



Macroeconomics



Industry & Commodity



Markets

NAB's Quarterly Agribusiness Survey – March Quarter, 2008

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

Above average rainfall in many areas during the March quarter and expectations of a rebound in farm production in 2008-09 boosted agribusiness confidence in major commodities and suppliers. Confidence in wheat increased (up 49 points to an index of 48) as high international wheat prices and good summer rainfall boosted expectations of an expansion in the area planted to wheat in 2008-09.

The improved seasonal conditions, particularly in northern New South Wales and Queensland, lifted confidence in beef (up 22 points to 19) and cotton (up 20 points to 7). Confidence in dairy increased reflecting higher milk prices and increased fodder production in key dairy producing regions (up 18 points to 25). Confidence in sugar increased (up 21 points to an index of 11) as prices increased in line with an increased demand for sugar used for ethanol production.

In terms of suppliers, the forecast increase in farm production in 2008-09 flowed through to confidence in farm equipment and chemicals (up 21 and 27 points respectively to 21 and 42). In contrast, agribusinesses confidence in their own industry (post farm gate) increased only a point to an index of 1.

Agribusiness respondents' profitability outlook for the next 12 months remains relatively optimistic following a 6 point increase to 32 index points in the latest survey. Respondents remain concerned with the relatively high exchange rates and interest rates, with 14 per cent and 11 per cent of respondents citing these factors as a the main drag on the profitability outlook.

Demand continues to be reported as the major concern for agribusiness, with 36 per cent of respondents expecting a lack of demand to be a constraint to profitability over the next 12 months. For 7 per cent of respondents the drought remains the key constraint to profitability — down from 18 per cent in the December quarter — with 6 per cent concerned about sourcing suitable labour. Given the A\$ and interest rate outlook, 14 per cent and 11 per cent of respondents respectively expressed these factors as key constraints to the profitability outlook.

To help mitigate currency risk 55 per cent of agribusiness exporters utilised hedging tools in the March quarter (up from 52 per cent in the previous quarter), for an average term of 7 months. Of these, 41 per cent reported a favourable position (up from 33 per cent in the previous survey), while 25 per cent reported an unfavourable position, compared with 0 per cent in the previous survey.

30th April 2008

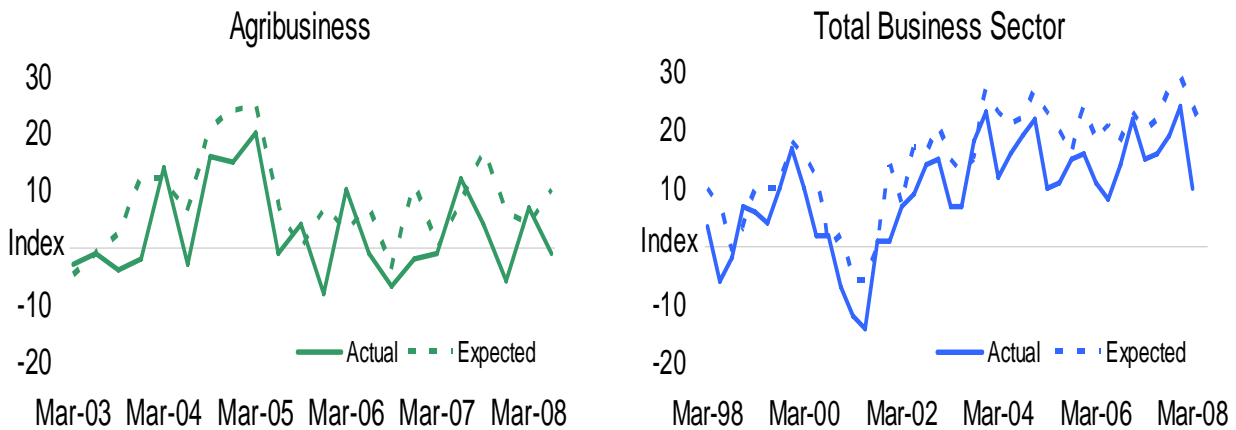
Business Conditions moderate...but are expected to improve

Business conditions in agribusiness (post farm gate) declined in the March quarter 2008, as a deterioration in trading conditions and profitability losses combined to result in a decline in business conditions for agribusinesses.

Despite this, agribusiness respondents anticipate that business conditions will improve in the short term, underpinned by an expected improvement in profitability performance and trading conditions.

