

Group Economics



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

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

Confidence in major commodities and suppliers increased for the December quarter, underpinned by increased prices in AUD terms for most rural commodities. Confidence in wheat increased (up 2 points to an index of 29) in the December quarter as reasonable crop development in key producing areas up to the end of August lifted expectations of a significant expansion in winter grain production in 2008-09. Higher sugar prices in AUD terms resulted in confidence in sugar increasing (up 1 point to 5).

Despite cotton prices increasing in AUD terms during the September quarter, near term confidence in cotton declined (down 14 points to -17) as the size of the recovery in domestic cotton production in 2008-09 remains unclear.

For wool, further falls in the eastern market indicator in the September quarter and forecast lower production in 2008-09 resulted in confidence remaining poor (up 4 points to -5).

Confidence in beef increased in the December quarter (up 4 points to 14) as lower feed grain prices, combined with average spring rainfall in northern NSW and southern Queensland, lifted demand from lotfeeders and restockers.

Confidence in lamb increased in the December quarter (up 6 points to 18), as limited supplies of well conditioned lambs resulted in a significant increase in saleyard prices, with the heavy lamb indicator price averaging 427c/kg in September 2008, a year on year increase of 53 per cent.

Underpinned by high farm gate milk prices and expectations of lower fodder costs in 2008-09, in line with an expansion in winter crop production, confidence in dairy increased (up 8 points to 14).

Overall Agribusiness' confidence in their own industry (post farm gate) increased by 12 points to an index of 8. However, with responses to the survey gathered in late August/early September it is expected that confidence levels for most commodities has probably fallen since, reflecting concerns over the negative impact of below average spring rainfall will have on farm production in many areas. In addition, downward revisions in global growth forecasts and the potential impact that weakening global demand may have on commodity prices also remains a concern.

Agribusiness respondents' profitability outlook for the next 12 months remained relatively unchanged in the September quarter down 1 point to 20 index points. Demand continues to be reported as the major concern for agribusiness, with 37 per cent of respondents expecting a lack of demand to be the main constraint to profitability over the next 12 months. For 12 per cent of respondents, rising input costs; including raw materials and fuel, remain a key constraint to profitability, with a further 14 per cent still concerned about the drought. Respondents concerns with high exchange rates and interest rates weakened in the September quarter, with 5 per cent (down from 12 per cent) and 0 per cent (down from 9 per cent) of respondents citing these factors as the main drag on the profitability outlook.

To help mitigate currency risk, 62 per cent of agribusiness exporters utilised hedging tools in the September quarter (down from 69 per cent in the previous quarter), for an average term of 13 months. Of these, 26 per cent reported a favourable position (up from 25 per cent in the previous survey), while 27 per cent reported an unfavourable position, compared with 25 per cent in the previous survey.

