



Macroeconomics



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NAB's Quarterly Post Farm Gate Agribusiness Survey – June Quarter, 2008

NAB's latest Quarterly Agribusiness Survey highlights that agribusiness conditions (post-farm gate production and processing) moderated in the June quarter 2008, largely due to tough trading conditions and poor profitability. The deterioration in conditions was reported across most sub-sectors within agribusiness, with the largest decline experienced in manufacturing, wholesaling and transport.

Below average rainfall in many areas during autumn resulted in a decline in agribusiness confidence in major commodities and suppliers. Confidence in wheat declined (down 22 points to an index of 26) reflecting a downward revision to 2008-09 winter crop production estimates. A drier than usual autumn and a steady decline in global sugar prices since late February resulted in confidence in sugar falling (down 7 points to 4).

Despite strong global prices, confidence in cotton declined (down 10 points to -3), as the size of the recovery in domestic cotton production in 2008-09 remains unclear. For wool, a decline in prices combined with expected lower production in 2008-09 resulted in a loss in confidence (down 18 points to -9).

For livestock, high grain prices and limited pasture availability continue to hamper confidence levels. With opening stock numbers for June 2008 forecast to be lower, following drought conditions across much of Australia, production of both beef and lamb in 2008-09 is forecast to be lower. Reflecting these factors, confidence in beef and lamb declined (down by 9 and 2 points respectively to 10 and 12). Surprisingly, confidence in dairy also declined, despite high farm gate milk prices and expectations of increased milk production in 2008-09.

The loss in confidence in most commodities flowed through to farm equipment and to a greater extent chemicals (down 1 and 27 points respectively to 20 and 15). Overall Agribusiness' confidence in their own industry (post farm gate) declined by 5 points to an index of -4 — about the same as across the non farm business sector as a whole.

Agribusiness respondents' profitability outlook for the next 12 months declined considerably in the June quarter down 23 points to 9 index points. Demand continues to be reported as the major concern for agribusiness, with 34 per cent of respondents expecting a lack of demand to be a constraint to profitability over the next 12 months. For 15 per cent of respondents, rising input costs; including material and fuel remains a key constraint to profitability — with a further 9 per cent still concerned about the drought. Respondents remain concerned with relatively high exchange rates and interest rates, with 12 per cent and 9 per cent of respondents citing these factors as the main drag on the profitability outlook.

To help mitigate currency risk, 70 per cent of agribusiness exporters utilised hedging tools in the June quarter (up from 55 per cent in the previous quarter), for an average term of 10 months. Of these, 25 per cent reported a favourable position (down from 41 per cent in the previous survey), while 25 per cent reported an unfavourable position, compared with 25 per cent in the previous survey.

29th July 2008

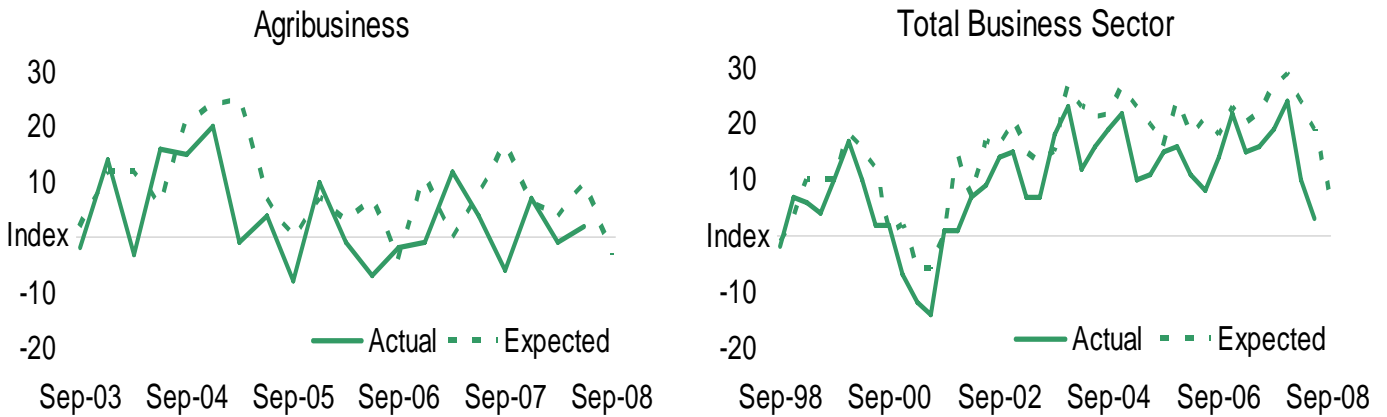
Business conditions moderate...but are expected to improve

Business conditions in agribusiness (post farm gate) remained subdued in the June quarter 2008, as a moderation in trading conditions and profitability losses combined to result in minimal improvement in business conditions for agribusinesses.

Reflecting an expected deterioration in profitability performance and weakening demand, agribusiness respondents anticipate that business conditions will decline in the September quarter.

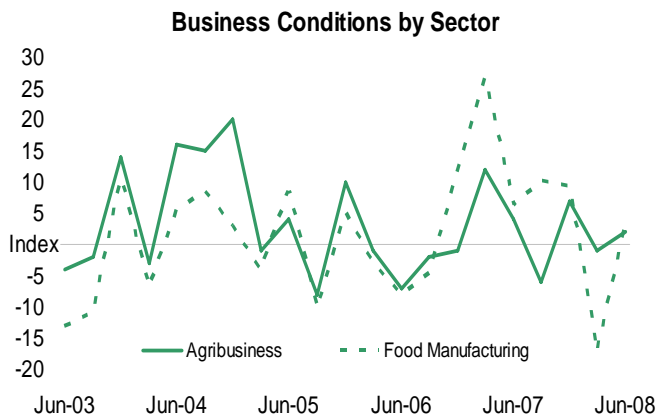
Conditions in the non farm economy weakened significantly in the June quarter, to levels a bit below in agribusiness.