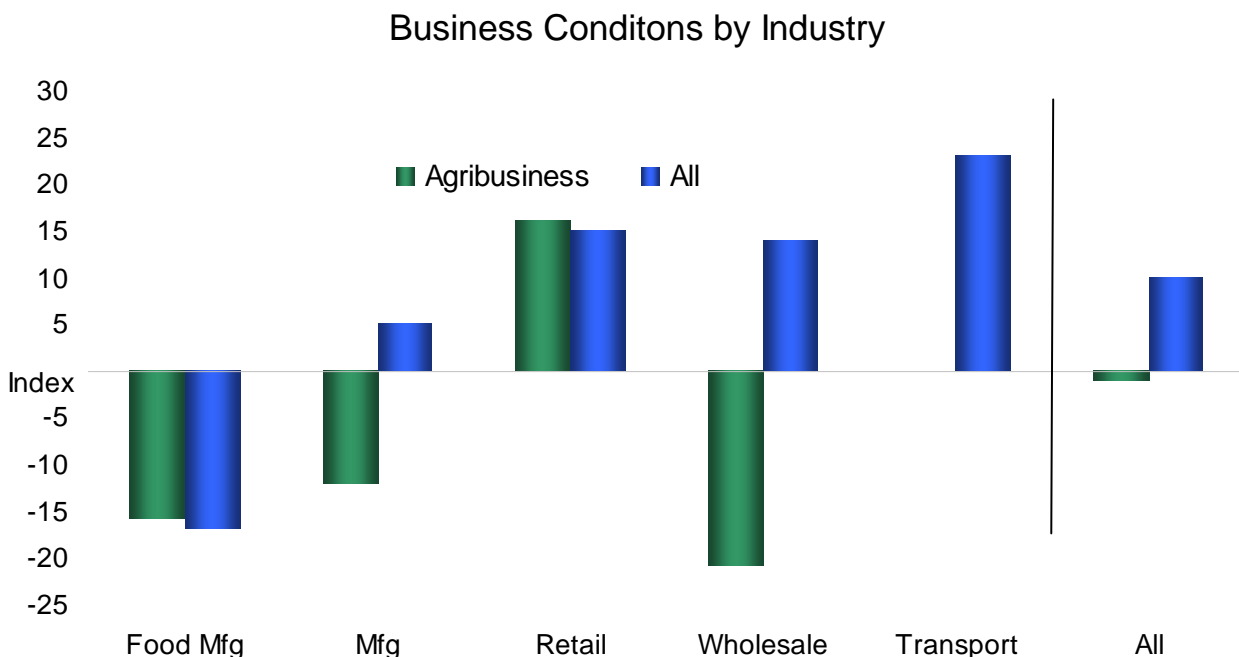
While conditions in agribusiness continue to lag behind those experienced in the non-farm economy, the divergence in conditions narrowed considerably in the March quarter.

Business Conditions



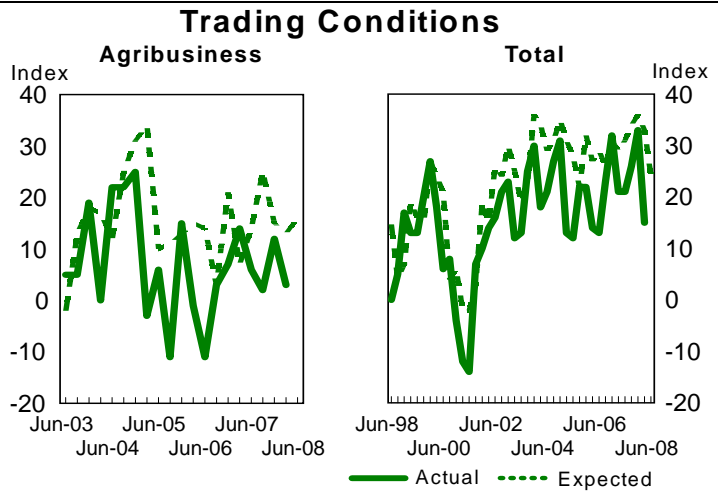
Business Conditions by Industry....mixed

During the March quarter deteriorating conditions were reported across a number of sub-sectors within agribusiness with declines reported in food manufacturing and wholesaling, as rising raw material and fuel costs resulted in a fall in profitability performance.



Trading Conditions....moderate

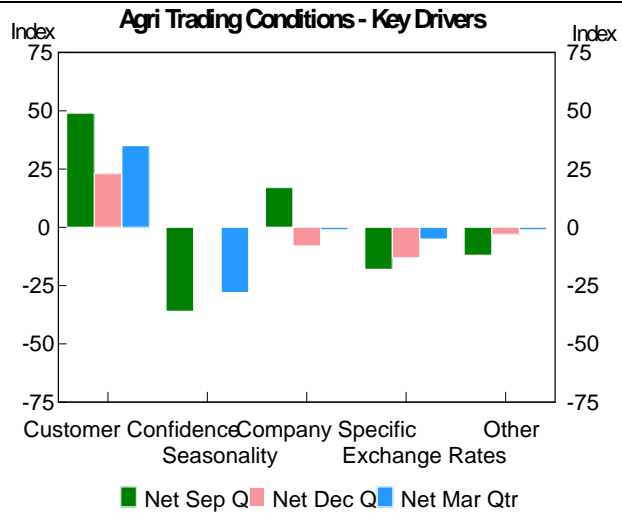
Trading conditions in both agribusiness and the non farm economy moderated in the March quarter, as lower confidence and high interest rates resulted in a decline in domestic demand.



