

more give, less take



Economic Report

Post-farmgate Agribusiness Survey – September Quarter 2014

Phin Ziebell, NAB Agribusiness Economist



agribusiness

Key points

- The September quarter saw a further unwinding of post-farmgate agribusiness conditions, confidence and expected conditions. However trading conditions, forward orders and capacity utilisation recovered somewhat.
- Overall, the sector experienced a challenging September quarter, as poor rainfall and frosts in many areas conspired with lower prices across many agricultural commodities to sap confidence in the sector. Bureau of Meteorology forecasts for below average rainfall across much of the continent in the coming months is likely further weighing on sentiment.
- On the other hand, signs of stabilisation across major international grain markets, combined with a falling AUD may give some hope for the sector over the coming months.

Key survey indicators	Q1 2014	Q2 2014	Q3 2014
Business conditions	4	-4	-6
Business confidence	0	-13	-13
Trading	13	-2	0
Profitability	-2	-9	-7
Employment	2	0	-11
Expected conditions – 3 months	10	0	-1
Expected conditions – 12 months	12	24	5
Forward orders	10	-2	4
Capacity utilisation (%)	77.2	77.3	77.8
Capex plans – next 12 months	29	22	21



Business Conditions

Post-farmgate business conditions continued to unwind in the September quarter and have now reached -6, down from -4 in the June quarter and well below the 9 year high of +17 reached in the December quarter 2013.

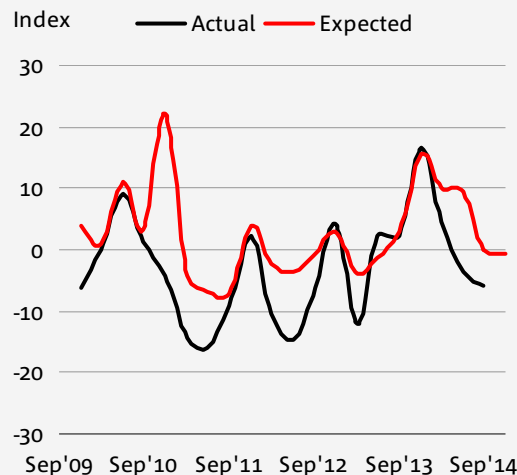
The move further into negative territory for the index as a whole conceals positive responses among many respondents. 74% of respondents rate conditions as satisfactory, good or very good, up slightly from 73% in the June quarter. The decline in the index is driven in large part by a decline in those who rate conditions as good and an increase in those who rate conditions as satisfactory.

Trading

Post-farmgate agribusiness trading conditions improved slightly in the September quarter, increasing from -2 to zero after a historic high in the December quarter of 2013. Expectations of trading conditions for the December quarter are more positive at +5.

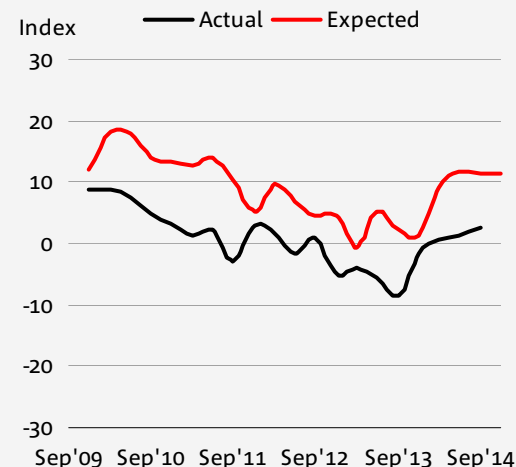
The improvement in trading conditions is driven in large part by an amelioration of "other" factors, although customer confidence continues to fall. Seasonality, company specific factors and exchange rates have not greatly affected the result.

Figure 1: Agribusiness business conditions



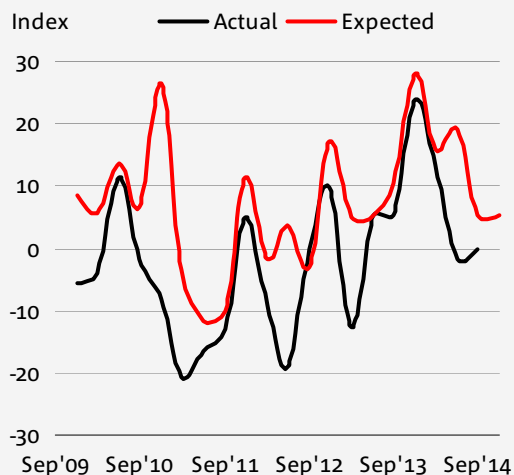
Source: NAB Group Economics

Figure 2: Total business conditions (s.a.)



