nab regional & agribusiness

more than money

From strength to strength

Expert NAB insights on the drivers of today’s regional and rural Australia

NAB Regional & Agribusiness Horizons Report 2023

Contents

Cover image: Senior NAB Agribusiness Manager Ian Rattray with Parilla Premium Potatoes' Renee Pye

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Consolidation looks to be smart play for year ahead

Amid all the data analysed for the 2023 NAB Regional & Agribusiness Horizons Report, one thing stands out: It's a great time to be living and working in regional and rural Australia.

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

Regional and rural Australia has gone from strength to strength in the year past, and while various challenges lie ahead, the businesses that underpin the regional and rural economy remain well placed to consolidate their gains as they navigate these choppier waters.

That's what we're seeing in the data coming in from our insights and from over 650 NAB Regional and Agribusiness bankers in more than 120 locations around the nation. And that's what we're hearing in our conversations with our customers in the regional and rural towns and on the farms that underpin the Australian economy. They've come through drought, flood, fire, pandemic and global trade turmoil. And now they're reaping the benefit of resilience, hard work, careful planning, wise investments and good growing conditions.

Throughout this latest NAB Regional & Agribusiness Horizons Report, you'll find detailed explorations of business conditions in regional and rural Australia. NAB's philosophy is to aim to provide every customer with access to a banker in their local community. You can find regional industry experts across a range of specialisations, including health and professional services, as well as agribusiness, in a NAB regional banking hub near you.

When we draw together the nationwide, broad and deep data this provides us, combined with the knowledge of local markets, conditions and trends drawn from being on the ground in person, we have access to a unique perspective – one we believe no other institution in the country can claim. Alongside analysis and commentary from our teams of experts, we again share with you what we've learnt about how things are going in regional and rural Australia.

> NAB customers are reaping the benefit of resilience, hard work, careful planning, wise investments and good growing conditions.

In 2022, Australian regional businesses settled into a steady rate of growth coming out of the pandemic. They looked for sensible investment opportunities, with demand for credit up 10.2 per cent, and fortified their reserves, with deposits growing by 3.7 per cent. Their communities and customer bases continue to expand and diversify, with domestic migration to the regions

maintaining a pace 30 per cent above pre-pandemic rates. Our Regional and Agribusiness bankers report that a family-friendly lifestyle (24 per cent) and affordability (16 per cent) are what's making the regions an attractive proposition to live and work in.

Meanwhile, the Australian agricultural sector reached $90 billion[1] in production value, $75 billion of that for export. It's a new record, on the back of an excellent season with commodities prices bumping off historic highs. But it's unlikely to stand for long – the National Farmers' Federation vision is for a $100 billion industry by 2030.[2]

Agriculture has been the engine room of the Australian economy for my 32 years with NAB, as it was long before that. And I'm confident that it will remain so far into the future. It's backed up by our regions' world-class tourism, manufacturing, health, professional services and other sectors, some of them long-established and some entering new phases of growth.

Regional business owners and primary producers alike understand the influence of business cycles, macroeconomic levers and trade conditions. And for those for whom it's relevant, they also understand the weather, know that even the best soil can take years to produce at its peak, and appreciate the importance of building for sustainable growth.

I'm pleased to report that there's every indication of a long, healthy period of productivity for our regional and rural customers. With increased investment into infrastructure, we're seeing support for our regions and their booming population. And with our regional businesses well-stocked with cash and set to grow, we're confident in them meeting domestic and international demand for their top-shelf products and services in the year ahead.

It can be difficult to make predictions beyond the next season, but our data shows that regional and rural businesses are equipped with the latest vehicles and machinery, have the right financial instruments in place to weather any downturns, and have made investments that will only continue to yield returns in years to come. Our customer insights show strong business sentiment, reflecting optimism for the future and the confidence to tackle any challenges.

Most of all, I trust in the resilience of regional and rural Australians; their readiness to take advantage of a good opportunity; their ability to look to the future, adapting to meet changing circumstances and expand into new markets; and their willingness to help one another during lean times. Those are values that I, and the NAB Regional and Agribusiness team, seek to uphold in all our dealings as we, too, stay on the front foot to offer the very best support.

I believe it's that commitment and our expertise that have led more regional and rural Australians to choose NAB as a banking partner than any other financial institution. Many customers have been with us for generations, and we're prepared to back you through the tough times and for the long term. For now, though, this Horizons Report demonstrates that it's a great time to be living and working in regional and rural Australia.

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> Our customer insights show strong business sentiment, reflecting optimism for the future and the confidence to tackle any challenges.

1. ABARES Agricultural Commodities Report 2023
2. National Farmers' Federation 2030 Roadmap

Strength in the numbers

Across regional and rural Australia, here are the highlights that reveal another year full of optimism, ambition and continuing growth.

↑ 47% Hunger for vehicles

No slowdown in need for vehicle and plant, with demand for equipment finance growing by 47% despite falls in volumes.

Labour still top priority

Availability of labour is the top concern for 16.8% of regional employers, with wage costs not far behind at 12.2%.

↑ 50% Term deposits prove attractive

Regional businesses took advantage of higher interest rates on term deposits, with volumes up 50% on their most recent trough at an average 12-month maturity.

Job stress worries less in regions

Consumers continue to report lower job stress in regional areas (38.2 in regional cities and 39.4 in rural areas compared to 43.4 in capital cities in Q1 2023).

↑ 8.1% No shortage of cash

Agricultural deposit volumes grew by 8.1% and those for regional businesses by 3.0%.

↑ 24.8% Investment in social infrastructure

Community Services has seen a 24.8% increase in demand for credit and Property Services a 10.2% increase.

A great place to live

Our 650+ Regional and Agribusiness bankers report that a family-friendly lifestyle (24%) and affordability (16%) are drawing newcomers to the regions.

↑ 14.6% Businesses ready to invest

The growth in demand for credit from farmers (14.6%) and regional businesses (6.7%) shows their appetite for investment.

↑ 30% Regional attraction continues

Internal migration to the regions is continuing at a pace 30% above pre-pandemic rates.

Regional property market holds up

Regional property markets have returned to growth in recent months and have eased significantly less than the capitals during the past 12 months.

Thriving times for regional and rural Australia

Whether in services, manufacturing or on the land, this past year has been a story of continuing opportunity and confidence.

The regional outlook

Setting sights on even greater things

Looking back at the path we've travelled over the past few years, the big story has been the unexpected growth in regional migration. A wealth of factors played into the trend – working from home meant many professionals could move to the country while maintaining a job in the capitals, while lockdowns and remote learning made it less attractive for school-leavers to move away for work or education.

Many of these factors are no longer with us or have diminished over the past year, but we've continued to witness growth in regional populations. In some cases, that's simply Australians discovering the secret: life in regional and rural Australia really can be better. We're seeing the internal migration trend slow, but not disappear, and it looks like we'll continue to see new faces in town for a while.

For regional communities, this growth has had significant implications, and regional businesses have had to adjust to some challenges while finding opportunities along the way. NAB Regional and Agribusiness bankers report that those businesses that are performing best are not only experts in what they do, but also understand the finances, administration and management of their organisation, and seek out external advisers and partners to cover any gaps in their knowledge.