Trading Conditions....hindered by lagged affects of Drought

Trading conditions moderated in the March quarter in line with a moderation in domestic demand.

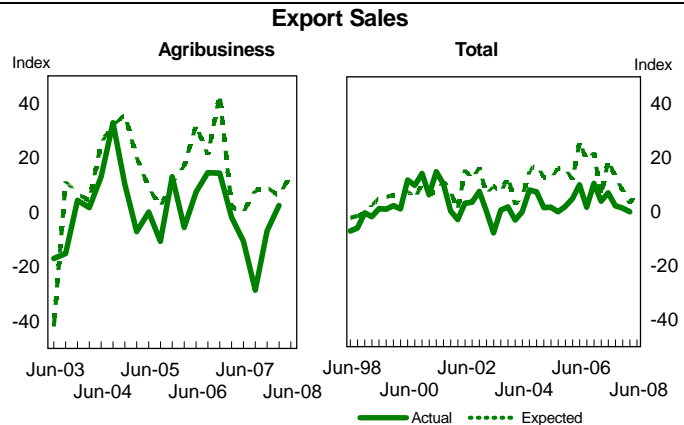
Drought remains a key concern for businesses post farm gate with 11 per cent of respondents citing this as a drag on current trading conditions.



Export Sales rebound, but still subdued

Export sales remained subdued in the March quarter as the negative combination of the drought on supplies and the high A\$ created a difficult environment for exporters.

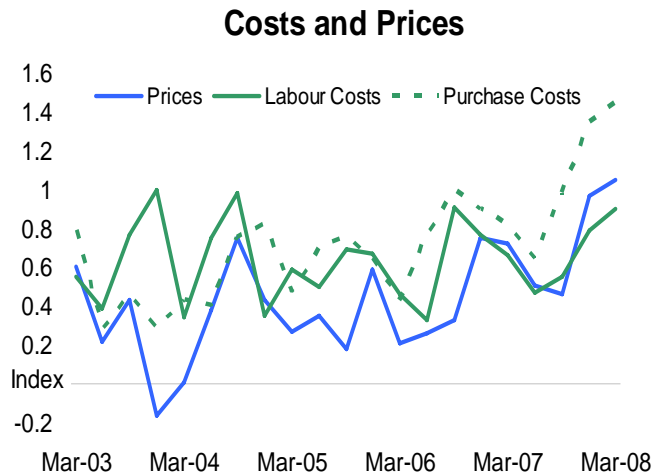
Expectations in both agribusiness and the wider non-farm economy are for a modest pick up in export sales in the June quarter



Cost Pressures increase further

Cost pressures increased in the March quarter as increases in labour and overhead costs, rose faster than final product prices.

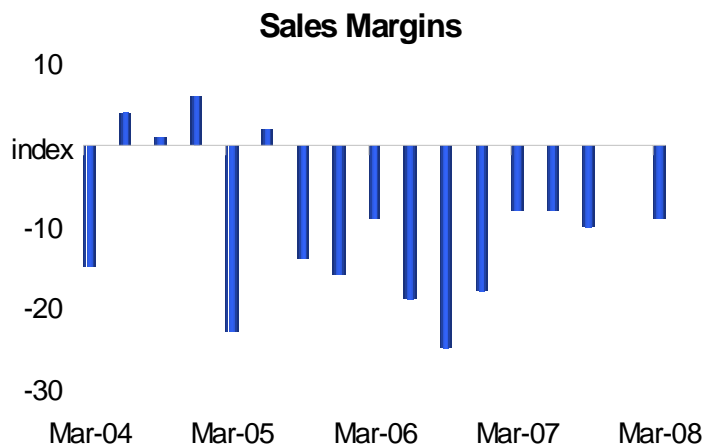
Agribusiness respondents expect costs to moderate in the short term, which may ease some downward pressure on sales margins.



Sales Margins...decline again

Sales margins declined in the March quarter reflecting a moderation in trading conditions and increased cost pressures.