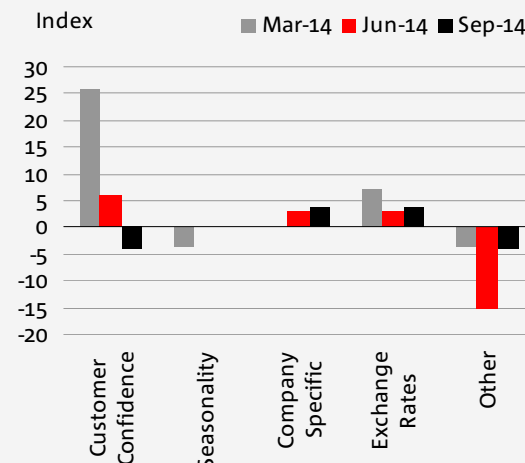
Source: NAB Group Economics

Figure 3: Agribusiness trading conditions



Source: NAB Group Economics

Figure 4: Drivers of trading conditions



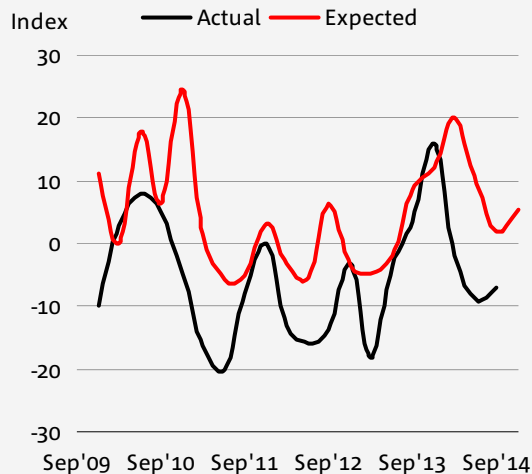
Source: NAB Group Economics

Profitability

Profitability rebounded somewhat from its June quarter low based in large part on seasonal factors. The index stands at -7, up from -9 last quarter. Expected profitability has also begun to recover and stands at +5 for the December quarter.

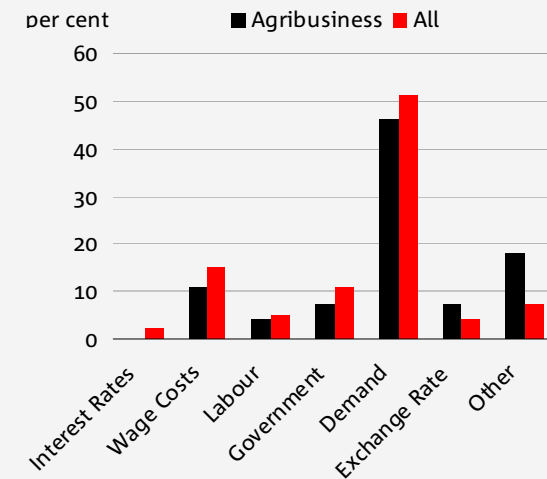
Respondents continue to cite a perceived lack of demand as the overarching constraint on post-farmgate agribusiness profitability, although somewhat less so than other businesses.