The boom in migration has come with a massive growth in demand for infrastructure. We've seen an uptick in the demand for credit and corresponding investment into infrastructure projects, and we're likely to see large-scale transport projects have similar impacts for the foreseeable future. Regional Australia can already boast some magnificent infrastructure – the rail siding at Albury is the longest in the Southern Hemisphere, for example.

"The boom in migration has come with a massive growth in demand for infrastructure.

But we need more, and we need it faster. It took 94 years from Federation before every capital had the same rail gauge, but regional and rural Australians aren't going to wait another 94 to reach the next stage of development. Our bankers report that businesses are quite confident about consumer demand, and unconcerned about taxes and regulation, but that pressure on margins (12.4 per cent), energy costs and reliability (8.1 per cent) and weather-related events (8.4 per cent) are affecting business conditions. Part of the solution is more efficient logistical infrastructure; upgrades to our electricity generation and distribution infrastructure; and more projects to protect against drought, flood and fire.

Simultaneously, demand has grown for services to support a larger population with a broader range of demographics. Our credit data reflects this: Community Services has seen a 24.8 per cent uptick in lending; Property Services 10.2 per cent. We're still playing catch-up, with the trend projecting greater population growth for the next few years. So expect plenty more activity in this area, and plenty of opportunity for savvy regional businesses to get involved.

> Our conversations indicate that, while homeowners may be making some modifications to their expenses, the interest rate rises are not contributing to a mortgage crisis.

Inevitably, the influx of new arrivals has increased pressure on regional housing. Rental markets are showing under 1.0 per cent vacancies, demonstrating the strong demand for housing. We've seen some easing of property values, but sale and auction activity remains strong.

In the year ahead, as global supply lines continue to normalise, the record prices of materials like timber, steel and concrete should drop. Availability should rise too, easing some of the pressure on homebuilders. Similarly, with borders open and international travel back to normal, shortages of skilled trades like carpenters, plumbers and electricians should alleviate.

Mortgage stress is undoubtedly a concern for many homeowners, whether in the capitals, regions or rural areas. For regional businesses, which are more likely than metro counterparts to own land and property, interest rates are also a concern. Our data is showing that this isn't translating into arrears or defaults, and our conversations indicate that, while homeowners may be making some modifications to their expenses, the interest rate rises are not contributing to a mortgage crisis. NAB Regional and Agribusiness bankers report that house prices are low on the list of concerns for regional business owners (2.0 per cent), although interest rates generally are more on their minds (14.5 per cent). NAB is projecting rates to rise again and to start to fall in 2024, which should bring some relief to mortgagees.

Regional businesses were active on both sides of the ledger in the recent past, taking out record loans for investments while also putting away plenty of cash.

Interest rates on business owners' minds

Regional business owners are more concerned about interest rates (14.5%) than house prices (2.0%).

Source: NAB Regional & Agribusiness Banker Survey, 2023

In 2022, we continued to see growth in demand for credit (10.2 per cent) and deposits (3.7 per cent), but at a pace that demonstrated cooling into stable and healthy business growth after the pandemic frenzy. We also saw a significant uptick in term deposits, with businesses opting to keep their powder dry and enjoy the yield at an average maturity of 12 months. That likely indicates cautious optimism; businesses aren't seeing immediate investment opportunities, but neither are they likely to need that cash on hand for the year ahead.

The agri outlook

Building a life on the land is more attractive than ever

After a solid season for production and values, and another projected for the year ahead, Australia is looking at back-to-back success. Despite fear of trade wars and global commodity crises, foot-and-mouth and varroa mite scares, interest rate rises or equipment shortages, as always, the Australian farmer battled through and found a way to come out on top, with many looking to build greener, more sustainable futures. And NAB is backing these ambitions with NAB Agri Green Loans.

Our data identifies that agricultural demand for credit (14.6 per cent) and deposit flows (8.1 per cent) continued to grow strongly, showing there's cash on hand as well as appetite to invest for future success. Farm Management Deposits were up 35 per cent in 2022, with farmers taking advantage of the good times to put something in their bottom drawers. All in all, we're seeing a new baseline set for sustainable and resilient growth – a recovery from a wild bust-boom of drought years followed by pandemic.

Labour shortages remain the top priority for many producers, and for regional businesses generally, with our bankers reporting that availability of suitable labour (16.8 per cent) is of greatest concern for business owners, with wage costs (12.2 per cent) not too far behind. Despite the growth in regional populations, the skilled and unskilled farm labour markets remain tight. While there's likely no immediate relief, the long-term conditions of life in regional and rural Australia should normalise the supply-demand mismatch, and young farmhands nurtured on the land will continue to be the backbone of the industry.

Workplace conditions in agriculture are one element of attracting and retaining labour, and we're seeing great on-farm investment in top-flight living conditions – wi-fi, air-con and all the other modern comforts are becoming more common. At the moment, lifestyle regions are the hot property for migration, but young workers will flock back to agriculture as farm living improves to match any accommodation in Noosa or Mooloolaba.

While the day-to-day of farming remains much the same as always, today's tools are a vast improvement on those from even a decade ago. A young farmhand with a mobile phone has all the knowledge and technology they need to make a career, generate a business and build a lifestyle comparable in comfort to any metro worker. New pathways are emerging for careers in agriculture, and young people are forging innovative business models and creative new ways of working in production.

Of course, along with regional and rural uptake of digital technology come new threats: farmers and regional businesses are as vulnerable to cybercrime as any and need to put some of their trusting nature aside when dealing with new technology and communications media.

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> Farmers and regional businesses are as vulnerable to cybercrime as any and need to put some of their trusting nature aside when dealing with new technology and communications media.

Difficulty in accessing agricultural vehicles and equipment remains an issue. Though, again, as global production lines and supply chains begin to unlock, the shortages are beginning to ease. What's available still gets snapped up quickly, and second-hand vehicles continue to sell at near-retail prices. The pace of change means equipment is getting better by the year, but that's not stopping farmers from buying today.

As the country reshapes itself around the big infrastructure projects that are under way, mining and agriculture continue their importance too. Both have underpinned Australia's economy for more than 150 years, and they're likely to for another 150. Both require railways, deep ports and other shared infrastructure; they also need minimal counterparty risk with good trading partners, reliable governance and a host of other shared business conditions.

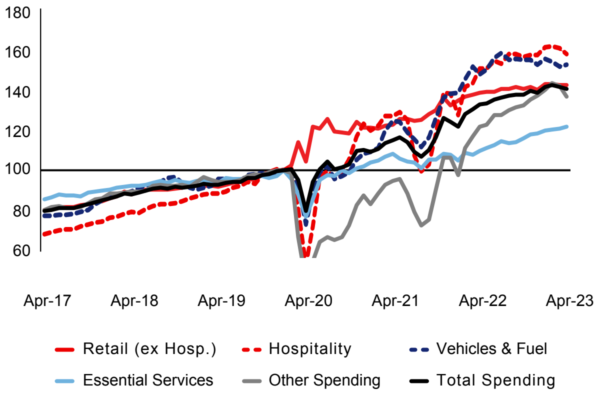
Changing times beginning to hit home

Australia's economy stayed well ahead of expectations, but approaching headwinds are likely to slow progress.