28th October 2008

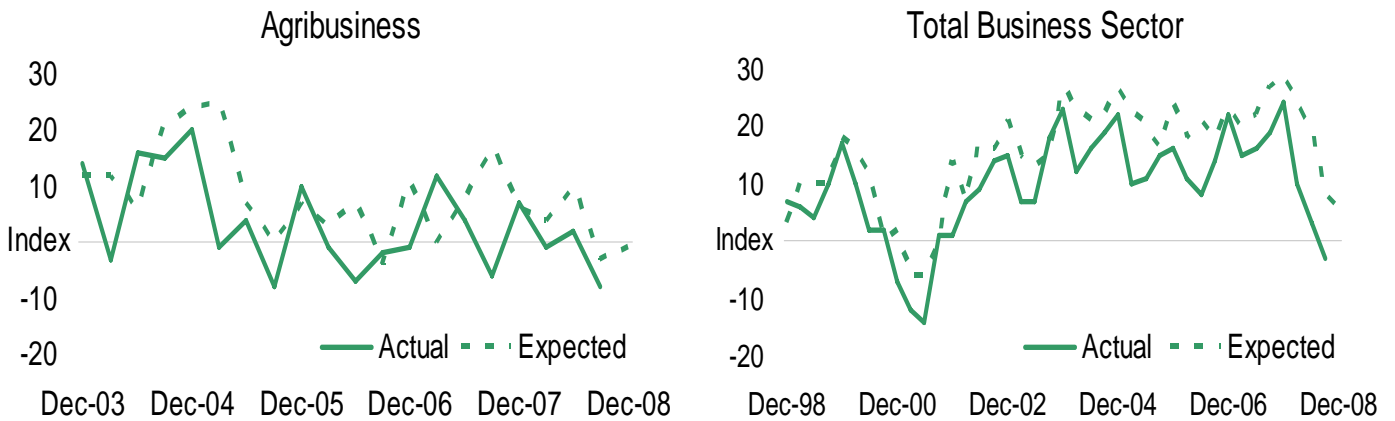
Business Conditions deteriorate

Business conditions in agribusiness (post farm gate) weakened this quarter, following a deterioration in both trading conditions and profitability performance.

With profitability performance and demand expected to deteriorate further in the December quarter, agribusiness respondents are anticipating continued weakening in business conditions in the December quarter.

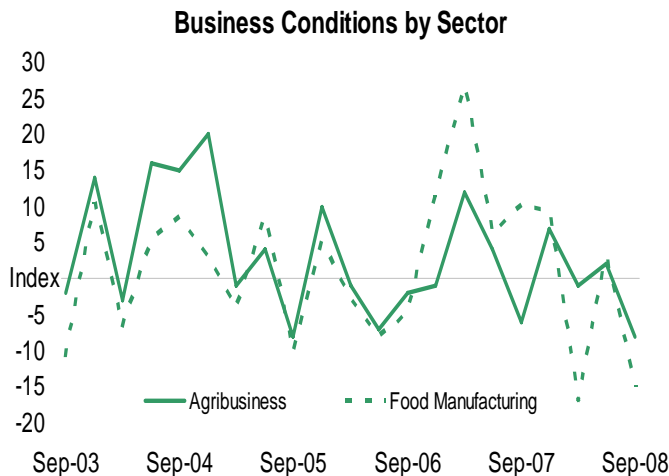
Conditions in the non-farm economy weakened significantly in the September quarter as sales weakened, profits turned poor and job gains slowed.