Figure 5: Agribusiness profitability



Source: NAB Group Economics

Figure 6: Constraints to profitability



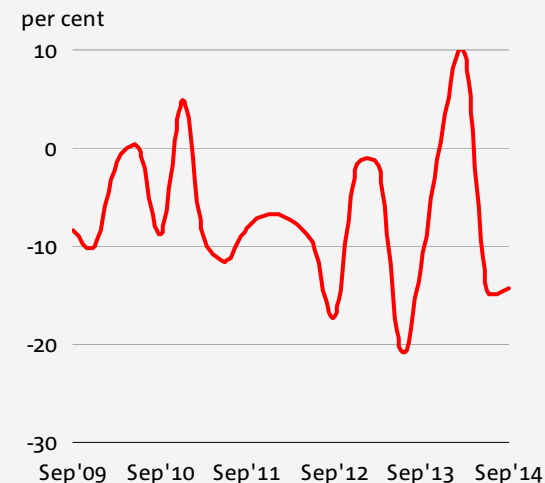
Source: NAB Group Economics

Margins

Sales margins stabilised in the September quarter (-14) after slumping well into negative territory in the June quarter (-15). Margins came under pressure from weaker prices for most agricultural commodities and patchy weather in many regions. Seasonal factors are also at play, with prices, labour and purchase costs all falling in the quarter. Margins tend to be generally higher in the summer and autumn than the winter and spring.

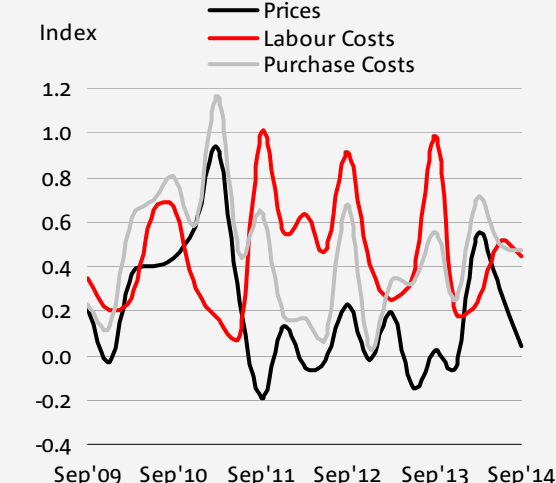
Although world prices for most agricultural commodities have weakened, a falling AUD has mitigated some of these effects for Australian producers and may lend some support to margins coming into summer.

Figure 7: Agribusiness sales margins



Source: NAB Group Economics

Figure 8: Costs and prices



Source: NAB Group Economics

Employment

Post-farmgate agribusiness employment conditions fell sharply in the September quarter from zero to -11, slightly more than expectations reported by respondents in the June quarter and reflecting generally slower production during the winter months combined with unfavourable weather in many regions.

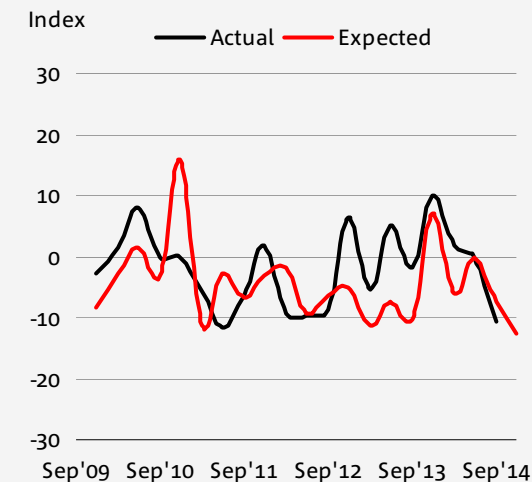
Employment expectations are -13 for the December quarter, the lowest expected level since the September quarter 2009. However, the majority (66%) of those surveyed plan to keep their number of employees steady over the next year.

Expected Conditions

Post-farmgate agribusiness expectations of future conditions fell sharply in September. Expected business conditions for the next 12 months was down from an optimistic +24 in the June quarter to a sanguine +5. This fall in expected conditions was not mirrored in overall business expectations.

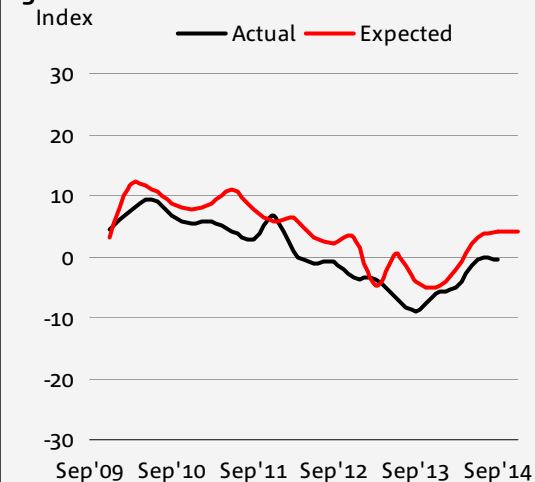
While both agribusiness and non-agribusiness respondents continue to cite a lack of demand as the biggest single impediment to profitability, agribusiness respondents have become much more pessimistic about future conditions. Nonetheless, agribusinesses remain confident (+21) about capital expenditure over the coming year.