Business Conditions



Business conditions by industry....mixed

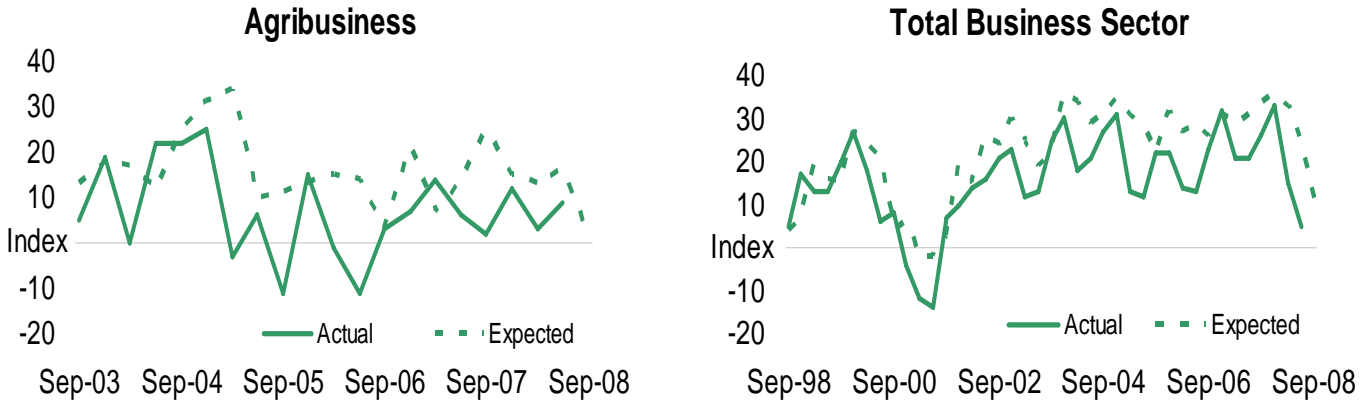
The deterioration in current conditions was reported across most sub-sectors within agribusiness, with food manufacturing and post farm gate agribusiness sectors reporting similar subdued performance, as rising raw material and fuel costs resulted in a fall in profitability performance.



Trading conditions....improve

In contrast to the non farm economy, trading conditions for agribusiness improved in the June quarter, to be significantly better than most non farm sectors.

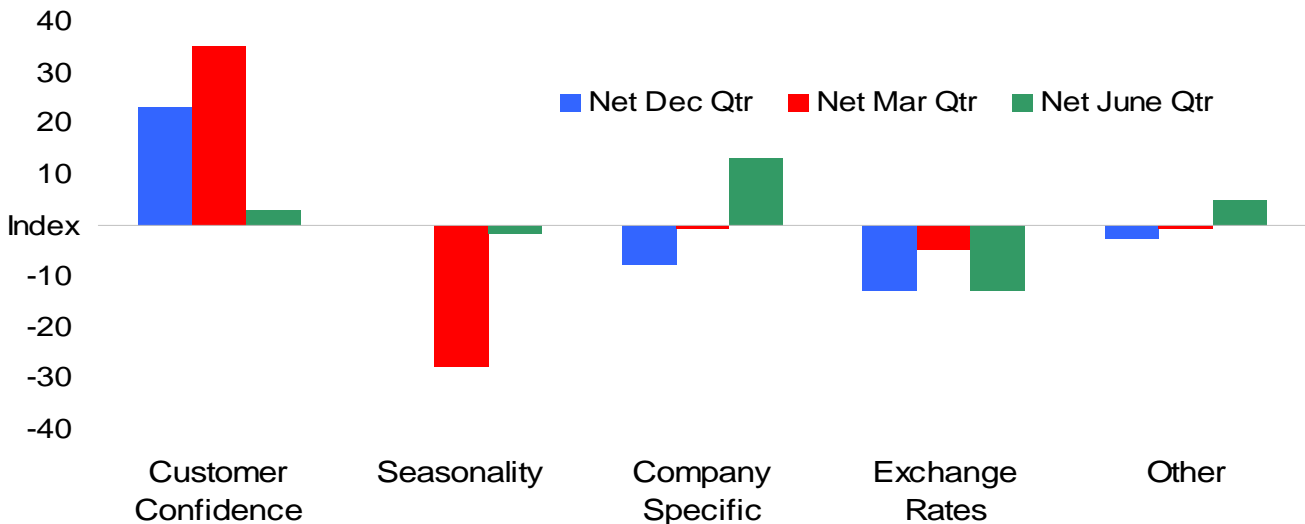
Trading Conditions



Trading conditions....hit by loss of customer confidence

Over recent quarters the key drivers in trading conditions have been some improvement in seasonal conditions and company specific factors, while a loss of customer confidence and the high exchange rate have weighed on sales.

Agri trading conditions - key drivers

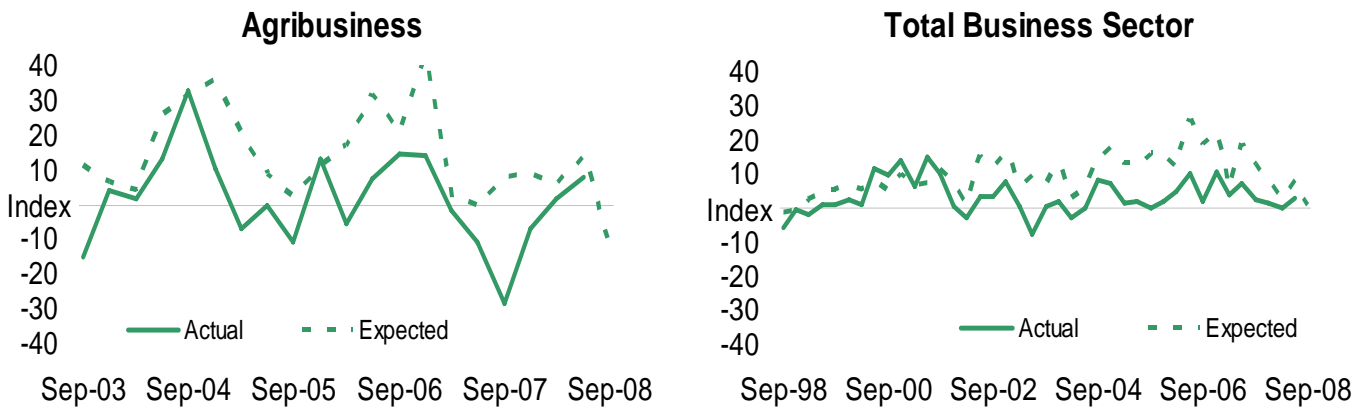


Export sales rebound, but still subdued

Despite the high value of the Australian dollar and tight supplies, export sales increased in the June quarter, but still remain subdued.