Alan Oster, NAB Group Chief Economist

The Australian economy hugely outperformed expectations during the pandemic and has continued to perform well into 2023, absorbing inflation and the steepest interest rate hikes in decades better than markets had anticipated. However, we now see signs that consumption is plateauing and we expect a slowdown later in the year.

NAB Consumer Spending Data
Index (Jan 2020 = 100)

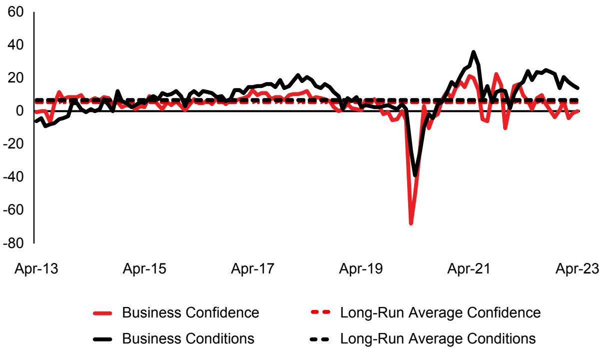


Source: NAB

The NAB Business Survey remains resilient

Strong population growth and rebounding services consumption continue to support the economy despite the pressure from higher interest rates and inflation. Retail spending has continued to grow but inflation is eroding purchasing power. Conditions in the NAB Business Survey are easing but remained well above average as of April and capacity utilisation is very high.

NAB Business Survey: Confidence & Conditions
Net Balance



Source: NAB

This resilience has also been reflected in the strength of labour demand. We see further wage growth this year, with this pressure likely driven by ongoing tightness in the labour market as well as expected increases to minimum and award wages.

There are some signs that consumption is softening, including within NAB data. This is consistent with our expectation that the economy will slow this year as higher rates weigh on households.

We see the cash rate surpassing 4% this year

After a sequence of surprises from the RBA in recent months, we now expect that the cash rate will rise to a peak of at least 4.1 per cent – which we expect around July or August.

It is possible that inflation will remain higher for longer, and the RBA is forecasting inflation to only return to the top of the target band by mid-2025. We wouldn't rule out the prospect of an additional rise to 4.35 per cent if the data stays stronger for longer.

As higher rates pass through to household cash flows and the wider economy, we expect to see noticeably slower growth in the second half of 2023 and into 2024, with annual GDP growth below 1.0 per cent and a rising unemployment rate, reaching around 4.7 per cent in 2024.

We continue to expect the cash rate to return to a more neutral rate in response to this slowdown, which could see a rate of around 3.0 per cent. We expect to see the RBA cutting to around this level from mid-2024.

Unemployment remains low, but housing is shaping up as a key issue

The unemployment rate remains at record lows, but strong population growth and slowing activity should see labour market pressures ease, with unemployment likely to reach 4.0 per cent by the end of 2023 and 4.7 per cent by the end of 2024.

Meanwhile, house prices have recorded further gains recently, despite a further increase in rates and the potential for more. A key factor for both rental and property prices over coming years will be the extent of the ongoing mismatch between supply and demand. Dwelling completions have fallen notably (albeit from very high levels) over the past year, and new building approvals continue to decline – and are now at levels last seen in 2012. So while the pipeline of work to be done remains elevated, construction activity is likely to fall as the pipeline is eroded. This will put further pressure on housing supply amid a recovery in demand.

Data-driven insights into regional attitudes and behaviour

Here's what Australians from around the nation told us about many aspects of everyday living, and where things differ between those living regionally and those in our cities.

Dean Pearson, Head of Economics
Phin Ziebell, Senior Economist

The picture regionally

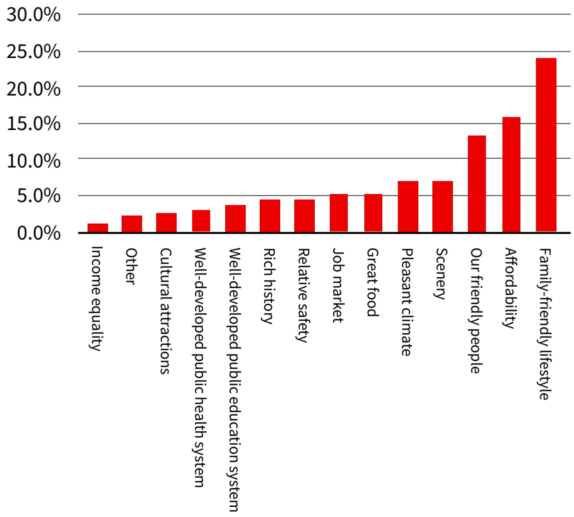
Still lots to love about life in the country but some stresses are beginning to rise

Is life outside our capital cities really that different? Each quarter, NAB surveys over 2,000 Australians across the nation, exploring issues including consumer stress, spending patterns, buying behaviours and wellbeing. While we find some clear differences between city and regional life, our data shows these narrowing since 2022 and the emergence of higher cost of living stress in the regions. With regional growth turbocharged by the pandemic and working from home, a shortage of housing and services in some regional areas has pushed up costs.

We also surveyed our Regional and Agribusiness bankers on their local lifestyle as well as business opportunities and challenges in regional areas. Our bankers nominated a family-friendly lifestyle followed by affordability and friendly people as the top attributes of their local region.

> Since 2022, cost of living stress has grown more rapidly in regional areas.

Top attributes of your local region as nominated by NAB regional and agri bankers



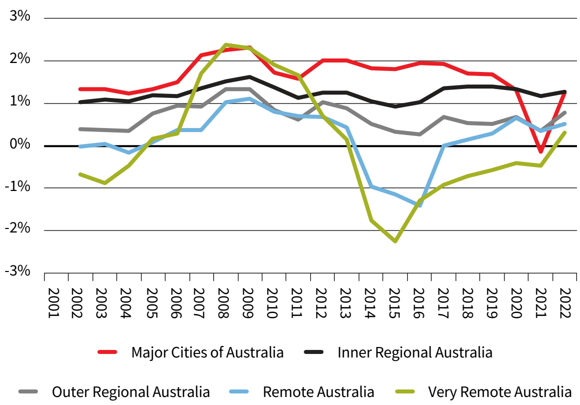
Source: NAB

Regional population growth continues to hold strong even as capitals rebound

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

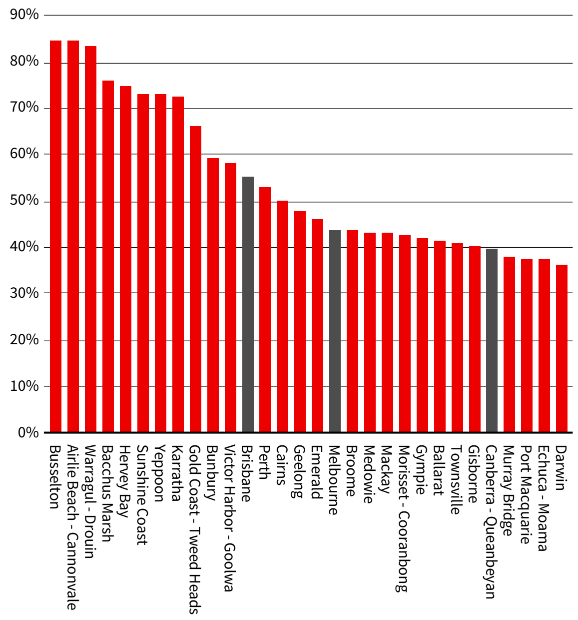
But the pandemic saw a temporary shift in growth patterns – major cities recorded a population decline of 0.01 per cent in 2021, the first fall this century, followed by a return closer to trend growth in 2022. Importantly, this rebound in major city growth has not come at the expense of the regions,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