Figure 9: Agribusiness employment gains



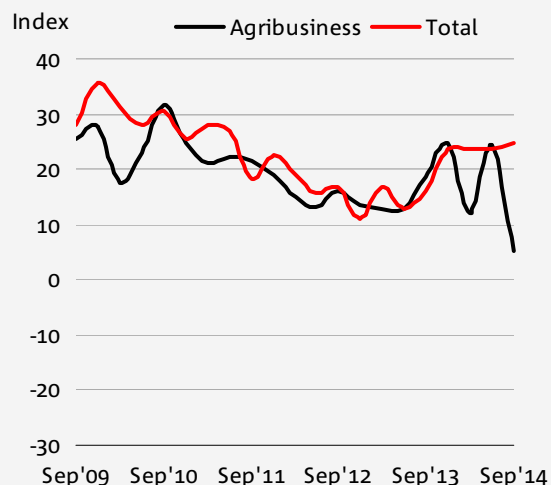
Source: NAB Group Economics

Figure 10: Total business employment gains



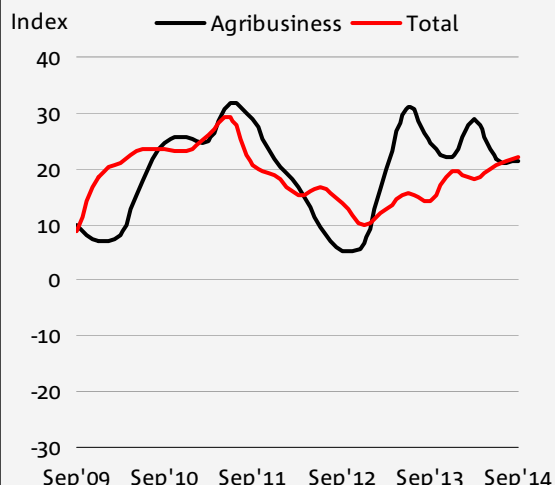
Source: NAB Group Economics

Figure 11: Expected business conditions – 12 months



Source: NAB Group Economics

Figure 12: Capital expenditure conditions – 12 months



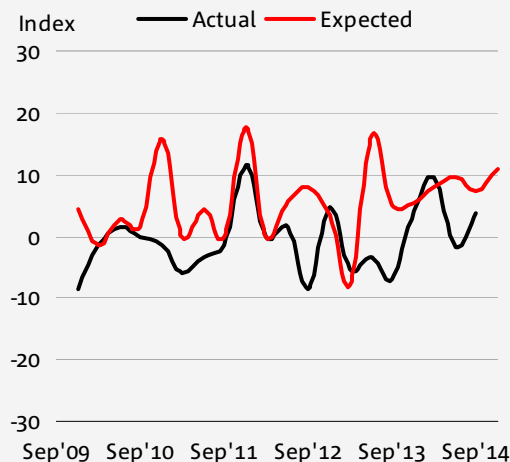
Source: NAB Group Economics

Forward Orders

Forward orders of post-farmgate agribusinesses returned to positive territory in the September quarter, recovering from -2 in the June to +4. Expectations for the December quarter are likewise more optimistic, reaching +11.

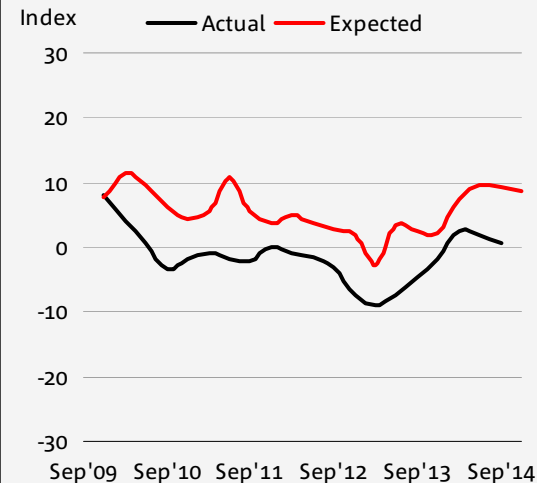
This trend is not mirrored by businesses overall, with total business forward orders falling from +2 to +1. Total business expectations for the December quarter stand at +9.