Expectations in both agribusiness and the wider non-farm economy are for a drop off in export sales in the September quarter.

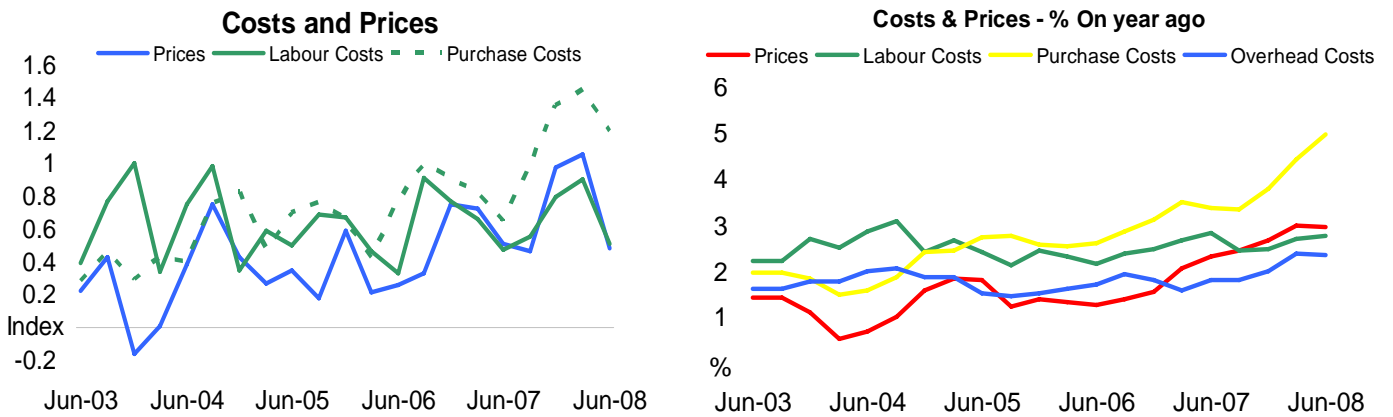
Export Sales



Cost pressures increase further.... especially purchase costs

Cost pressures increased in the June quarter as increases in labour, overhead and to a greater extent purchase costs, rose faster than final product prices.

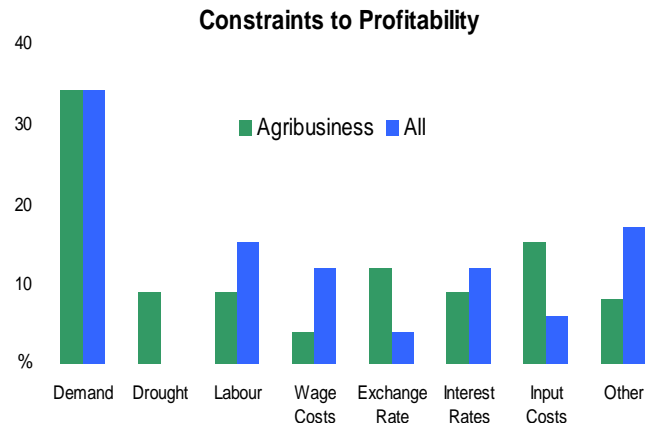
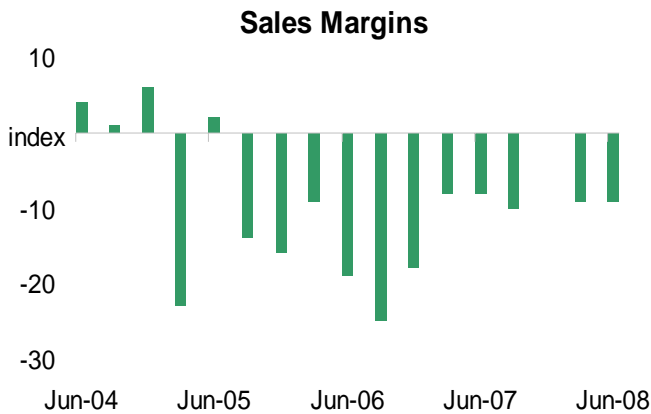
Agribusiness respondents expect costs to increase at a faster rate than final production prices in the September quarter, placing further downward pressure on sales margins.



Sales margins...decline again

Sales margins remained poor in the June quarter, reflecting moderate trading conditions and increased cost pressures.

Little change is foreseen in the September quarter, with 63 per cent of respondents expecting no change in sales margins. In addition, a further 23 per cent of respondents expect sales margins to fall further — up from 16 per cent in the March quarter.