Business Conditions



Business Conditions by Industry....mixed

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

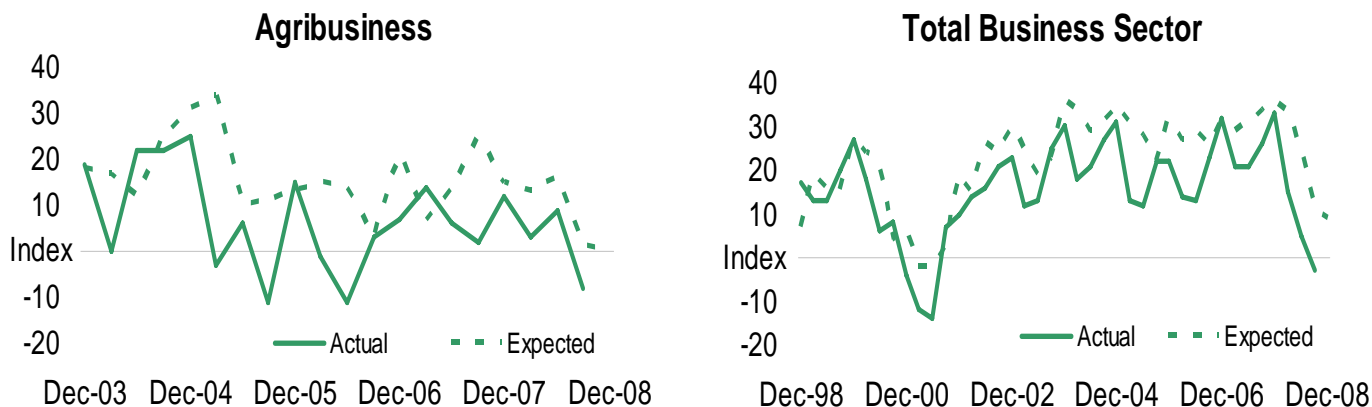


Trading Conditions....deteriorate

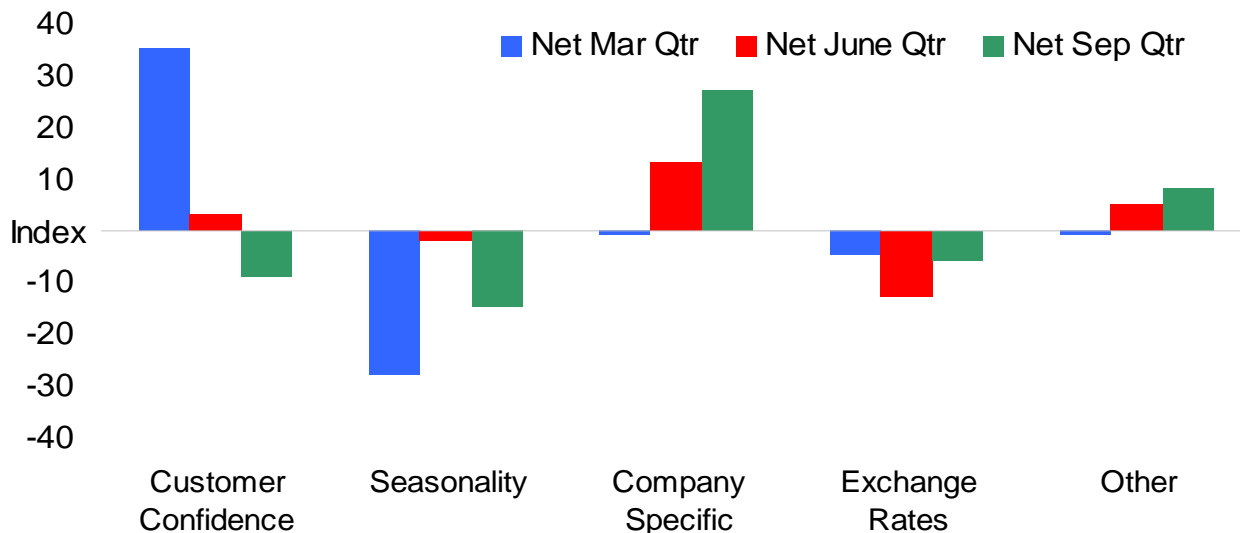
Trading conditions for agribusiness deteriorated in the September quarter, as poor customer confidence resulted in a decline in domestic demand.

Respondents citing the value of the Australian dollar as the key factor affecting the declining trading conditions declined in the September quarter in line with a depreciation in the exchange rate. However, there were heightened concerns over the impact of drought on customer confidence and trading conditions as the agribusiness sector entered the critical spring growing period.

