural deterioration over the next few years but with some claw back into 2026-27 and beyond. The Government's own parameter estimates suggest that just about all the deterioration in the budget position is from new expenditure. Meaningful attempts to address structural deficits have been pushed out though Australia's debt position remains low by international standards.

Economic outlook & implications

While the decisions taken in this year's budget are on balance a loosening in policy, they only marginally add to the RBA's difficulty in returning inflation to target and our initial assessment is they do not have a material impact on our expectations for the growth outlook or the path of inflation and monetary policy.

In terms of the economic outlook, the expected pattern of forecasts is broadly similar to ours with Treasury expecting GDP growth around 2% in 2024/25 and 2.3% in 2025- 26. We are at 1.9% and 2.3% in 2025-26. We are however more concerned about the very short run outlook (Treasury 1¾%, Nab 1.5%). Our labour market outlook is similar to the Treasury with unemployment peaking around 4 ½ % by mid-2024, and likewise we see wage growth peaking around current growth rates (4 ¼%) and edging down somewhat in the out years.

Notably, the Budget forecasts a more rapid improvement in inflation in the near term than we or the RBA have been expecting, seeing headline inflation of 2.75% by mid-2025 (NAB 3.0%, RBA 3.2%). This largely reflects the impact of energy and rent subsidies on measured inflation – an effect which the RBA is certain to look through when setting monetary policy. Nonetheless, at this stage we don't see the fiscal deterioration as being sufficient to change our rate view, still seeing rate on hold until late this year.

State of Play: Regional Australia

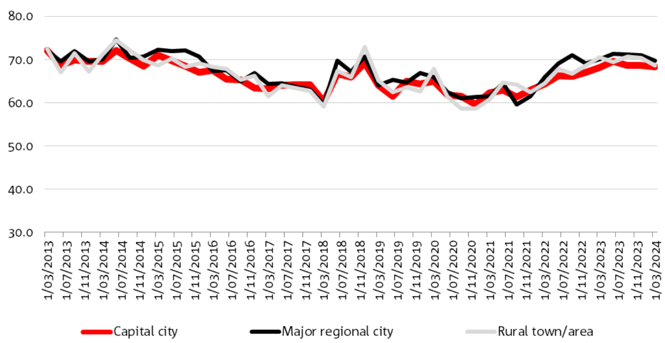
The regions continue to attract migration from Australia's cities, though the trend continues to normalize in the post-pandemic period. Despite this normalization, cost of living pressures remain high in the regions, particularly around housing.

Around seven million people, a little over a quarter of the Australian population, live in rural and remote areas. And NAB research suggests that 7% of Australians moved to regional Australia in the past five years, and that around 10% are intending to move to the regions in the next five years.

While the regions remain an attractive prospect for unique lifestyle opportunities, cost of living stress remains elevated in the regions and above that experienced in Australia's capital cities. The cost of living is a key contributor to higher regional consumer stress. In the March quarter of this year, wellbeing improved in regional cities but fell noticeably in rural areas.

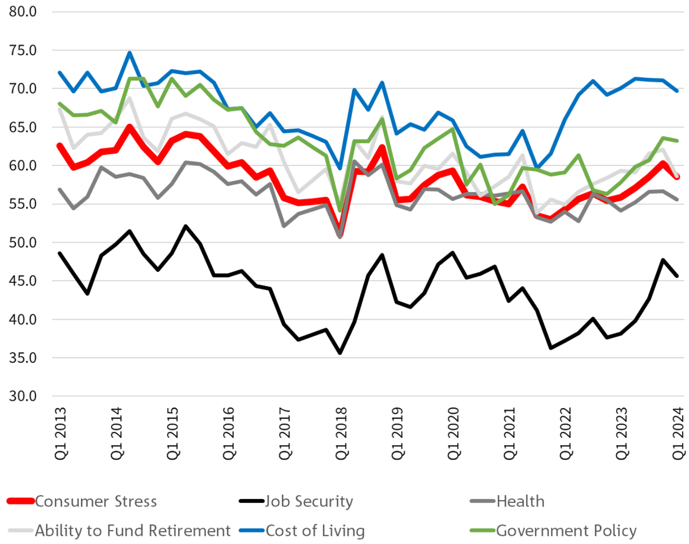
Encouragingly, the cost of living index has eased slightly, as inflation has down and a normalization in migration from the capital cities to the regions takes some heat out of rental demand. Concerns over job security and government policy have climbed the most in the regions over the past year, and concerns over the ability to fund retirement have also contributed to consumer stress.