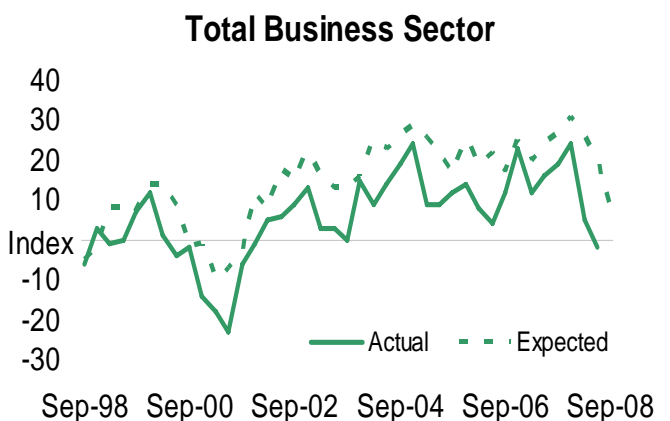
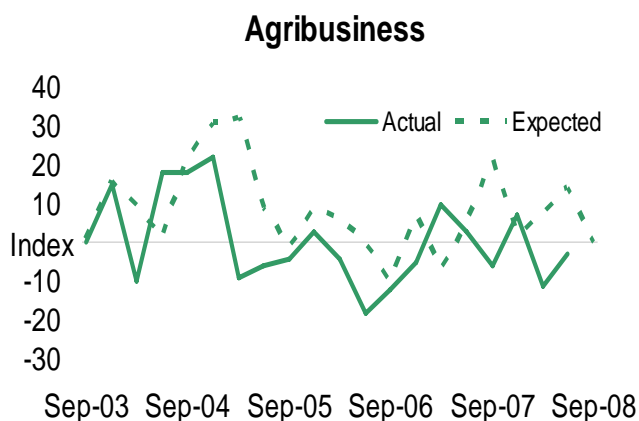


Profitability performance....remains poor

Agribusiness profitability performance was well below respondent's expectations in the June quarter, as rising production costs lead to declining sales margins.

Looking forward, profitability performance for both agribusiness and the broader non farm economy is expected to deteriorate further. Concerns about demand, higher (labour and input) costs and tighter financial conditions and continued drought overhang the outlook.

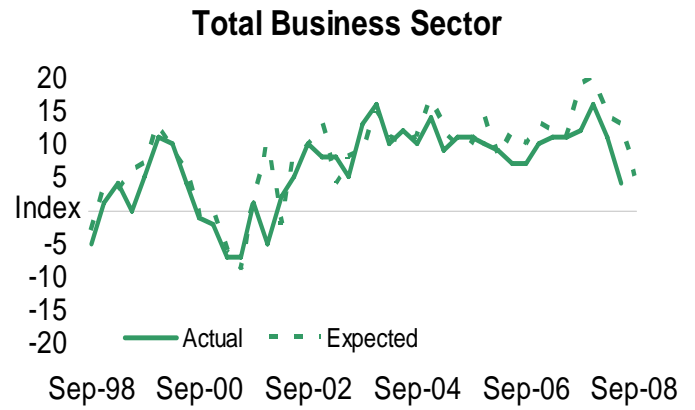
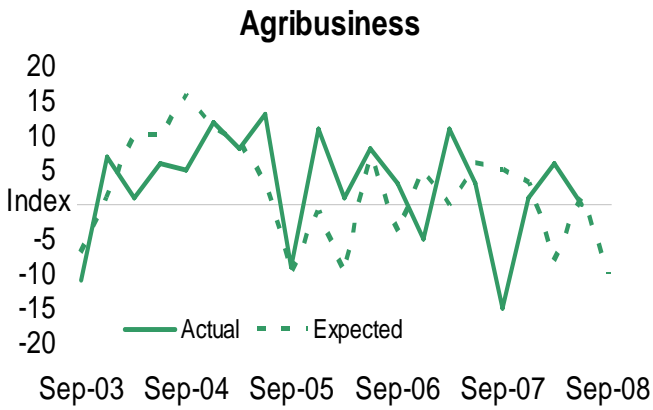
Profitability performance



Employment picks up...but still subdued

Subdued sales and poor profitability performance in the June quarter resulted in a decline in employment growth amongst agribusiness respondents. Employment growth in the wider non-farm business sector also declined.

Employment gains

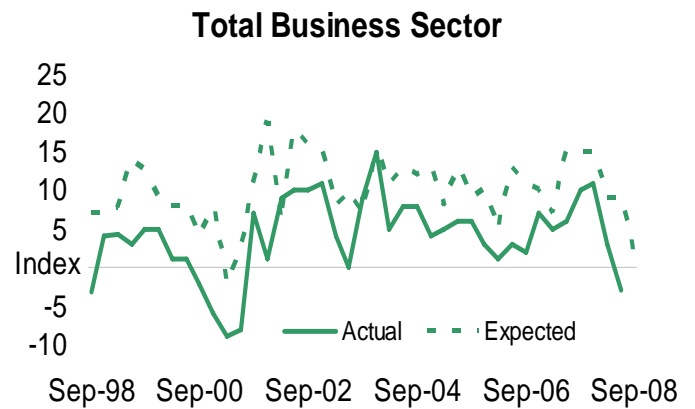
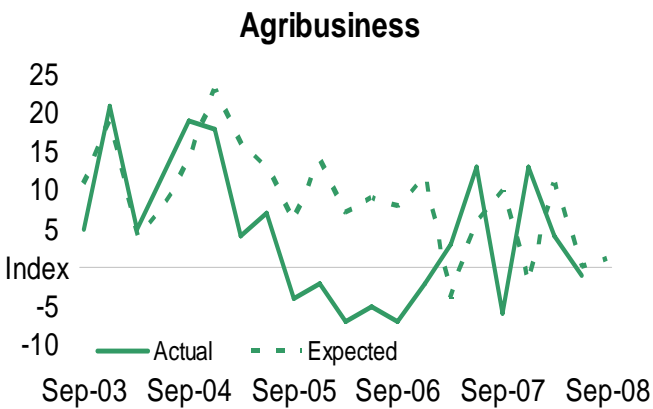


Forward orders....declined

Forward orders declined in the June quarter and point to a subdued sales outlook in the near term.

With domestic demand expected to ease in the September quarter, agribusiness respondents anticipate forward orders to remain subdued in the September quarter.