Trading Conditions



Agri trading condntions - key drivers

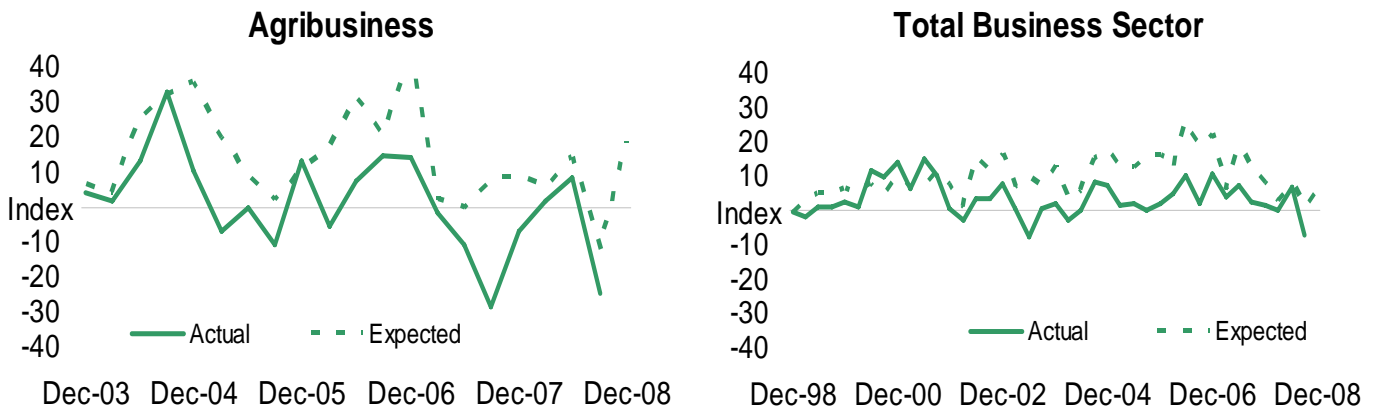


Export Sales weaken

Despite a favourable depreciation in the Australian dollar, agribusiness export sales declined significantly in the September quarter, as a result of weakening global demand and poor seasonal conditions in some areas.

Export sales for agribusiness are expected to increase in the December quarter, as the rapid depreciation in the AUD (in September and October) increases the cost competitiveness of Australian products in international markets. This potential benefit may be partially offset by weakening demand in global markets in line with downward revisions to global growth estimates.

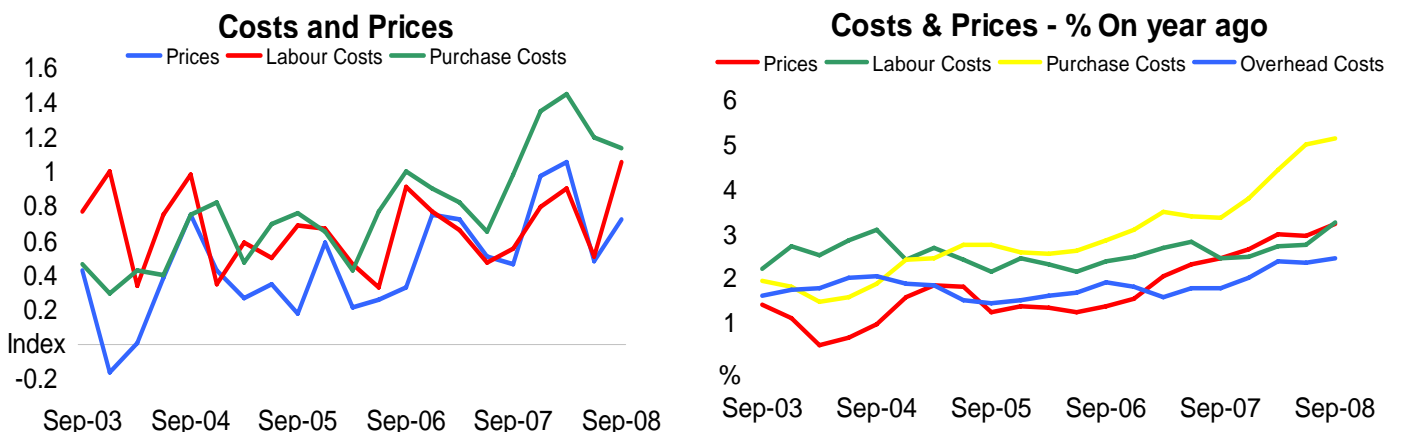
Export Sales



Cost Pressures increase further.... especially labour costs

Cost pressures increased in the September quarter as overhead costs and, to greater extent, labour costs, rose faster than final product prices. The significant increase in labour costs coincided with the Fair Pay Commissions decision to increase the standard federal minimum wage.