Cost of living stress by region



Source: NAB

NAB Consumer Stress Index: Regional Areas (100 = extreme stress)



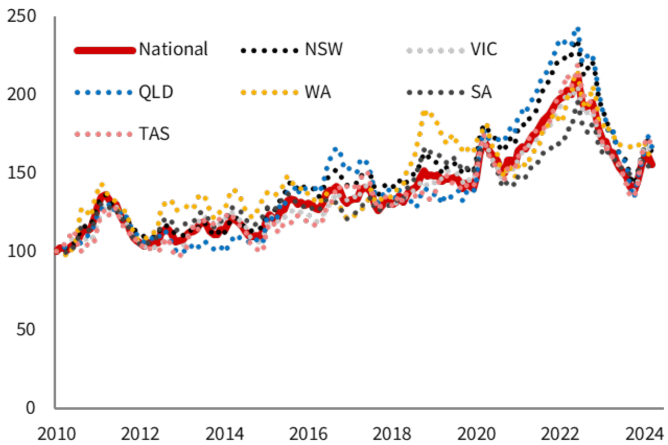
Source: NAB

State of Play: Agriculture

While Australia's agricultural sector experienced some challenging conditions in 2023 with much of the country experiencing heatwave conditions due to the combined effects of El Nino and the positive Indian Ocean Dipole event, agricultural production is set to remain strong in 2023/24 by historical results.

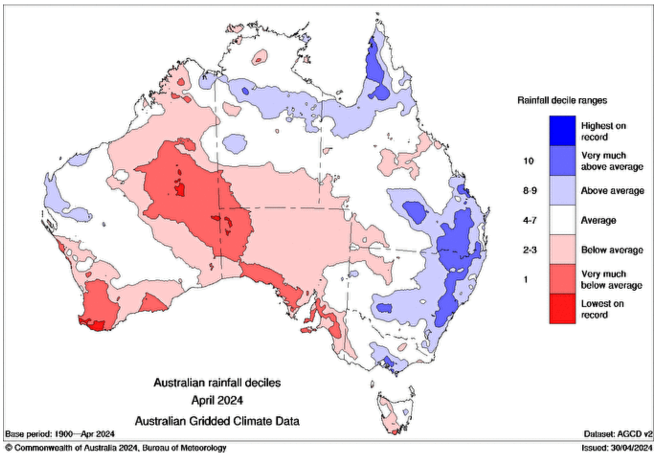
The NAB Rural Commodities Index continued to trend lower last year as dry conditions affected the agricultural sector but began to recover after summer's above-average rainfall. The Bureau of Meteorology's ENSO outlook suggests that either a La Nina event or ENSO-neutral conditions will develop later in 2024. These improved seasonal conditions are expected to support agricultural production.

NAB Rural Commodities Index



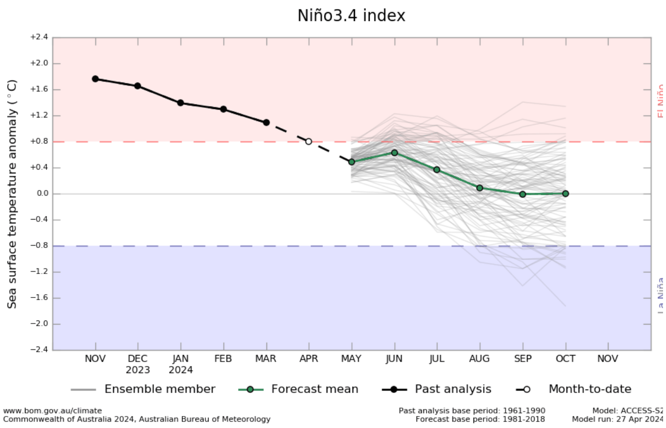
Source data: NAB Group Economics, ABARES, MLA, Australian Pork, Ausmarket, ABS, GDT, Bloomberg, Refinitiv

Rainfall deciles - April 2024



Source: BoM

BoM ENSO outlook



Source: BoM

What did Industry lobby for?

The National Farmers Federation (NFF) highlighted how Australia's agricultural sector can contribute to the challenges facing the economy in three main ways: increasing productivity in the agricultural sector; ensuring a pipeline of talent into the sector's workforce; and contributing to the nation's sustainability goals.

The NFF noted that the economy faces several challenges that also touch on the agricultural sector. These include: the transition to a net-zero economy; low productivity; an environment of elevated inflation; and demographic changes. For the sector to succeed in the face of these headwinds, the NFF presented 17 specific recommendations in their pre-budget submission. Some of the recommendations include:

Regional infrastructure reconstruction: $1 billion in investments that improve agricultural supply chain links like roads, railways, and ports.

Promotion of drought-resilient infrastructure on Australian farms: $50 million to be allocated to on-farm infrastructure products and education and training that aid in drought management.

Support for the national expansion of the AgSkilled initiative: the AgSkilled initiative is a NSW government initiative which seeks to grow and upskill the agricultural workforce through courses and certifications.