Annual population growth by region type
(per cent)



Source: ABS

30 fastest-growing significant urban areas
2001 to 2022



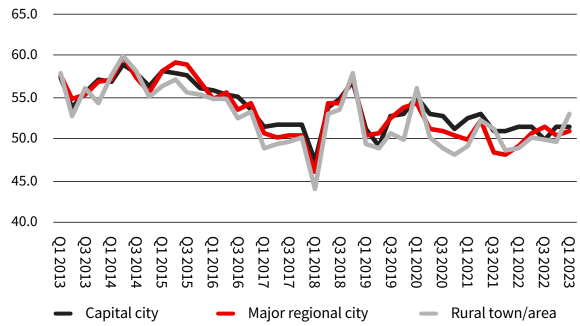
Source: ABS

On a longer timeline, regional cities have been some of the fastest growing this century. ABS data shows that of the top 30 fastest-growing significant urban areas this century, only three (Brisbane, Melbourne and Canberra) are capital cities, with towns in coastal Queensland, regional WA and Victoria's Regional Fast Rail commuter belt dominating the top 30.

Regional consumer stress catching up with capital city levels

Our data on consumer stress shows that regional consumers reported overall lower levels of stress in 2020 and 2021, with rural areas reporting particularly low stress levels in 2020 and rural and regional areas both reporting the same in 2021. But since 2022, consumer stress has returned to levels similar to those in capital cities.

NAB Consumer Stress Index
(100 = extreme stress)



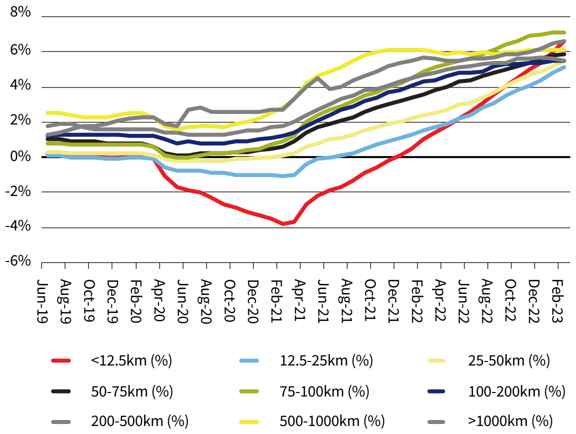
Source: NAB

A key driver of higher regional consumer stress is cost of living.

Since 2022, cost of living stress has grown more rapidly in regional areas. By Q1 2023, NAB's Cost of Living Stress Index hit 70.0 in regional cities and 70.5 in rural areas, above the 68.2 recorded in capital cities.

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

Annual rent inflation
by SA3 distance from the CBD



Source: ABS

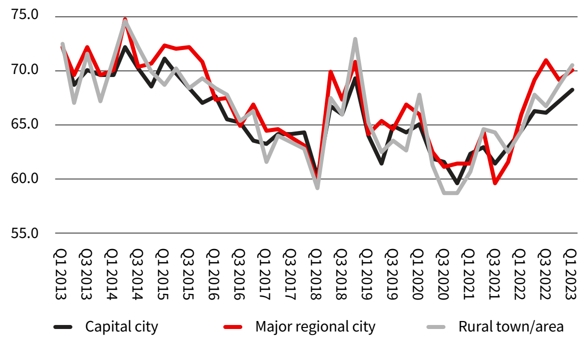
While cost of living concerns continue to rise, NAB transaction data suggests that consumer spending has remained resilient (but may be slowing now). What is different to previous periods of very weak consumer confidence is that consumers remain upbeat about their employment prospects.

NAB's Consumer Stress Index differs from more traditional measures of consumer sentiment in that it also includes job security (along with funding retirement, health and government policy). Strong regional growth has seen labour shortages more keenly felt in regional areas. According to the OECD, Australia has experienced the second most severe labour shortages in the developed world, behind only Canada. While COVID amplified the issue, regional labour shortages have been a long-standing challenge.

NAB research shows that around 1 in 3 SMEs continue to view labour shortages as a 'very significant' issue for their business.

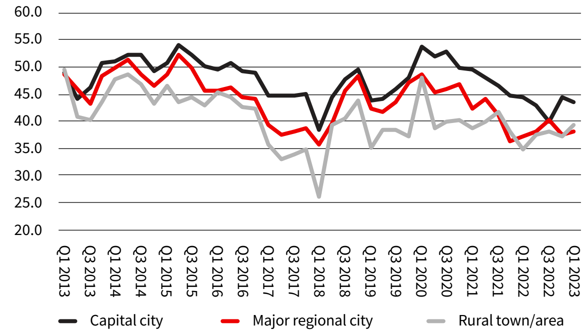
While labour shortages remain a challenge for many businesses, consumers continue to report lower job stress in regional areas (38.2 in regional cities and 39.4 in rural areas compared to 43.4 in capital cities in Q1 2023). This remains a key offset in regional Australia, with unemployment in regions at historically low levels.

NAB Consumer Stress Index: Cost of living
(100 = extreme stress)



Source: NAB

NAB Consumer Stress Index: Job security
(100 = extreme stress)



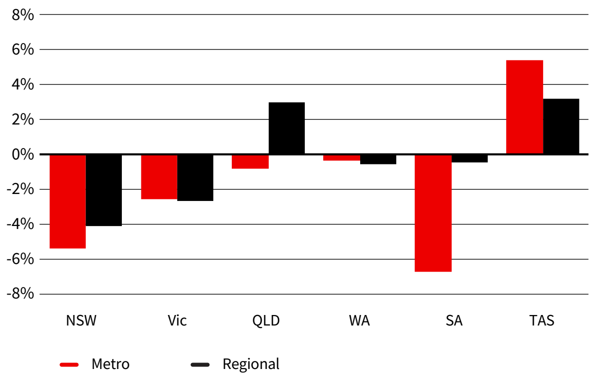
Source: NAB

Regional consumers are still spending, but due to the rise in the cost of living are making some key changes in what and how frequently they buy. While there are few substitutes for essentials such as rent, mortgages and utilities, shopping baskets are changing. Many are shopping around, purchasing from outlets (particularly discounters) closer to home to avoid longer drives, searching for bargains and buying in bulk. Consumers are also increasingly looking to trusted brands and businesses to help them navigate these challenging times.