Figure 13: Agribusiness Forward orders



Source: NAB Group Economics

Figure 14: Total business forward orders



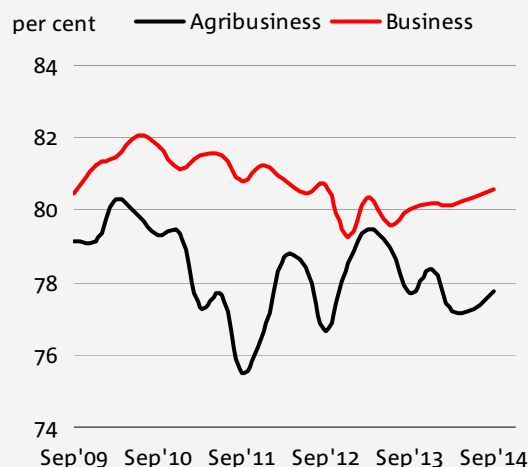
Source: NAB Group Economics

Capacity Utilisation

Post-farmgate agribusiness capacity utilisation was largely unchanged in the September quarter, up 0.5 percentage points to 77.8%. Capacity utilisation is 0.1 percentage points above the 5-year seasonal average.

Post-farmgate agribusinesses continue to report lower capacity than the total business average, reflecting a greater need by agribusinesses to maintain excess capacity to meet considerably more volatile agricultural production.

Figure 15: Capacity utilisation



Source: NAB Group Economics

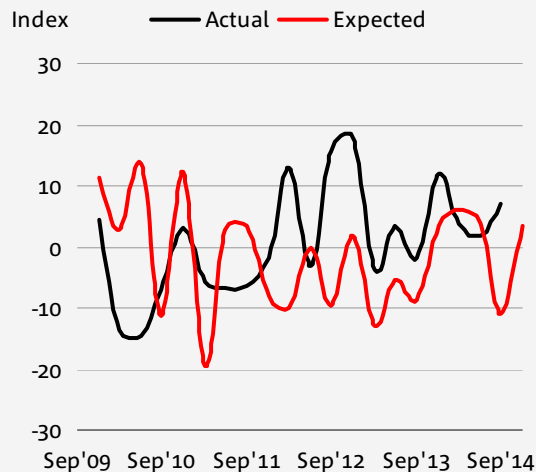


Inventories

Inventories trended up in September quarter to +7, based on cyclical factors as agribusiness stocks begin to rebuild coming into the warmer months. Overall, inventories have been trending upwards over the past 5 years, with the June quarter result well above the 5-year September quarter average of zero.

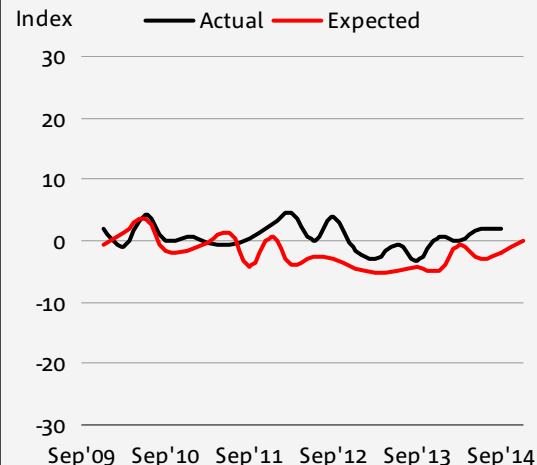
Expectations for the coming quarter have rebounded from -11 to +4, driven by a jump in those who expect to increase stocks from 9% to 20%.