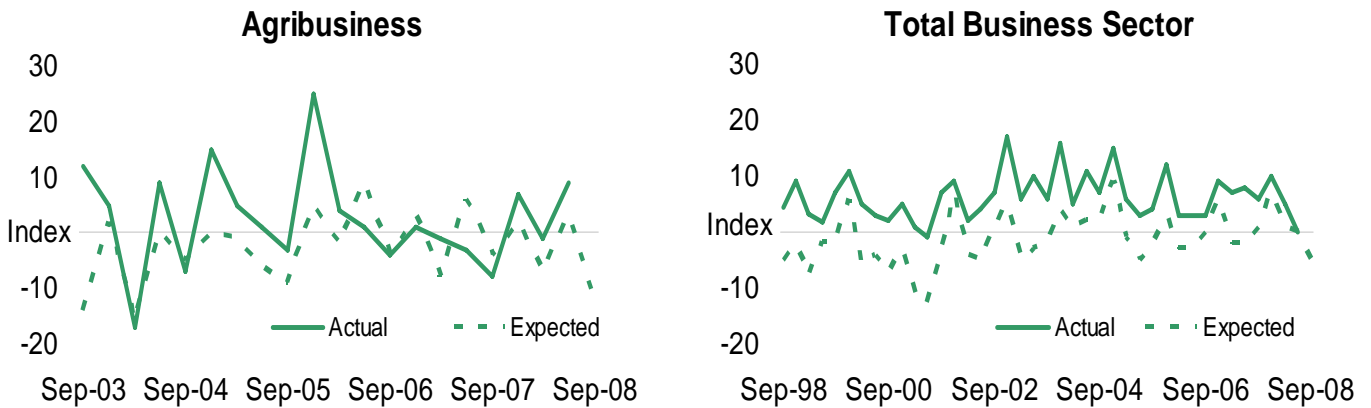
Forward orders



Stocks....increased

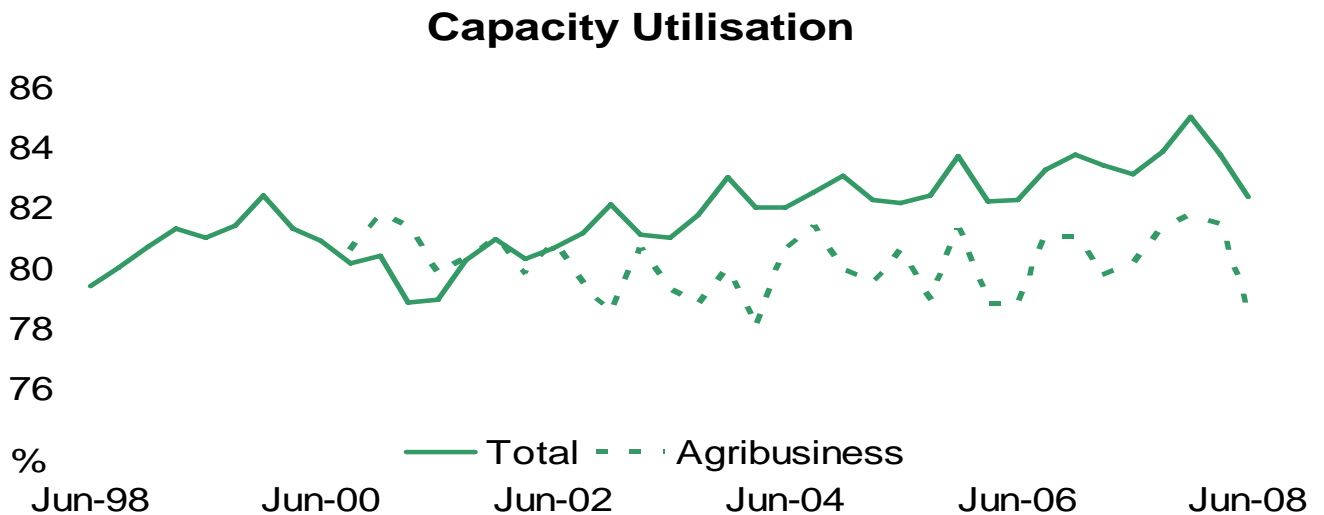
Agribusiness respondents reported an increase in stock levels in the June quarter in line with a difficult environment for exporters and subdued domestic demand.

Respondents expect a run down in stocks in the September quarter.



Capacity utilisation....remains below non farm economy

In line with a decline in employment growth and poor profitability performance, capacity utilisation declined in the June quarter. The availability of suitable labour remains the key constraint on output with 63 per cent of agribusiness respondents citing this as a constraint on current output, up from 58 per cent in the March quarter.

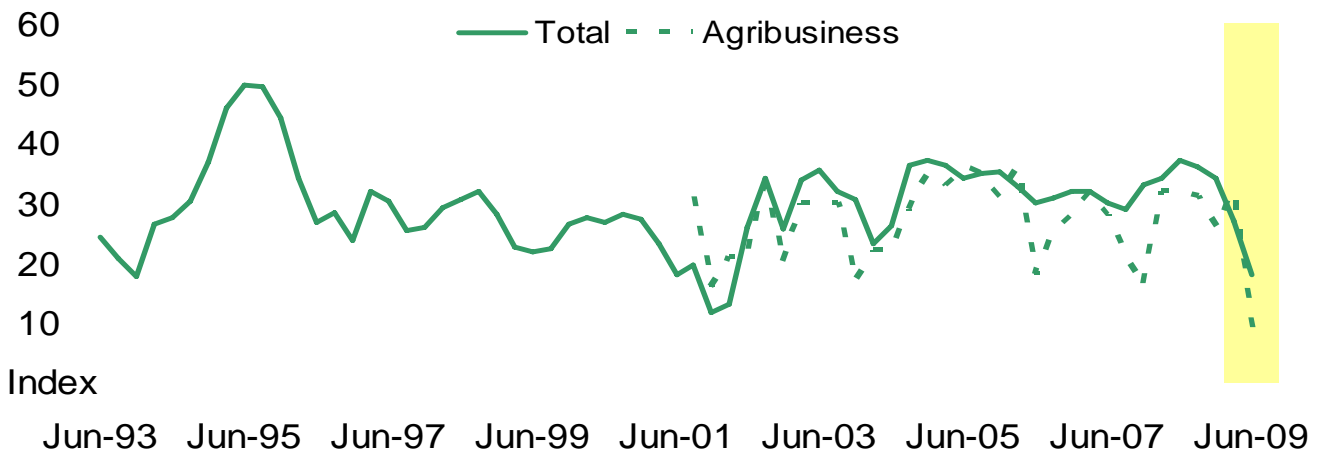


Business conditions – 12 month outlook

Agribusiness respondents' outlook for the next 12 months declined significantly in the most recent survey. Respondents remain concerned with the relatively high exchange rates and interest rates, with 12 per cent and 9 per cent of respondents citing these factors as the main drag on their profitability outlook.