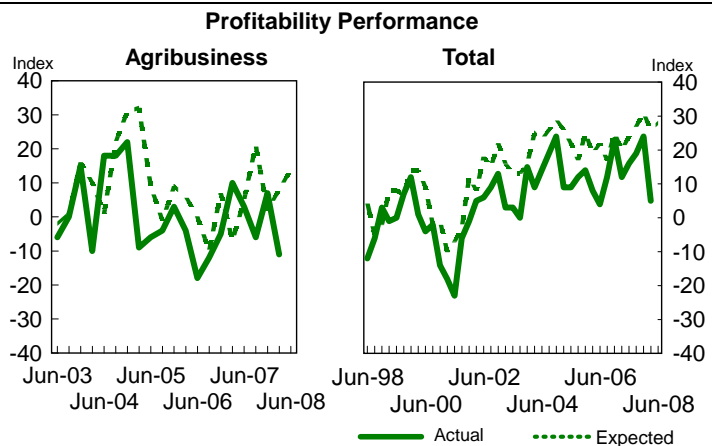
Little change is foreseen in the June quarter, with 69 per cent of respondents expecting no change in sales margins.



Profitability Performance....poor

Agribusiness profitability performance declined in the March quarter in line with a deterioration in agribusiness trading conditions and declining sales margins. As a result profitability performance was well below respondent expectations.

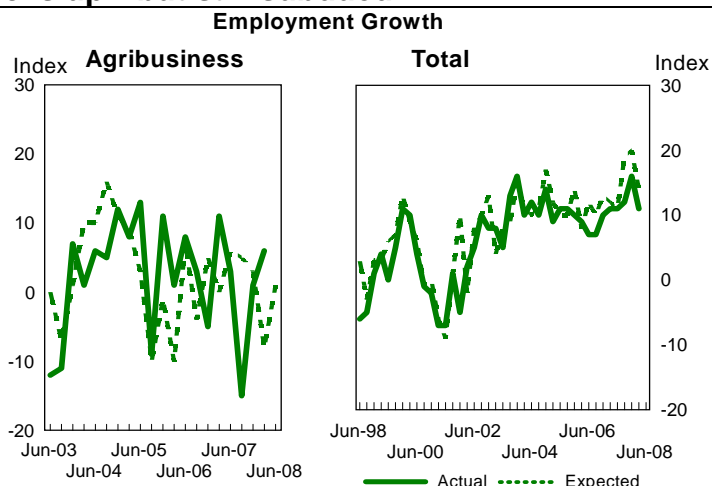
Agribusiness profitability is expected to increase in the June quarter with the non farm economy also expecting a modest improvement.



Employment picks up...but still subdued

Despite the deterioration in business conditions in the March quarter, employment growth amongst agribusiness respondents continued to increase.

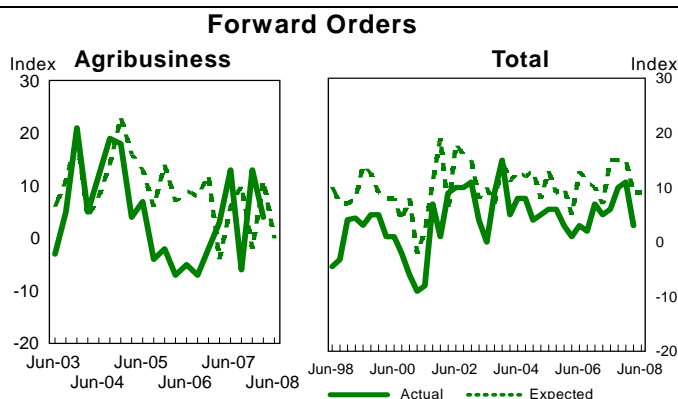
Employment growth in the wider non-farm business sector moderated in the March quarter and the rate of growth is expected to ease further in the June quarter.



Forward Orders....subdued

Forward orders moderated in the March quarter and fell well below expectations.

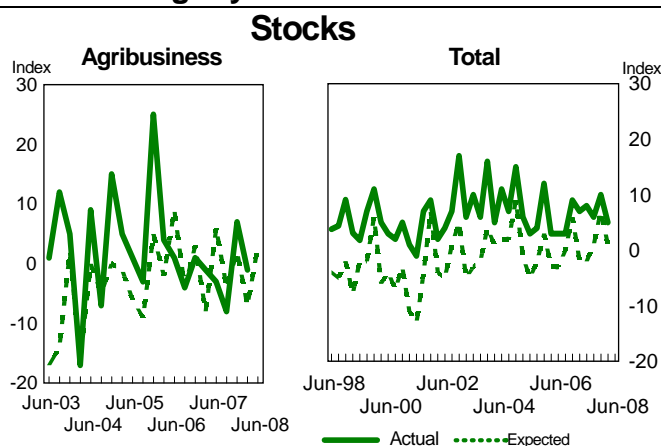
In line with an expected moderation in domestic demand in the June quarter agribusiness respondents anticipate forward orders to ease in the June quarter.