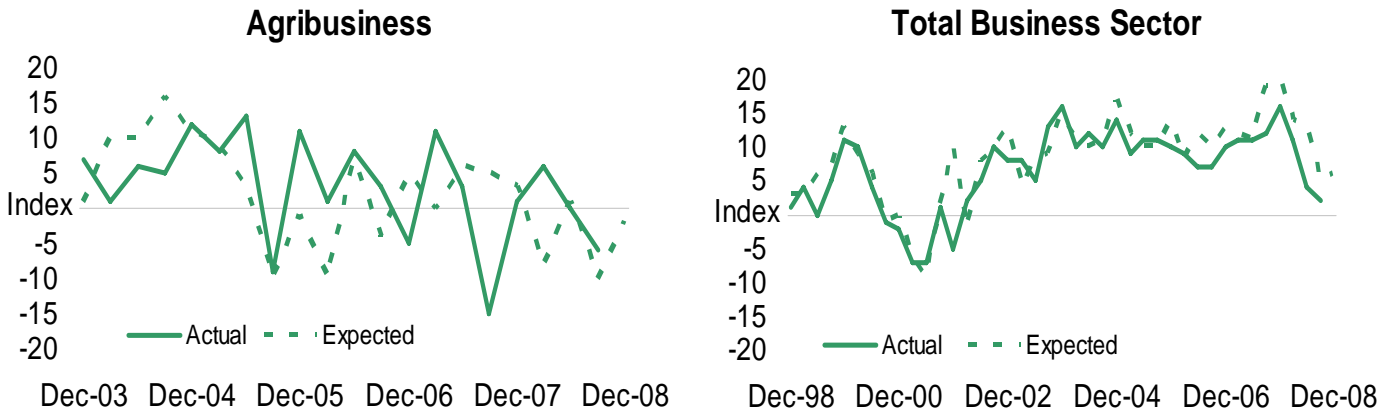
In the December quarter, agribusiness respondents expect costs to increase at a slower rate than final product prices, easing pressure on sales margins.



Employment declines...but seasonal increase expected

Subdued sales and poor profitability performance in the September quarter resulted in a decline in employment growth amongst agribusiness respondents. Employment growth in the wider non-farm business sector also declined. Agribusiness respondents expect employment to be largely unchanged in the December quarter, in line with a seasonal peak in agribusiness employment.