Our data shows a substantial number of Australians are cutting back or stopping altogether their purchases of treats such as coffees, snacks or lunches, cutting back on car journeys to save petrol, and limiting entertainment such as going to the cinema or theatre. A smaller number have cancelled, delayed or made more modest holiday plans, or cancelled or cut back on food delivery services.

eCommerce (and mobile commerce) sales surged during the pandemic, but as COVID restrictions eased, consumers headed back to brick-and-mortar stores and, importantly, into services like hospitality. While regional online sales have fallen from their COVID peaks, falls have been generally lower than in metro areas, and regional Queensland and Tasmania continue to see year-on-year growth in the regions.

Online retail sales growth by state region
(yoy change)



Source: NAB

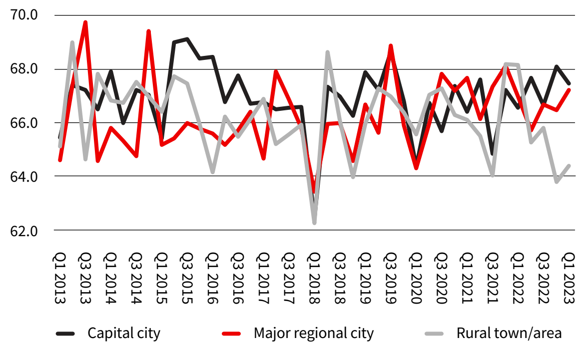
Wellbeing in cities has recovered from COVID, but is now declining in smaller towns

The NAB Australian Wellbeing Index was basically unchanged at 64.9 pts in Q1 2023 (65.0 pts in Q4 2022), with the index trending slightly above average (64.6 pts). Though Australians reported lower wellbeing for life satisfaction (65.8 pts, down from 66.1 pts), worthwhile life (68.1 pts, down from 68.4 pts) and happiness (67.0 pts, down from 67.2 pts) in Q1, they were less anxious, with responses to the 'not anxious yesterday' question rising to 58.8 pts from 58.1 pts in Q4 2022 (a lower score signals higher anxiety).

Australians living in regional cities reported the highest wellbeing in Q1 (65.7 pts) and those in rural areas the lowest (64.1 pts). Regional cities scored life satisfaction (66.4 pts) and life worth (68.8 pts) highest, while Australians living in capital cities were happiest (67.5 pts). Those in rural areas were the least anxious (63.9 pts), and considerably less anxious than those in capital cities (57.3 pts).

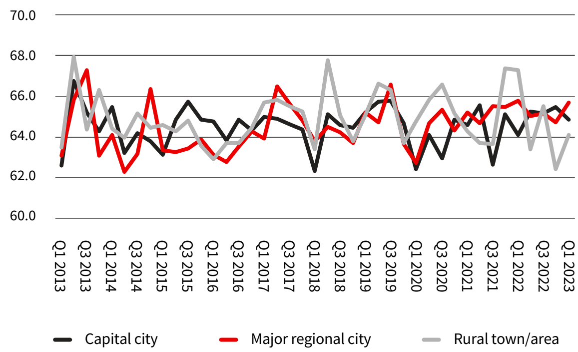
Cost of living pressures are adding to a collective sense of financial stress. Household financial stress continued to climb in regional Australia and is trending above the long-term average. Not having enough to finance retirement remains the biggest driver of financial stress, followed by providing for the family's future; mortgage, rent & housing costs; non-essentials; medical bills & healthcare; and home improvements & maintenance. Having enough money to meet minimum credit card payments continues to cause the least stress, followed by having enough for food and necessities and normal monthly utility bills (but all these concerns are rising).

NAB Wellbeing Index: Happy yesterday
(100 = completely)



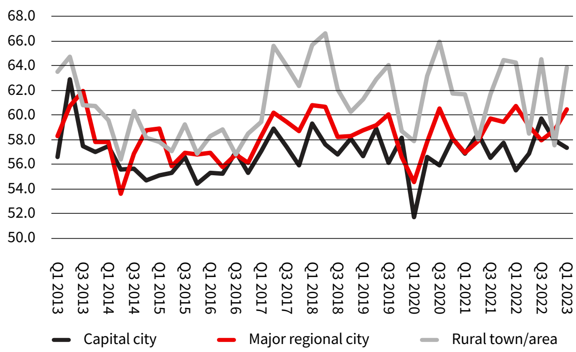
Source: NAB

NAB Wellbeing Index
(100 = completely)



Source: NAB

NAB Wellbeing Index: Not anxious yesterday
(100 = completely)



Source: NAB

El Niño looms on the Australian agricultural horizon

Thankfully, while hot and dry conditions are predicted for later in the year, other factors point to a period of cautious consolidation.

Phin Ziebell, Senior Economist

The picture in agriculture

Australian agriculture takes a breather after three incredible years

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

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

Autumn break encouraging, but the probability of an El Niño event continues to increase

Speaking of the early break, winter crop growers find themselves in a materially better position than the outlook suggested earlier this year. This is a result of good falls across south-west WA, Victoria, SA and parts of NSW. While the outlook remains generally very dry, producers have enjoyed a mostly favourable planting window.

The March ABARES crop forecast suggests an indicative domestic crop of 28.2 million metric tonnes for wheat, 9.9 for barley and 5.4 for canola, noting that we are only just entering the season.

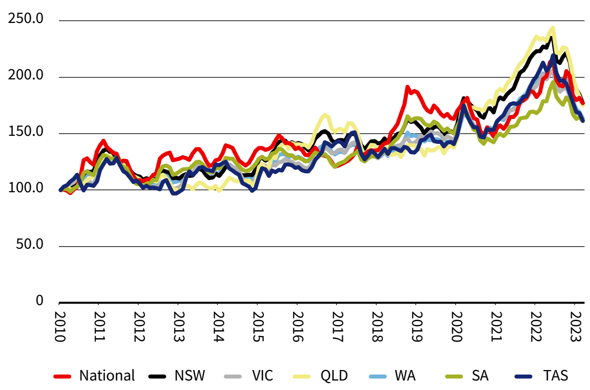
Conditions for the El Niño Southern Oscillation are currently neutral, but all seven international models point to an El Niño developing by August. El Niño events typically see hotter and drier spring-summer conditions in eastern and northern Australia. Meanwhile, the three-month rainfall outlook points to drier than average conditions across most of the continent.

Lower prices and production sharpen input cost challenges

Input costs have risen sharply since 2020, but the good news is that some are now heading south once again. Prices and production are expected to be generally lower this year. Fertiliser prices are among those inputs showing a downward trend, having now erased well over half the spike brought about by COVID and the war in Ukraine. While prices are still high by historic levels, they are now causing less dramas for producers.

Other farm inputs are more mixed. Labour shortages continue, although these are beginning to ease a little in some areas. Regional housing availability will be a key labour availability concern for some time ahead. Electricity prices are beginning to rise again, although many producers are taking advantage of on-farm solar to reduce grid dependence. Fuel costs remain choppy amid supply curbs and concerns about global growth. Finally, feed grain prices remain somewhat elevated, despite a bumper crop last year.

NAB Rural Commodities Index



Source: NAB and market providers

Regions remain the place for property market action

The factors driving regional and rural property sentiment are numerous. But one thing is certain: Australians are still in love with the lure of the country.