Stocks....declined slightly

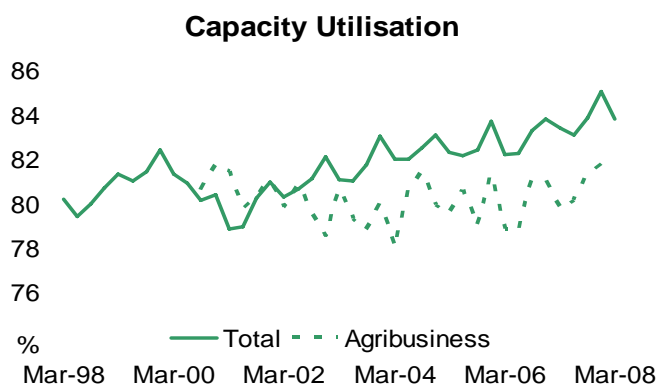
Following a small expansion in stock levels in the December quarter, a marginal run-down in stocks was reported in the March quarter.

In contrast, respondents expect a build-up in stocks in the June quarter, in line with subdued domestic demand and a difficult environment for exporters.



Capacity Utilisation....remains below non farm economy

In line with strong employment growth, capacity utilisation increased in the March quarter. Despite this, the availability of suitable labour remains the key constraint on output with 58 per cent of agribusiness respondents citing this as a constraint on current output.

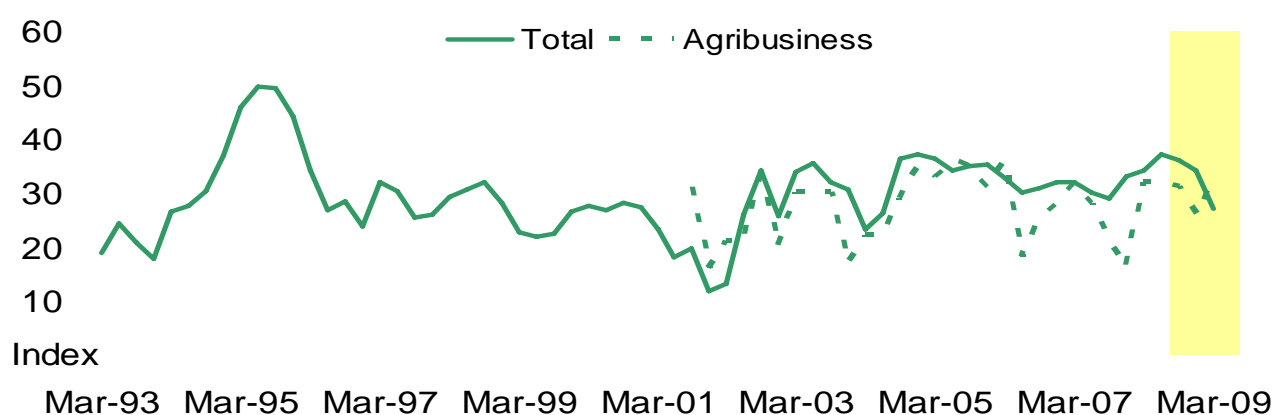


Business Conditions – 12 Month Outlook

Agribusiness respondents' outlook for the next 12 months remains relatively optimistic, following a slight increase in the March quarter. Respondents remain concerned with the relatively high exchange rates and interest rates, with 14 per cent and 11 per cent of respondents citing these factors as a drag on profitability.

Demand continues to be reported as the major concern for agribusiness with 36 per cent of respondents expecting a lack of demand to be a constraint to profitability over the next 12 months. For 7 per cent of respondents the drought remains the key constraint to profitability — down from 18 per cent in the December quarter, with 6 per cent concerned about sourcing suitable labour. Given the A\$ and interest rate outlook, 14 per cent and 11 per cent of respondents, respectively, expressed these factors as key constraints to the profitability outlook.