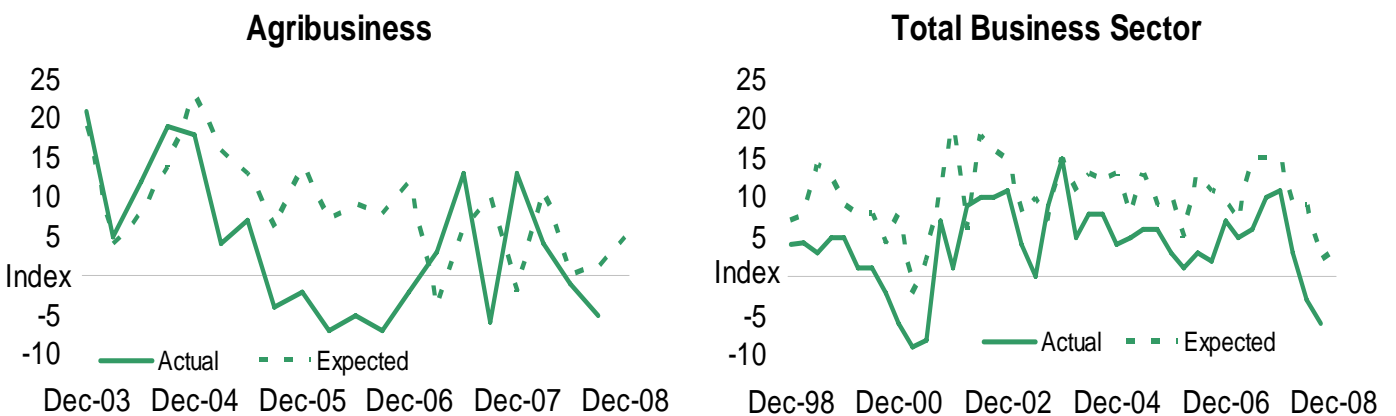
Employment gains



Forward Orders....declined

Forward orders declined this quarter and point to a subdued sales outlook in the near term. With domestic demand expected to ease, agribusiness respondents anticipate forward orders to remain subdued in the December quarter.

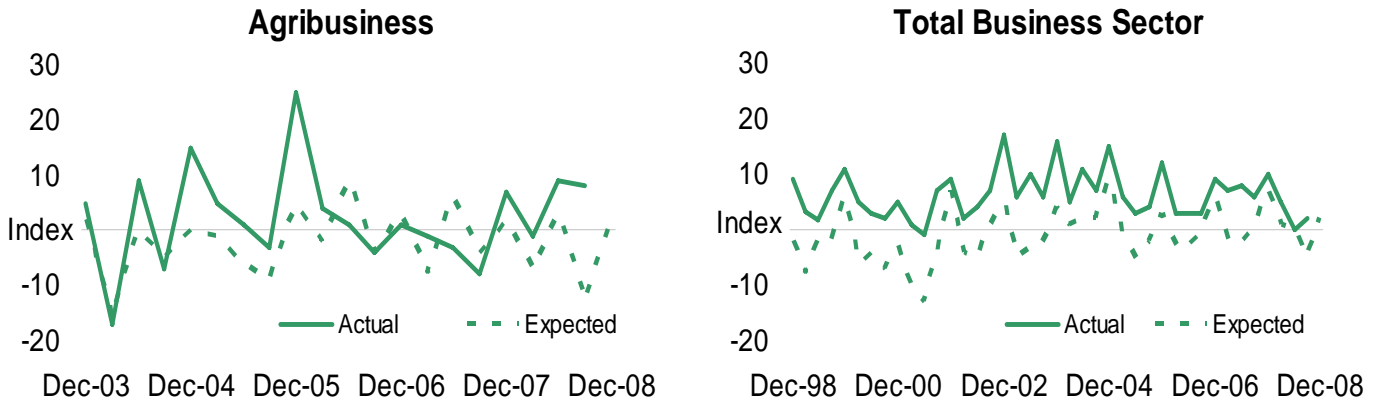
Forward orders



Stocks....modest rise as sales slow

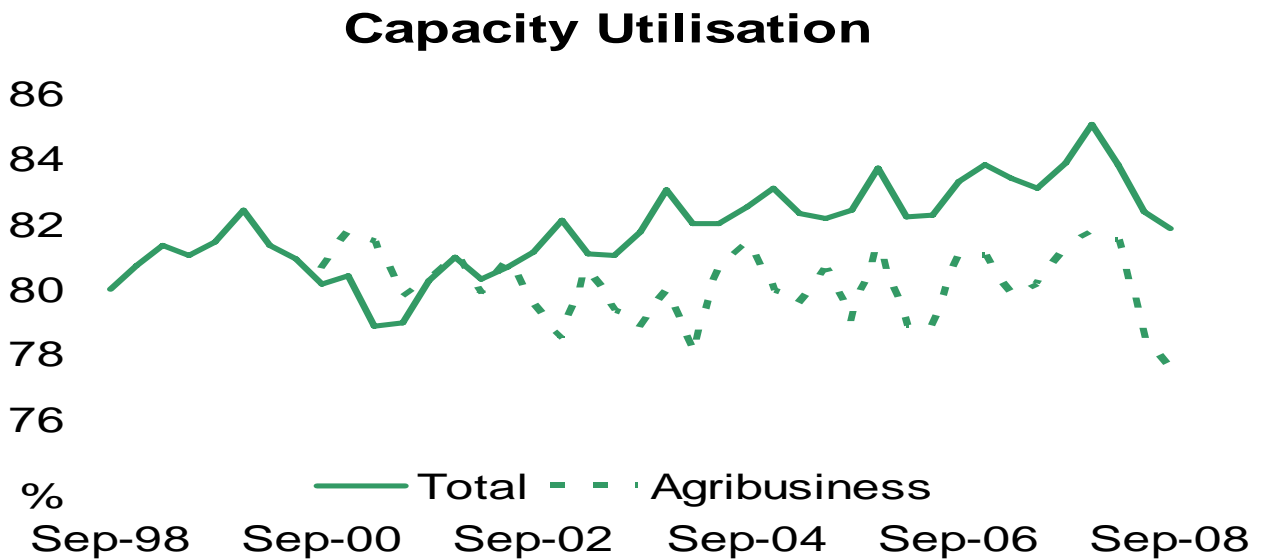
Agribusiness respondents reported a slight increase in stock levels in the September quarter in line with subdued domestic demand.