Mark Browning, Head of Valuations, NAB

Tight markets will continue

The interactions of regional housing with the rest of the economy are many and varied. The return of international migration and overseas students is affecting the capitals, with most inbound migrants historically renting before purchasing. That additional squeeze in metro markets is adding a push factor for some, on top of the pull factors of affordability and quality of life that the country offers.

Construction industry shortfalls of materials and, in particular, labour continue to constrain the sector's ability to push new housing through the pipeline, which is contributing to a tight market. Even the short-term holiday letting sector plays a role, drawing some stock out of the long-term rental market.

Anything under a 3.0 per cent vacancy rate is considered a challenging market for renters; we're currently under 1.0 per cent, with some regions dipping below 0.5 per cent. And with higher interest rates, a supply-demand mismatch and less upside for capital growth, property owners are looking for higher rental yields. House-for-sale listings are still hard to come by too, although time on market has begun to climb, and we see this side of the housing market normalising faster than rentals.

There's plenty of complexity to play out in housing, and with no near-term resolution likely, our perspective is that the property market will play a role in business conditions for rural and regional Australia this year.

Regional residential valuations growth

	Calendar 2022	YTD 2023
Regional NSW	-2.7%	-1.4%
Regional Vic	-1.3%	-1.3%
Regional QLD	+1.9%	-0.8%
Regional SA	+17.1%	+2.0%
Regional WA	+5.7%	+1.5%
Regional Tas	+2.4%	-2.7%
Regional NT	+2.7%	+3.8%

Source: CoreLogic for NAB – end of March 2023

Regional and rural property trends

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Regional migration set to evolve

The call of the country appears to have cemented itself in Australia, with internal migration to the regions continuing at a pace 30 per cent above pre-pandemic rates. However, as we see the migration trend mature, there's more complexity coming through in the data, allowing us to build a richer, more detailed picture of this unique moment in Australian history.

In 2022, for example, we started to see more interregional migration to areas with industrial bases, such as Port Pirie and Gladstone, demonstrating that an economy and society fractured by the pandemic was weaving itself back together.

Interestingly, we're also seeing indications that, while migration to the regions remains strong, net migration is normalising. While plenty of Australians are still leaving the capitals for a life in the regions, they're now being passed by some going in the other direction. In the December quarter of 2022, internal migrants from the regions to the capitals reached 9.9 per cent, up from 8.5 per cent just a year earlier.

We expect the overall trend of migration to the regions to continue at an eased pace through 2023, prompted by greater affordability and lifestyle factors, as well as infrastructure investment.

> "The call of the country has cemented itself in Australia, with internal migration to the regions continuing at 30 per cent above pre-pandemic rates.

Australia's top 5 Local Government Areas by share of regional migration

Percentage of share of total regional migration from capital city residents, CY2022.

Sunshine Coast (QLD)	12.5%
Gold Coast (QLD)	11.3%
Greater Geelong (VIC)	5.2%
Fraser Coast (QLD)	4.4%
Bundaberg (QLD)	3.3%

Source: Regional Movers Index – Dec 22 (Regional Australia Institute)

An end to historically low interest rates

While there was general consensus that interest rates would have to rise from their historic pandemic lows, the speed and extent of the rises have come as something of a surprise to many. To their credit, market participants seem to be weathering them resolutely. The market is currently pricing in interest rate cuts later this year; as outlined on page 7, NAB expects further rate increases in 2023, before rates ease in 2024.

Of course, we're proactively monitoring and responding to any potential concerns. For example, we're closely watching the cohort of homeowners who'll come off two-year fixed interest rates around the turn of the financial year. While homeowners will be feeling the impact of interest rate rises in their day-to-day lives, NAB data suggests that most are staying on top of their mortgage, and to date there has been no material rise in arrears.

Top 10 performing SA4* regional housing markets, annual rental value movement

Pressure has been applied to rental markets with continued high annual rental market growth across a wide range of regions.

Western Australia – Outback	18.2%
Darling Downs – Maranoa (QLD)	15.4%
Queensland – Outback	15.2%
Gold Coast (QLD)	14.9%
Bunbury (WA)	14.9%
South Australia – South-East	13.3%
Toowoomba (QLD)	12.8%
Barossa – Yorke – Mid North (SA)	12.1%
Mackay – Isaac – Whitsunday (QLD)	11.3%
Central Queensland	10.7%

Source: CoreLogic for NAB – end of March 2023

Top 10 performing SA3* regional inland housing markets, annual value movement

For those looking to relocate as a family or business, it pays to cast a wider net for opportunities, including inland properties. Some regions may benefit from infrastructure projects; for example, the Inland Rail.

Granite Belt – Stanthorpe (QLD)	23.8%
Mid-North Region (SA)	23.5%
Limestone Coast (SA)	20.3%
West Coast Region (TAS)	19.8%
Murray and Mallee (SA)	19.6%
Outback – North and East (SA)	18.7%
Armidale (NSW)	18.6%
Bundaberg (QLD)	18.4%
Fleurieu – Kangaroo Island (SA)	18.2%
Wagga Wagga (NSW)	18.1%

Source: CoreLogic for NAB – end of March 2023

In the regions in particular, mortgagees are likely to be heartened by the outstanding performance of property prices. While the capitals saw trough-to-peak growth of 25.5 per cent through the pandemic, the regions put them to shame with a whopping 41.6 per cent uptick. And despite the capitals softening 8.4 per cent over the past 12 months to April, regional valuations are holding up with a more modest 6.8 per cent easing and WA, SA and the NT still showing growth over the year.

Top 10 performing SA4* regional housing markets, annual value movement

South Australia – South-East	17.1%
Wide Bay (QLD)	17.1%
Barossa – Yorke – Mid North (SA)	16.9%
Central West (NSW)	16.2%
Murray Region (NSW)	16.0%
New England and North-West (NSW)	15.3%
Riverina Region (NSW)	14.5%
Warrnambool and South-West (VIC)	14.4%
Toowoomba (QLD)	14.1%
South-East Region (TAS)	13.6%

Source: CoreLogic for NAB – end of March 2023

Rural property valuations settling after frenzy

Farmland values are set to stabilise in the year ahead after sustained historic levels of growth. Along with the appetite for any kind of property, investors in agricultural land piled in on the back of historic commodity prices, leading to a rise in the median price per hectare of 20 per cent and higher during the 2022 calendar year.

Most agricultural commodities have peaked or are close to their peak, and consequently lower growth and consolidation are expected in property valuations. However, given the continued interest in the market (and the long-term perspective of participants), activity will remain elevated above the longer-term average but at a more measured level than last year. With some disparity in valuations between regions (based on long-term bias rather than performance), expect buyers to be a little more discerning about where they plough their cash.

Breaking down the agriculture sector further, the near-term outlook for viticulture remains uncertain given the trade conditions with China. However, other subsectors that have experienced similar scares in recent years, such as beef and barley, continue to show strength. The long-term outlook for viticulture, and for associated property, remains very optimistic.

Owner-operators continue to consolidate

NAB's view, informed by surveys of rural property specialists, is that the consolidation trend will continue throughout 2023. While the headlines in the 2022 calendar year were dominated by big deals from foreign investors and diversified funds, the main game on the land is still the owner-operator farmer.