Demand continues to be reported as the major concern for agribusiness, with 34 per cent of respondents expecting a lack of demand to be a constraint to profitability over the next 12 months. For 15 per cent of respondents, rising input costs; including material and fuel remains a key constraint to profitability. A further 9 per cent concerned about the drought — with a continual deterioration in seasonal conditions over the next 12 months likely to place further upward pressure on raw material and inputs costs, significant affecting sales margins and profitability.

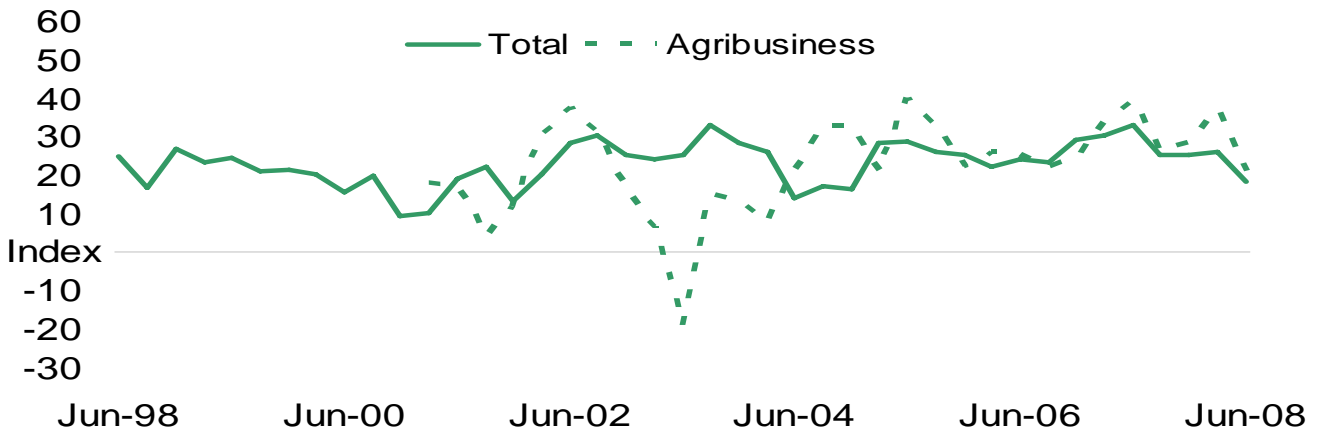
Next 12 months business conditions



Capital expenditure plans revised down

In line with a deterioration in the 12 month outlook for business conditions, agribusiness respondents have lowered planned capital expenditure for the coming year.

Capital Expenditure - Next 12 months



Agribusiness confidence in commodities & other suppliers

Dry seasonal conditions throughout most areas during autumn resulted in agribusinesses confidence in commodities and amongst suppliers moderating in the June quarter.

In terms of crops, the driest May on record in Australia resulted in a downward revision to winter **crop** planting estimates. In 2008-09, winter crop production is forecast to increase by 66 per cent to 37 million tonnes — 5 per cent below NAB's previous estimate. Confidence in sugar moderated, underpinned by a drier than usual autumn and a steady decline in global sugar prices since late February.

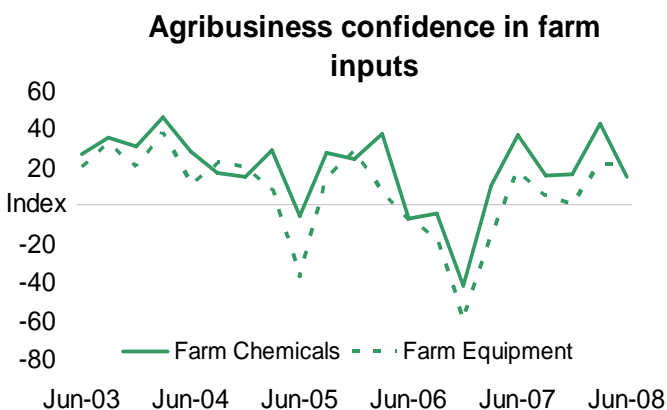
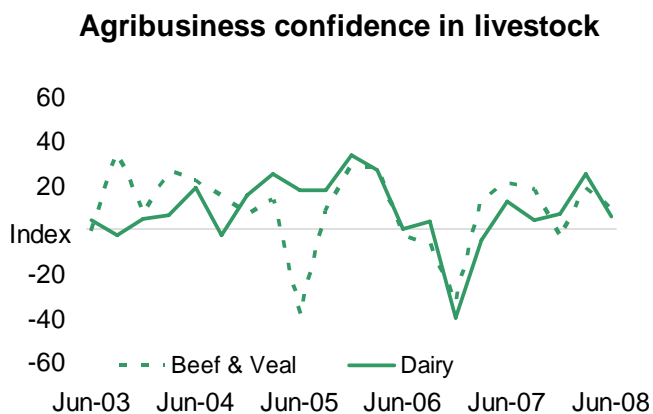
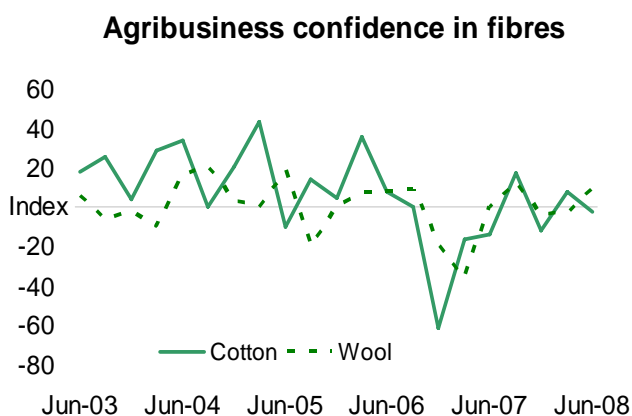
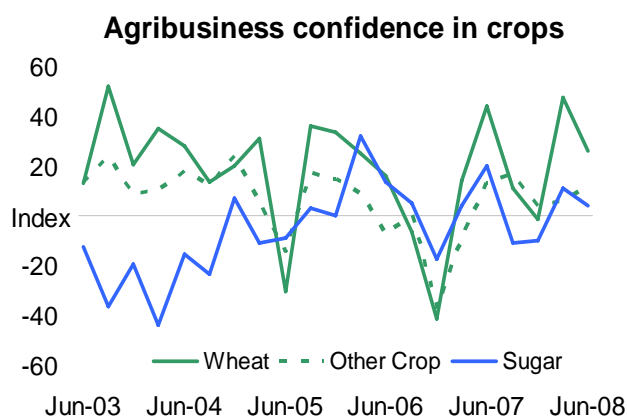
Despite strong global **cotton** prices — the cotlook "A" index is estimated to have increased 22 per cent in 2007-08 — confidence in cotton declined in the June quarter. Although Australian cotton production is forecast to increase in 2008-09, the magnitude of the increase is expected to be constrained with many producers expected to use some of their water entitlements to water winter grain crops.