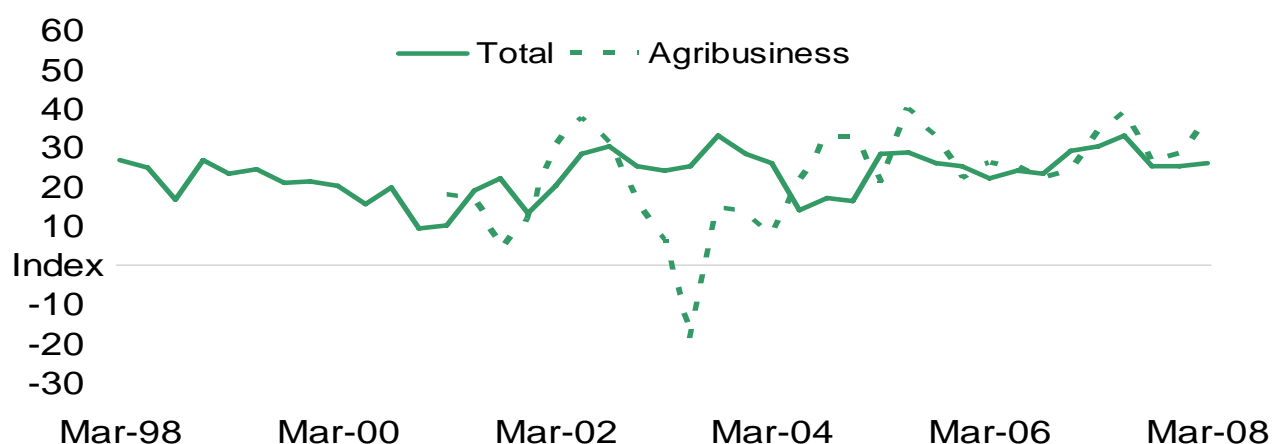
Next 12 months business conditions



Capital Expenditure Plans increase

In line with an improvement in the 12 month outlook for business conditions, agribusiness respondents have increased planned capital expenditure for the coming year.

Capital Expenditure - Next 12 months



Agribusiness Confidence in Commodities & Other Suppliers

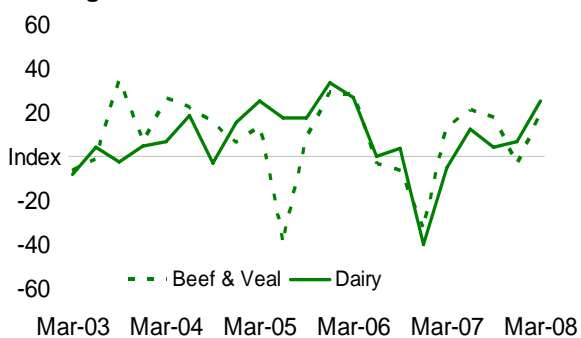
Despite above average rainfall in many areas throughout summer, and high commodity prices, agribusiness confidence in commodities and amongst supplies remained relatively unchanged in the March quarter, with respondents remaining cautious over future prospects. With many producers now in the midst of planting winter crops, further increases in confidence levels will be contingent on continued improvement in seasonal conditions throughout the June quarter.

In terms of crops, above average summer rainfall and high international wheat prices boosted expectations of an expansion in wheat plantings, increasing agribusiness confidence in wheat. For cotton, above average summer rainfall in Queensland and northern New South Wales resulted in some localised flooding resulting in increased water storage levels. This factor combined with a strong global price outlook — cotton prices are forecast to average US76c/lb in 2008-09 — resulted in an increase in agribusiness confidence in cotton in the March quarter. Confidence in sugar rebounded, underpinned by rising international sugar prices as demand for sugar cane and molasses increased in line with ethanol production.

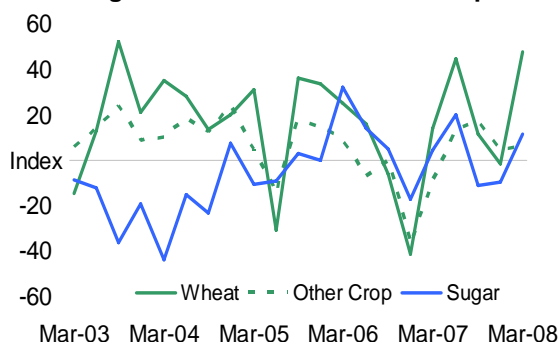
Despite high grain prices, confidence in beef improved as increased pasture availability in Northern New South Wales and Southern Queensland — following good summer rainfall, increased herd rebuilding activity in some areas. Confidence in dairy also improved, underpinned by high milk prices and a significant increase in fodder production, particularly Gippsland and Western Victoria.

Expectations of an expanded winter cropping program in 2008-09 resulted in confidence in farm chemicals and farm equipment increasing significantly on the previous quarter.