Figure 16: Agribusiness stocks



Source: NAB Group Economics

Figure 17: Total business stocks



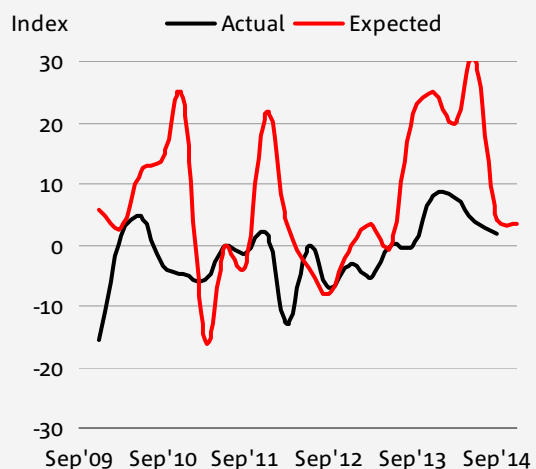
Source: NAB Group Economics

Exports

Export sales declined in the September quarter to +2, down from +4 in the June quarter. The September quarter brought mixed news for the sector, with mixed rainfall cutting expected crop yields and the Russian food embargo denting world dairy markets. However, the fall in the AUD late in the quarter may relieve some of this pressure.

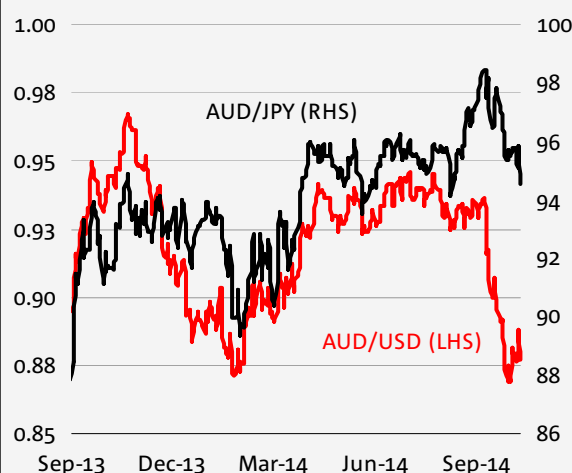
Expectations for the coming quarter are steady at +4 following a large fall in expectations in the June quarter.

Figure 18: Agribusiness export sales



Source: NAB Group Economics

Figure 19: Currency movements



Source: NAB Group Economics, Datastream

Confidence by sector

Expected confidence for the coming three months was mixed overall in the September quarter. Wheat fell from +21 in the June quarter to -7 as mixed rainfall and frost damage cut expected yields and international prices fell. Sugar was down to -19 in response to tumult in global markets, while other crops and wine recovered to +16 and +9 respectively.

Confidence in proteins remained broadly positive: sheep meat was up to a wildly optimistic +35 despite lower heavy lamb prices while beef was down slightly to a still respectable +14 despite the Eastern Young Cattle Indicator rising moderately over the quarter. Poultry recovered to +8 while dairy jumped to +23. The dairy result should be treated with some caution on account of a casual relationship to seasonal factors and adverse developments in global markets over the period.

Confidence in fibres trended lower: cotton is down to -22 as the industry reacts to lower world prices combined with expectations of sharply lower domestic planting on account of lower irrigation water availability. Confidence in wool declined but remains positive at +9.

Confidence in farm inputs increased sharply to +29 for farm chemicals and +36 for farm equipment.