Transactions in the $15-25m range are likely to be most common, with large-scale family owner-operators again the most active buyers. While buyers in recent years were happy to diversify their portfolio with properties across different regions and climate zones, neighbour-to-neighbour transactions are likely to see an uptick in 2023.

THE HEADLINES

- The previously heated regional and rural housing market will consolidate in 2023
- The trend of internal migration to the regions continues, but at an eased pace
- Interest rates are at or close to their peak, with the easing cycle anticipated in 2024
- Farmland remains in demand, but the frenzy has settled

Deposits settle into a more sustainable pace

While the growth frenzy of FY21/22 seems to have abated, there remains plenty of room for optimism on the back of the latest deposit figures.

Melissa Hepworth,
Executive Business Execution Regional & Agribusiness

Off the back of continuing strong commodity prices and stellar seasonal conditions, deposits grew again in 2022, with regional business growth at 3.0 per cent and agribusiness growth at 8.1 per cent.

This represents a more sustainable pace from the previous year (15.2 per cent and 20.6 per cent respectively), while still reflecting ongoing strength after years of broken saleyard records, historic levels of stimulus and consumer demand, and a global frenzy for Australian produce.

With the Australian agricultural industry now worth $90 billion, including $75 billion of export value, these latest growth figures demonstrate that we've reached a new baseline of strength. Regional and agricultural businesses might not have the advantage of once-in-a-lifetime, rip-roaring conditions behind them, but even off the top of the cycle they're showing resilience and plenty of activity, and continuing to grow their cash.

Smart operators hedging with term deposits

Regional businesses have turned to term deposits in response to interest rate rises, opting to keep their powder dry. From their most recent trough to their current peak, term deposit volumes have risen 50 per cent, with the average account at a 12-month maturity.

50%

Growth in regional and agribusiness term deposits since March 2022.

> These latest growth figures demonstrate that we've reached a new baseline of strength.

Agribusiness and regional standout performers in national deposits

Agribusiness	↑	8.1%
Regional	↑	3.0%
All businesses	↑	**9.7%**

Increase in transaction account deposits between March 2022 and March 2023.

Source: NAB data, March 2023

Historically, we tend to see this trend in a rising interest rate environment – businesses look for greater and more certain yields when term deposits begin to offer more attractive returns compared to at-call accounts.

Customer conversations and our business confidence research tell us this also represents the cautious optimism the regional business community is feeling. Businesses might not see investment opportunities at this moment, but they're confident they also won't need to draw down on that cash, and may look to reassess in 2024.

Farm Management Deposits entrench after 2022's growth spurt

The 2022 financial year saw the biggest growth in Farm Management Deposit volume in many years, at 28.7 per cent, after sitting flat for half a decade.

28.7%

Farm Management Deposit volume growth in FY22.

That growth continued throughout the calendar year as interest rate rises took effect from June, with regional and agricultural Farm Management Deposits bolstered by 35 per cent across 2022.

In part, that growth can be attributed to the surplus of funds in the system from COVID-era spending and stimulus. With plenty of cash on hand, farmers sensibly put some away for the next bad season. As interest rate rises pull up the cost of living, some of that excess liquidity will be drained from the economy. We expect a slowdown in 2023 as we normalise after the cashed-up COVID era.

Farmers are among the best tax planners in the world and Farm Management Deposits are an excellent option to achieve financial risk management and long-term sustainability. We expect 2023 to be another strong year for these deposits, with some producers using supplementary methods to support their aims. That could include outlay on machinery or other assets, capital upgrades, or other term deposit products.

THE HEADLINES

- After the COVID frenzy, deposit growth has slowed into a sustainable strength
- Raised term deposit activity shows businesses are cautiously optimistic about the year ahead
- Farmers invested heavily in Farm Management Deposits but continue to look for tax-planning advantages

Social infrastructure, agriculture and manufacturing looking strong for 2023

Whether to meet the needs of humans or industry, or on the land, Australia's regions are backing their ambitions with strong demand for credit.

Melissa Hepworth,
Executive Business Execution Regional & Agribusiness

If one word could describe regional businesses in general, it would be optimism, with 2022 demand for credit growing by 10.2 per cent on the year prior.

Where that investment was directed tells a story about how life in the regions is settling into a post-COVID routine. Whereas last year's NAB Regional and Agribusiness Horizons Report showed strong demand for credit in manufacturing and services to agriculture, the regional business community also turned its attention this year to supporting a growing regional population and consumer demand.

By sector, the data reveals two interesting tales – one focused on human needs, the other on the continuing importance of agriculture and manufacturing.

In social infrastructure and other sectors that support the growing regional population, standouts were Community Services (24.8 per cent), Personal & Household Goods Wholesaling (20.9 per cent), Health Services (15.8%) and Property Services (10.2 per cent). Their appetite for growth is fuelling a hunger for credit products.

> "The regional business community turned its attention this year to supporting a growing regional population.

We expect this focus on social investment to continue throughout 2023 as the regions spend some time catching up with the influx of migrants over recent years and businesses and communities continue to invest in quality of life.

Meanwhile, Agriculture (14.6 per cent) and Manufacturing (14.5 per cent) reflected the continuing optimism in both and the resulting requirement for further investment.

Growth by industry	% growth	Rank
Community Services	24.8%	1
Personal and Household Goods Wholesaling	20.9%	2
Health Services	15.8%	3
Agriculture	14.6%	4
Manufacturing	14.5%	5
Mining and Mining Services	12.3%	6
Property Services	10.2%	7
Construction	9.4%	8
Storage	5.7%	9
Basic Material Wholesaling	5.6%	10
Business Services	4.5%	11

Growth by industry	% growth	Rank
Accommodation, Cafes, Pubs and Restaurants	4.4%	12
Motor Vehicle Retailing and Services	3.9%	13
Personal and Household Good Retailing	3.5%	14
Libraries, Museums and the Arts	2.8%	15
Machinery and Motor Vehicle Wholesaling	2.7%	16
Education	2.6%	17
Finance & Insurance	1.5%	18
Transport	0.6%	19
Personal Services	0.4%	20

All steam ahead for every state

Every jurisdiction in the country showed growth in demand for credit, with Tasmania (19.8 per cent) in the lead thanks to a large regional infrastructure project, and WA (18.55 per cent), Victoria (11.6 per cent) and SA (10.8 per cent) next, compared to a national average of 10.2 per cent.

With the regions now catching up to their population booms, we expect more investment on major infrastructure projects in the coming years.

The great rise in borrowing
Demand for credit across regional and agricultural Australia

Lending to regional and agricultural sectors in general was up 10.2 per cent nationally.

NSW	9.6%
NT	4.5%
QLD	9.2%
SA	10.8%
TAS	19.8%
VIC	11.6%
WA	18.5%

Source: NAB data, 2022

Farmers stay the course with appetite for growth

In a year dominated by headlines about interest rate rises, farmers did what they always do and kept their eyes on an even more important factor: the weather. Commodity prices may have come off their superheated tops, but a good season in 2022 (and another projected for 2023) saw agricultural lending up 14.6 per cent in the past 12 months (March 2022-March 2023) compared to 10.7 per cent for all businesses.