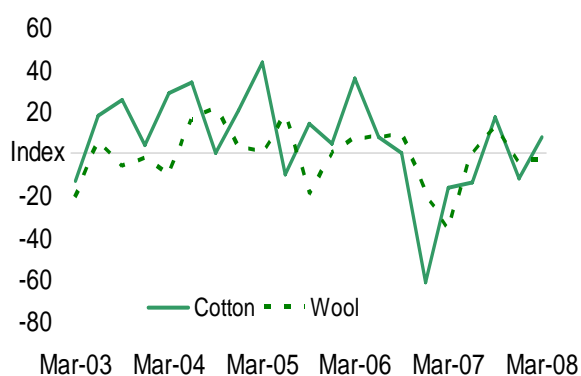
Agribusiness confidence in Livestock



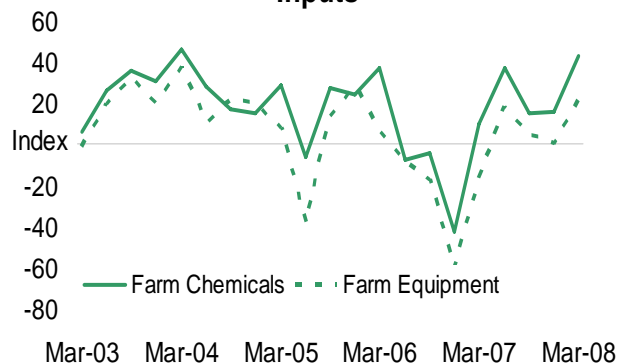
Agribusiness confidence in Crops



Agribusiness confidence in Fibres



Agribusiness confidence in Farm Inputs



NATIONAL RESULTS

	AGRIBUSINESS			ALL INDUSTRIES		
	Dec Qtr 2007 Actual Experience %	March Qtr 2008 Actual Experience %	Prev Survey Outlook %	June Qtr 2008 Outlook %	TOTAL March Qtr 2008 Actual Experience %	
1. Business Confidence						
Significant improvement	1	9	3	0	3	
Minor improvement	24	17	27	33	18	
No change	40	40	43	41	44	
Minor deterioration	27	30	24	21	29	
Significant deterioration	8	4	4	4	5	
Index(a)	-8.0	-2.1	0.0	1.4	-7.4	
2. Business Conditions						
Very poor	2	1	1	1	2	
Poor	17	21	17	14	16	
Satisfactory	54	55	59	59	55	
Good	23	17	20	25	24	
Very good	3	5	2	1	4	
Index(a)	7	-1	4	10	10	
3. Trading						
Very poor	3	0	1	0	2	
Poor	17	27	16	16	17	
Satisfactory	48	43	52	53	48	
Good	28	26	28	30	28	
Very good	4	4	3	1	6	
Index(a)	12	3	13	16	15	
4. Profitability						
Very poor	3	4	1	1	2	
Poor	19	29	17	11	21	
Satisfactory	48	46	52	60	47	
Good	24	13	25	26	24	
Very good	4	9	1	1	5	
Index(a)	7	-11	8	14	5	
5. Employment						
Much less	0	0	0	1	1	
Less	16	9	17	16	9	
Unchanged	67	77	73	64	69	
More	17	13	8	19	20	
Much more	0	1	1	0	1	
Index(a)	1	6	-8	1	11	
6. Forward Orders						
Much less	0	0	0	1	2	
Less	9	13	11	11	10	
Unchanged	37	34	37	39	32	
More	23	13	21	11	13	
Much more	0	4	0	1	2	
Index(a)	13	4	11	0	3	

AGRIBUSINESS
ALL INDUSTRIES

	Dec Qtr 2007	March Qtr 2008	Prev Survey	June Qtr 2008	TOTAL
	Actual	Actual	Outlook	Outlook	March Qtr 2008
	Experience	Experience			Actual
	%	%	%	%	Experience
					%
7. Stocks					
Much less	1	3	0	6	1
Less	20	23	23	13	13
Unchanged	39	37	49	47	42
More	25	16	15	20	16
Much more	3	9	1	1	3
Index(a)	7	-1	-7	3	5
8. Export Sales					
Much less	3	3	0	3	1
Less	9	6	18	7	5
Unchanged	23	23	58	66	18
More	8	9	24	21	5
Much more	1	1	0	3	1
Index(a)	-3	1	6	14	0
9. Capital Expenditure					
Much less	1	4	4	1	3
Less	11	19	15	11	15
Unchanged	59	56	55	61	52
More	25	17	23	21	23
Much more	4	4	4	4	5
Index(a)	17	-1	8	13	10
10. Total Labour Costs					
3% or more	7	10	7	4	12
2% to less than 3%	15	17	7	4	10
1.5% to less than 2%	5	4	1	4	4
1% to less than 1.5%	8	4	5	3	8
0.5% to less than 1%	8	6	5	13	6
Less Than 0.5%	7	6	4	6	4
No change	45	50	63	59	52
Less Than -0.5%	1	0	3	1	0
-0.5% to less than -1%	0	0	0	1	1
-1% to less than -1.5%	0	0	1	0	0
-1.5% to less than -2%	1	0	0	0	1
-2% to less than -3%	1	0	0	1	1
-3% or more	1	3	3	3	2
Average Change % (a)	0.79	0.90	0.45	0.34	0.84
11. Purchase Costs					
3% or more	24	21	17	13	9
2% to less than 3%	12	13	12	7	9
1.5% to less than 2%	5	9	5	6	6
1% to less than 1.5%	5	11	11	14	9
0.5% to less than 1%	12	6	12	9	10
Less Than 0.5%	7	9	8	10	5
No change	24	29	29	37	44
Less Than -0.5%	0	0	0	0	1
-0.5% to less than -1%	3	0	3	0	1
-1% to less than -1.5%	4	0	0	0	1
-1.5% to less than -2%	1	1	0	0	0
-2% to less than -3%	1	0	1	0	1
-3% or more	1	1	1	4	1
Average Change % (a)	1.35	1.45	1.22	0.89	0.83