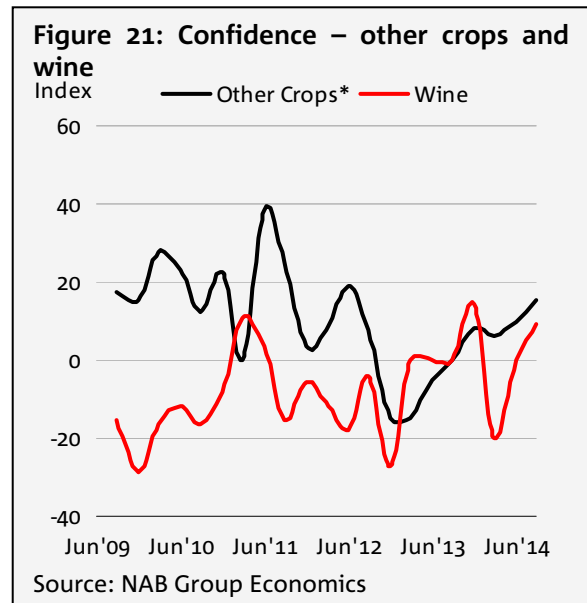
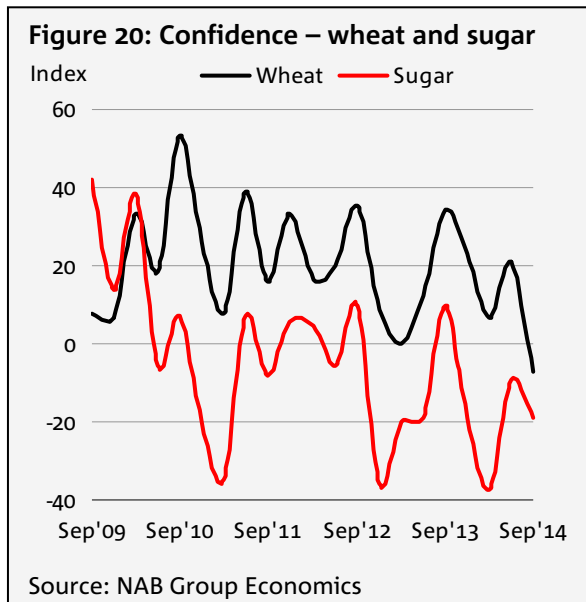
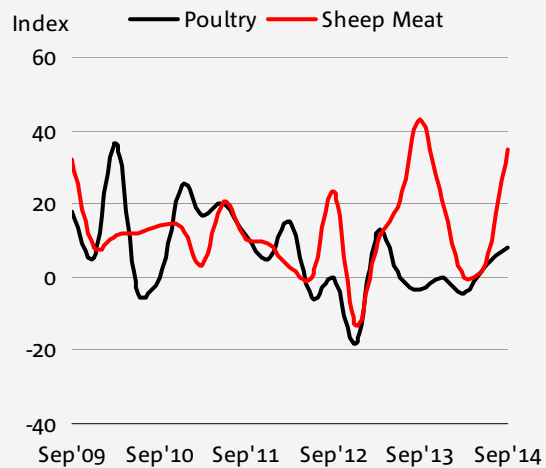
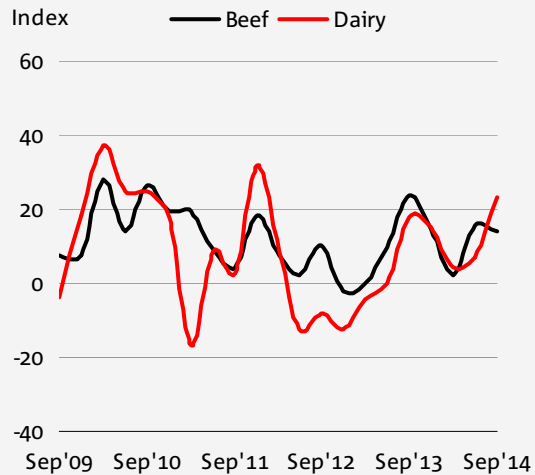