For **wool**, a decline in prices, combined with forecast lower wool production in 2008-09, resulted in confidence in wool declining in the June quarter. The eastern market indicator declined by 14 per cent in the first 6 months of 2008 to average 866c/kg in June, as the strong value of the Australian dollar against key trading partners and a slow down in world economic growth resulted in reduced demand for Australian wool.

Confidence in **beef** moderated in the June quarter in line with high grain prices and limited pasture availability in many areas, particularly southern Australia. Trading conditions in the feedlot sector remain tight, with cattle numbers, as a proportion of feedlot capacity, remaining at 51 per cent in the March quarter, compared with 77 per cent at the same time last year.

Surprisingly, confidence in **dairy** also declined. This comes despite high farm gate milk prices and expectations of a slight increase in Australian milk production in 2008-09.

The loss in confidence in most commodities flowed through to farm equipment and chemicals with confidence in both falling in the June quarter.



NATIONAL RESULTS

	AGRIBUSINESS			ALL INDUSTRIES	
	March Qtr 2008 Actual Experience %	June Qtr 2008 Actual Experience %	Prev Survey Outlook %	Sept Qtr 2008 Outlook %	TOTAL June Qtr 2008 Actual Experience %
1. Business Confidence					
Significant improvement	9	1	0	1	2
Minor improvement	17	18	33	24	13
No change	40	36	41	45	35
Minor deterioration	30	40	21	24	40
Significant deterioration	4	4	4	6	10
Index(a)	-2.1	-14.2	1.4	-4.5	-20.8
2. Business Conditions					
Very poor	1	3	1	2	2
Poor	21	18	14	19	19
Satisfactory	55	55	59	59	55
Good	17	22	25	17	21
Very good	5	1	1	1	3
Index(a)	-1	2	10	-3	3
3. Trading					
Very poor	0	3	0	4	2
Poor	27	19	16	21	21
Satisfactory	43	46	53	48	49
Good	26	31	30	25	24
Very good	4	0	1	1	5
Index(a)	3	9	16	1	5
4. Profitability					
Very poor	4	4	1	3	3
Poor	29	25	11	18	25
Satisfactory	46	43	60	58	46
Good	13	24	26	18	22
Very good	9	3	1	3	4
Index(a)	-11	-3	14	0	-2
5. Employment					
Much less	0	1	1	0	1
Less	9	10	16	19	12
Unchanged	77	76	64	72	70
More	13	12	19	9	16
Much more	1	0	0	0	1
Index(a)	6	0	1	-10	4
6. Forward Orders					
Much less	0	1	1	1	1
Less	13	15	11	12	14
Unchanged	34	36	39	39	30
More	13	15	11	15	11
Much more	4	0	1	0	2
Index(a)	4	-1	0	1	-3

AGRIBUSINESS
ALL INDUSTRIES
TOTAL

	March Qtr 2008 Actual Experience %	June Qtr 2008 Actual Experience %	Prev Survey Outlook %	Sept Qtr 2008 Outlook %	June Qtr 2008 Actual Experience %
7. Stocks					
Much less	3	0	6	3	1
Less	23	19	13	27	16
Unchanged	37	39	47	40	39
More	16	21	20	15	14
Much more	9	7	1	1	3
Index(a)	-1	9	3	-13	0
8. Export Sales					
Much less	3	1	3	3	1
Less	6	4	7	15	3
Unchanged	23	33	66	76	19
More	9	10	21	3	5
Much more	1	0	3	3	1
Index(a)	1	4	14	-12	2
9. Capital Expenditure					
Much less	4	6	1	4	4
Less	19	15	11	10	15
Unchanged	56	52	61	54	53
More	17	21	21	25	21
Much more	4	6	4	6	5
Index(a)	-1	6	13	16	7
10. Total Labour Costs					
3% or more	10	4	4	15	11
2% to less than 3%	17	4	4	13	7
1.5% to less than 2%	4	3	4	3	3
1% to less than 1.5%	4	4	3	4	6
0.5% to less than 1%	6	15	13	9	6
Less Than 0.5%	6	1	6	1	4
No change	50	67	59	51	57
Less Than -0.5%	0	0	1	0	0
-0.5% to less than -1%	0	0	1	1	1
-1% to less than -1.5%	0	0	0	0	1
-1.5% to less than -2%	0	0	0	0	0
-2% to less than -3%	0	0	1	0	1
-3% or more	3	0	3	1	2
Average Change % (a)	0.90	0.51	0.34	1.04	0.70
11. Purchase Costs					
3% or more	21	16	13	12	17
2% to less than 3%	13	16	7	12	12
1.5% to less than 2%	9	6	6	6	6
1% to less than 1.5%	11	9	14	9	7
0.5% to less than 1%	6	9	9	7	8
Less Than 0.5%	9	4	10	3	3
No change	29	33	37	46	39
Less Than -0.5%	0	0	0	0	1
-0.5% to less than -1%	0	0	0	0	1
-1% to less than -1.5%	0	0	0	1	1
-1.5% to less than -2%	1	0	0	0	0
-2% to less than -3%	0	0	0	1	1
-3% or more	1	4	4	0	1
Average Change % (a)	1.45	1.20	0.89	1.02	1.16