Funding for additional non-water offset measures in the Murray-Darling Basin: these measures could include installing fishways, addressing water pollution, and managing fish populations.

Investments in R&D that supports climate initiatives: the agricultural sector is particularly vulnerable to the effects of climate change, and the ability to monitor baseline information as well as support for helping sector participants access carbon markets.

Support for agricultural workers' wellbeing and mental health: the agricultural workforce would benefit from increased access to mental health-related services and initiatives that shift the sector's culture to more openly engage with this issue.

Similarly to the NFF, the Regional Australia Institute (RAI), which advocates for the nearly ten million Australians who live outside of capital cities, supported the promotion of employment opportunities in the regions as well as the upskilling the regional workforce, particularly in the areas of the net-zero transition and agriculture. They noted that vacancies in the regions are also high in areas like health care and aged care, and highlighted the difficulty with recruiting in the regions.

Sustainability was another key concern for the RAI. The RAI supports research into strategies that seek to strengthen the regions' economic resilience in the face of natural events, with regional local economies and industries particularly vulnerable to the effects of climate change.

Infrastructure was also identified as an area for targeted support by RAI. The RAI highlighted housing as the major infrastructure concern, followed by mobile connectivity, water security, and transport services.

In terms of liveability, the RAI called on the Government to institute policies that improve the stock of medium- to high-density housing options, to account for the increasing regional population (and the increase in housing costs this is effecting), but also to attract younger skilled workers to the area. The RAI also supports boosting the availability of childcare services in regional Australia, where affordable access to childcare is recognized as a significant barrier to the workforce.

What did the budget deliver?

Agriculture

The government is allocating $519.1 million from the **Future Drought Fund** over the next eight years from 2024/25. This includes $132 million to continue the eight drought resilience adoption and innovation hubs around the country that connect farmers with new practices and innovations, $83.2 million for learning and development opportunities for farmers, and $36 million in support of farmers' mental wellbeing.

The government will also provide $107 million over five years for the **phase-out of live sheep exports by sea**. This funding for the transition includes $64.6 million for sheep producers and the supply chain (e.g. expansion of processing capacity), $27.0 million to develop market opportunities and demand for sheep products domestically, and $2.6 million to improve animal welfare standards. This follows last year's $5.6m spent on an independent assessment of the phase-out.

Relevant to agricultural trade, too, is the $2 million allocated to help Australian agricultural exporters re-establish commercial ties to China, as well as to 'diversify into other markets.'

With regards to Net Zero initiatives, the $63.8 million has been allocated over the next ten years to support efforts to reduce emissions in the agricultural sector. The Australian Carbon Credit Union scheme will also see $48 million put towards its improvement, as part of the independent review of Australian carbon credit units.

Initiatives to build a pipeline of talent for the agricultural workforce also featured, with the government providing $1.0 million for two years to pilot a program that attracts graduates into skilled agricultural work, and $0.5 million to extend the AgCAREERSTART pilot program which targets young people to move into agriculture.

The **instant asset write-off** for small businesses has been extended by a further 12 months, until June 2025. Multiple assets can be claimed, but the maximum amount per asset is $20,000.

Infrastructure

The government has a large infrastructure pipeline (around $120 billion over a decade), and has given more details of projects following the announcement last year of an independent strategic review into the pipeline. In particular, $101.9 million is allocated for upgrading regional airports, as well as $40 million for rolling out community wi-fi in regional and remote Australia.

Cost of living

Cost of living pressures continue to be front and centre of mind for Australians, but NAB data continues to show that cost of living stress is higher in the regions than in the capital cities. The budget provides a number of cost of living measures nationwide, including:

- $300 electricity bill relief for all households;
- an increase in the maximum rate of Commonwealth Rent Assistance by 10%;
- freezing the price of medications under the PBS for 2 years for all individuals and 5 years for pensioners;

How did business react?

National Farmers' Federation President, David Jochinke, said that budget did not go far enough in supporting Australia's agricultural sector. He highlighted his disappointment that the big ticket item, the Future Drought Fund spending allocation, included only $42.2 million in new spending. The NFF will also encourage the government to "…reverse the [live sheep trade] ban".

The NFF were more positive on the measures to support the agricultural sector's contribution to Australia's Net Zero agenda, describing the $63.8 million allocated to emissions reduction in the sector as "a solid down payment on investing in agriculture's approach to addressing climate change", while noting that more detail as to the approach is expected to follow. The NFF was also receptive of the $48 million to be put towards the improvement of the Australian Carbon Credit Union scheme.

Education and training were a major priority in the NFF's pre-budget submission. And the NFF were disappointed with the funding allocated to AgCAREERSTART, which they describe as "…bringing fresh feet into the industry…" and "…one of the few positive improvements…" in the agricultural workforce development space. They say the $0.5 million allocated towards the program is less than what is "…needed to keep the program's momentum going."

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