Figure 22: Confidence – poultry and sheep



Source: NAB Group Economics

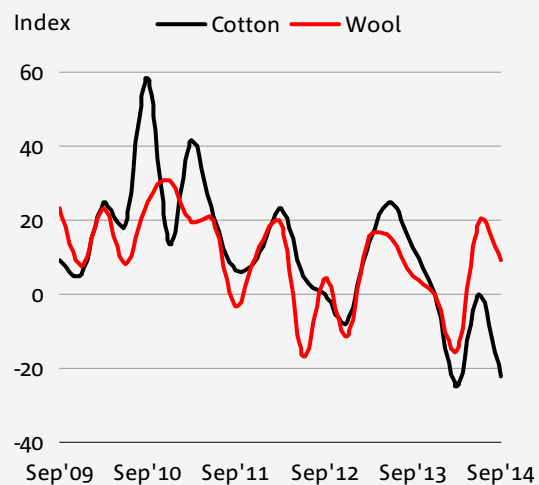
Figure 23: Confidence – beef and dairy



Source: NAB Group Economics

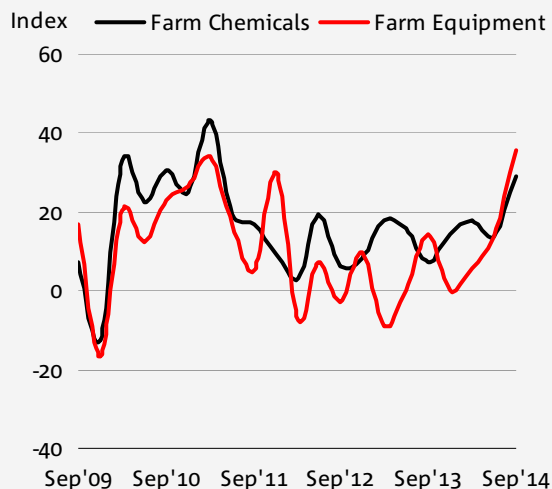


Figure 24: Confidence - fibres



Source: NAB Group Economics

Figure 25: Confidence – farm inputs



Source: NAB Group Economics



Photo: Mai Thai

Contact details

Agribusiness

Khan Horne
General Manager –
Agribusiness

Zaklina Kukeski
Senior Consultant
+61 (0) 439 255 981

Economic Research

Alan Oster
Chief Economist
+61 3 8634 2927

Rob Brooker
Head of Australian
Economics &
Commodities
+61 3 8634 1663

Phin Ziebell
Economist -
Agribusiness
+61 3 8634 0198

Risk Management Services

Greg Noonan
Head of Agribusiness
& Health – Business
Markets
Specialised Sales
+61 477 717 607

Corporate Communications

Chris Owens
Senior Manager
Corporate Communications
+61 (0) 409 945 476



Disclaimer

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Products are issued by NAB unless otherwise specified.

So far as laws and regulatory requirements permit, NAB, its related companies, associated entities and any officer, employee, agent, adviser or contractor thereof (the "NAB Group") does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("Information") is accurate, reliable, complete or current. The Information is indicative and prepared for information purposes only and does not purport to contain all matters relevant to any particular investment or financial instrument. The Information is not intended to be relied upon and in all cases anyone proposing to use the Information should independently verify and check its accuracy, completeness, reliability and suitability obtain appropriate professional advice. The Information is not intended to create any legal or fiduciary relationship and nothing contained in this document will be considered an invitation to engage in business, a recommendation, guidance, invitation, inducement, proposal, advice or solicitation to provide investment, financial or banking services or an invitation to engage in business or invest, buy, sell or deal in any securities or other financial instruments.

The Information is subject to change without notice, but the NAB Group shall not be under any duty to update or correct it. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

The NAB Group takes various positions and/or roles in relation to financial products and services, and (subject to NAB policies) may hold a position or act as a price-maker in the financial instruments of any company or issuer discussed within this document, or act and receive fees as an underwriter, placement agent, adviser, broker or lender to such company or issuer. The NAB Group may transact, for its own account or for the account of any client(s), the securities of or other financial instruments relating to any company or issuer described in the Information, including in a manner that is inconsistent with or contrary to the Information.

Subject to any terms implied by law and which cannot be excluded, the NAB Group shall not be liable for any errors, omissions, defects or misrepresentations in the Information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the Information. If any law prohibits the exclusion of such liability, the NAB Group limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

This document is intended for clients of the NAB Group only and may not be reproduced or distributed without the consent of NAB. The Information is governed by, and is to be construed in accordance with, the laws in force in the State of Victoria, Australia.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

United Kingdom: If this document is distributed in the United Kingdom, such distribution is by National Australia Bank Limited, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 800 Bourke Street, Docklands, Victoria, 3008. Incorporated with limited liability in the State of Victoria, Australia. Authorised and regulated by the Australian Prudential Regulation Authority. Authorised in the UK by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

US Disclaimer: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

Hong Kong: In Hong Kong this document is for distribution only to "professional investors" within the meaning of Schedule 1 to the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO") and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person. Issued by National Australia Bank Limited, a licensed bank under the Banking Ordinance (Cap. 155, Laws of Hong Kong) and a registered institution under the SFO (central entity number: AAO169).

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

Japan: National Australia Bank Ltd. has no license of securities-related business in Japan. Therefore, this document is only for your information purpose and is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action.