AGRIBUSINESS
ALL INDUSTRIES
TOTAL

	March Qtr 2008 Actual Experience %	June Qtr 2008 Actual Experience %	Prev Survey Outlook %	Sept Qtr 2008 Outlook %	June Qtr 2008 Actual Experience %
12. Overheads					
3% or more	4	1	0	4	6
2% to less than 3%	3	13	3	9	8
1.5% to less than 2%	9	4	10	9	4
1% to less than 1.5%	9	10	6	13	9
0.5% to less than 1%	16	9	11	7	7
Less Than 0.5%	7	6	6	6	5
No change	50	49	59	46	57
Less Than -0.5%	0	0	1	0	0
-0.5% to less than -1%	1	1	1	1	1
-1% to less than -1.5%	1	3	1	1	1
-1.5% to less than -2%	0	0	0	0	0
-2% to less than -3%	0	0	0	1	1
-3% or more	0	1	1	0	1
Average Change % (a)	0.61	0.58	0.33	0.73	0.62
13. Price of Final Products					
3% or more	21	6	4	6	10
2% to less than 3%	7	9	4	3	6
1.5% to less than 2%	4	7	7	1	3
1% to less than 1.5%	3	7	3	6	5
0.5% to less than 1%	7	4	6	4	4
Less Than 0.5%	6	9	6	6	4
No change	43	45	66	64	60
Less Than -0.5%	0	0	0	0	0
-0.5% to less than -1%	1	0	0	0	1
-1% to less than -1.5%	1	1	1	1	1
-1.5% to less than -2%	0	3	0	1	1
-2% to less than -3%	1	3	0	1	2
-3% or more	3	3	1	1	3
Average Change % (a)	1.05	0.48	0.43	0.33	0.51
14. Sales Margins					
Much less	1	3	0	1	2
Less	23	22	16	22	25
Unchanged	59	57	71	63	58
More	14	16	11	12	13
Much more	1	0	0	0	1
Index(a)	-9	-9	-4	-12	-12

	March Qtr 2008 Actual Experience %	June Qtr 2008 Actual Experience %	June Qtr 2008 Actual Experience %
15. Current Output Level			
Full capacity	14	10	16
90% of full capacity	26	21	28
80% of full capacity	33	33	27
70% of full capacity	16	19	16
60% of full capacity	6	7	6
Below 60% full capacity	4	7	3
National Capacity Utilisation Rate (%)	81.5	78.5	82.4
16. To What Extent Are These Factors Constraining Output			
(a) Premises and plant			
Significant constraint	7	1	7
Minor constraint	27	24	25
No constraint	59	69	61
Not applicable	7	6	7
(b) Availability of suitable labour			
Significant constraint	19	18	26
Minor constraint	39	45	40
No constraint	40	33	31
Not applicable	3	4	3
(c) Sales and orders			
Significant constraint	24	28	23
Minor constraint	26	22	26
No constraint	46	42	43
Not applicable	4	7	8
(d) Availability of materials			
Significant constraint	14	15	5
Minor constraint	29	24	18
No constraint	50	51	57
Not applicable	7	10	20
Decline strongly	4	10	10
Decline moderately (by less than 5%)	4	7	8
Remain steady	46	40	44
Increase moderately (by less than 5%)	26	24	16
Increase strongly	20	15	20
Index (a)	37	21	18

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About the Agribusiness Survey:

This is the 28th release of the Quarterly Survey for Agribusiness. The agribusiness survey is a cohort of the NAB's Quarterly Business Survey which surveys approximately 900 small/medium to large sized Australian companies. The agribusiness sample is approximately 100 small/medium to large sized companies, mainly in the food manufacturing industry but also wholesaling, services, and a small number of firms in other sectors. Gundabluey Research Pty Ltd mainly conducts the survey over a two-week period in the final month of each quarter. Surveying for the current quarter took place between 19 May and 10 June 2008.

To ensure the highest possible accuracy, respondents to the survey are chosen at random from those firms with 40 or more employees.

Definitions:

Business confidence is a measure of respondent's expectations of business conditions in their industry for the upcoming quarter. Business conditions are a simple average of trading, profitability and employment indices, reported by respondents for their company. The trading, profitability and other indices are calculated by taking the difference between the percentage of respondents nominating good or very good, or a rise and those nominating poor or very poor, or a fall. For example, if 25 per cent of respondents state that trading levels are good or very good and 10 per cent state these levels to be poor or very poor, the corresponding index of trading performance would be 15.

The Capacity Utilisation Rate measures the degree to which an industry is operating at or below full capacity level. The full capacity rate is defined as the maximum desirable level of output given existing capital equipment. The Capacity Utilisation Rate is calculated as the average of respondents' capacity utilisation for the quarter. The cost and price change indices are the average of respondent's estimates of past and expected cost and price movements.

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