Agribusiness and regional up a combined 10.2% YoY in lending

Agribusiness	↑	**14.6%**
Regional	↑	**6.7%**
All businesses	↑	**10.7%**

Increase in lending to agribusinesses and regional businesses between March 2022 and March 2023.

Source: NAB data, March 2023

That shows our farmers' confidence in themselves, their land and their capability to continue to produce in a rising interest rate environment.

While market and macroeconomic conditions are always important to agriculture, the nature of the industry (and the character of the people it attracts) produces a long-term perspective with an emphasis on quality of assets. It also means being able to react and take advantage of conditions at the drop of a hat, whether that's getting the crop off before a storm hits or jumping on a sudden investment opportunity.

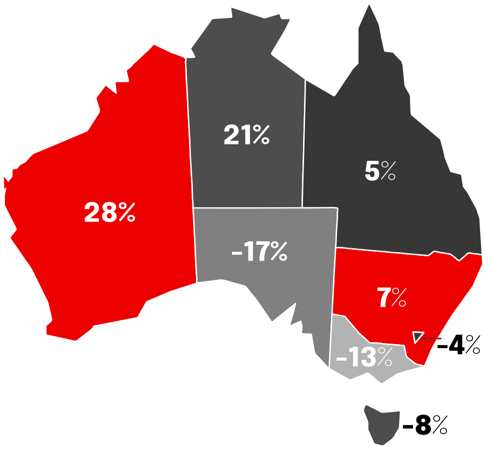
Our data and our conversations with customers indicate that Australian farmers are likely to have a strong 2023.

THE HEADLINES

- Farmers are focused on long-term growth and short-term opportunities, and are investing at a higher rate than the rest of the economy
- Regional businesses and communities are shifting investment to support the population boom
- Appetite for credit continues to grow in all states and territories

Microchip drought fuels some ferocious appetites

As equipment demand continues to outstrip supply, values are holding up even as volumes fall.



Annual growth in new equipment sales, by region

Source: Tractor & Machinery Association of Australia, 2022

The 2022 financial year was a banner one for regional and rural businesses looking to finance equipment – in fact, it was NAB's busiest ever supporting customers' purchases. NAB's growth is reflective of the market, which has grown by 47 per cent.

For the automotive and equipment industry, this period in history will be remembered for the shortage of semiconductor microchips rather than COVID, interest rates or anything else.

Volumes of sales, both new and used, have dipped in the 2022 calendar year, but values continue to rise as demand outstrips supply. There's plenty of granularity in the market. Headers, for example, were moving more slowly (2.0 per cent growth in volume) but were more expensive per item (18 per cent leap in value). Car volumes were down 27 per cent but values only retreated 15 per cent.

The fight for trailers has been ferocious, with volumes up 59 per cent. However, the values in this category only advanced a (relatively) modest 29 per cent. Trailers are providing a window into the future for producers: they contain relatively few chips, so production and supply lines are normalising faster than the rest of the industry and prices are coming off their unsustainable highs.

Long wait times to delivery, a continued backlog of demand, an end to the Instant Asset Write-Off scheme and projected good weather and prices in 2023 mean we're expecting another tight market with plenty of heat under new and used equipment. But for most categories, we're now over the hump and should begin to see easing conditions.

Governments and businesses around the world have been pouring billions into solving the microchip challenge. But with long start-up times for the manufacturing facilities, we see the shortage as underpinning equipment finance throughout the year, likely into 2024, and possibly longer, but with diminishing effect.

Equipment finance has seen incredible growth of 47 per cent in the past year.

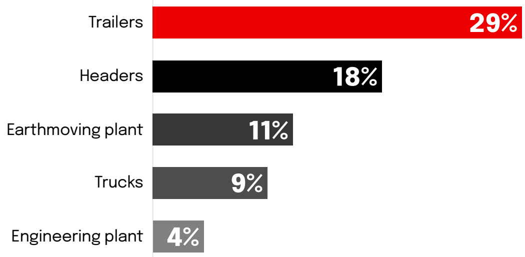
Farmers working around vehicle shortages

Agricultural implements have fallen 27 per cent in volume, motor vehicles 41 per cent and tractors 15 per cent. Stock shortages and long waits for delivery mean it's difficult to get your hands on any kind of vehicle at the moment, and that's meant getting creative. But as always, farmers will find a way.

Luxury vehicles are now being sent out without GPS and with manually operated windows. In the agricultural space, we're seeing more take-up of NAB's equipment leasing products, more equipment sharing arrangements and more being spent on maintenance.

'Runaround' vehicles that can be used on farms, worksites or mines are always in hot demand, but particularly now as dual-use personal vehicles: taking the kids to school or for trips to the shops.

Annual growth in demand for credit, by category



Source: NAB Regional & Agribusiness Volume FY September 22

Second-hand market remains hot

While the second-hand market has come off its high, demand is still running well above historical average, with many items selling at close to, or even above, retail price.

Tractors, combine harvesters and grain tippers are in particularly short supply and hot demand, with the promise of another good season in 2023 adding to the activity.

In September, Slattery Auctions sold a 2016 Massey Ferguson 6614 tractor showing 3,387 hours for $46,750, representing around 90 per cent of retail. Also in September, a 2002 Chase MEE grain cart sold for $62,040, or 124 per cent of the ticket price.

The demand for second-hand shows that, despite the reduction in volume of new vehicles sold, there are plenty of buyers in the market hungry for whatever they can get their hands on, and willing to pay a premium to do so.

As supply-side shortages ease in 2023, and the Instant Asset Write-Off scheme comes to an end in its current structure, prices may follow downwards, providing relief for producers and regional businesses. However, we expect some categories (particularly tractors, trailers and heavy haulage trucks) will be slower to normalise than others.

Mining demand pushes WA, NT markets ahead

While all states saw a reduction in volumes in the 2022 calendar year, Victoria (20 per cent), SA (16 per cent) and the ACT (15 per cent) were particularly constrained.

Conversely, WA (28 per cent) was outstanding in terms of investment values, supported by big demand from the mining industry for equipment. In the NT (21 per cent), a massive 302 per cent increase in tractor finance and 247 per cent increase in headers demonstrate the strength in agriculture. NSW (7.0 per cent overall, 24 per cent in headers) and Queensland (5.0 per cent overall, 72 per cent in trailers) also saw positive growth.

Interest rates not determining investment

While interest rates on equipment finance products have risen in line with the RBA's decisions, for most regional and agricultural businesses rates are not the determining factor in investment decisions.

The appetite for equipment is at a historic high, while the cash rate target and our product rates are below their 10-year average, despite doubling over the course of a year.

The business community is keeping an eye on interest rates in regard to equipment finance, but our customer conversations and our data tell us that any rate below 7.0 per cent will provide good value for a buyer.

For business owners, if you can get your hands on a vehicle, it's a great time to buy.

THE HEADLINES

- The microchip shortage will set the tone for the near-term future, but the worst is behind us
- Demand is still hot in all categories and states, but differences are appearing as supply comes back online
- The end of the Instant Asset Write-Off scheme will help bring down overheated demand
- Business and seasonal conditions are very positive and outweigh any impact from interest rates

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To find out more, visit nab.com.au/insights

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 April 2023.

* Australian Bureau of Statistics (ABS) – Statistical Area Level.