AGRIBUSINESS

ALL INDUSTRIES

	Dec Qtr 2007		March Qtr 2008		Prev Survey	June Qtr 2008		MARCH Qtr 2008		
	Actual		Actual		Outlook	Outlook		Actual		
	Experience		Experience		Outlook	Outlook		Experience		
	%		%		%	%		%		
12. Overheads										
3% or more	0		4		4	0		5		
2% to less than 3%	11		3		3	3		6		
1.5% to less than 2%	8		9		4	10		5		
1% to less than 1.5%	8		9		15	6		8		
0.5% to less than 1%	9		16		13	11		9		
Less Than 0.5%	3		7		3	6		5		
No change	59		50		52	59		58		
Less Than -0.5%	1		0		0	1		1		
-0.5% to less than -1%	0		1		3	1		1		
-1% to less than -1.5%	0		1		0	1		1		
-1.5% to less than -2%	0		0		0	0		0		
-2% to less than -3%	1		0		1	0		1		
-3% or more	0		0		3	1		1		
Average Change % (a)	0.55		0.61		0.43	0.33		0.54		
13. Price of Final Products										
3% or more	20		21		13	4		8		
2% to less than 3%	5		7		8	4		7		
1.5% to less than 2%	7		4		4	7		3		
1% to less than 1.5%	0		3		9	3		6		
0.5% to less than 1%	7		7		7	6		6		
Less Than 0.5%	5		6		4	6		3		
No change	49		43		47	66		61		
Less Than -0.5%	0		0		0	0		0		
-0.5% to less than -1%	0		1		3	0		1		
-1% to less than -1.5%	1		1		1	1		1		
-1.5% to less than -2%	0		0		0	0		0		
-2% to less than -3%	1		1		1	0		1		
-3% or more	3		3		3	1		1		
Average Change % (a)	0.97		1.05		0.80	0.43		0.56		
14. Sales Margins										
Much less	1		1		0	0		1		
Less	20		23		12	16		17		
Unchanged	56		59		65	71		65		
More	20		14		20	11		14		
Much more	1		1		1	0		0		
Index(a)	0		-9		9	-4		-4		

	Dec Qtr 2007 Actual Experience %	March Qtr 2008 Actual Experience %	March Qtr 2008 Actual Experience %
15. Current Output Level			
Full capacity	12	14	18
90% of full capacity	32	26	31
80% of full capacity	31	33	24
70% of full capacity	13	16	16
60% of full capacity	7	6	4
Below 60% full capacity	4	4	2
National Capacity Utilisation Rate (%)	81.8	81.5	83.8
16. To What Extent Are These Factors Constraining Output			
(a) Premises and plant			
Significant constraint	3	7	10
Minor constraint	23	27	25
No constraint	67	59	58
Not applicable	8	7	7
(b) Availability of suitable labour			
Significant constraint	19	19	30
Minor constraint	40	39	42
No constraint	39	40	25
Not applicable	3	3	3
(c) Sales and orders			
Significant constraint	20	24	21
Minor constraint	31	26	29
No constraint	45	46	45
Not applicable	4	4	6
(d) Availability of materials			
Significant constraint	15	14	4
Minor constraint	23	29	20
No constraint	53	50	57
Not applicable	9	7	19
17. Anticipated Capital Expenditure (Next 12 Months)			
Decline strongly	8	4	6
Decline moderately (by less than 5%)	9	4	8
Remain steady	36	46	45
Increase moderately (by less than 5%)	32	26	20
Increase strongly	13	20	20
Index (a)	28	37	26

Group Economics



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 18 February and 11 March 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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