Respondents expect stocks to remain unchanged in the December quarter, as an expected recovery in export sales is partially offset by a seasonal peak in production and further weakening in domestic demand.



Capacity Utilisation....falls further to remain below non farm economy

In line with poor profitability performance, deteriorating trading conditions and a significant decline in employment growth over the September quarter, capacity utilisation in the agribusiness sector continued to fall. At 77.54 per cent, this represents the lowest levels of capacity utilisation since the survey commenced in September 2000. The availability of suitable labour remains the key constraint on output with 64 per cent of agribusiness respondents citing this as a constraint on current output, up from 63 per cent in the June quarter.

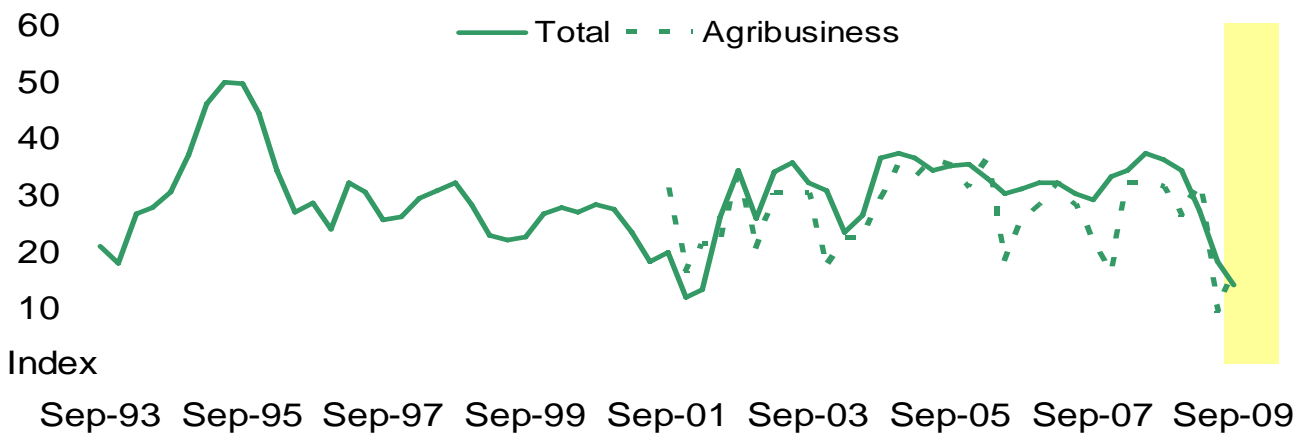


Business Conditions – 12 Month Outlook

Agribusiness respondents' outlook for business conditions in the next 12 months rebounded slightly in the most recent survey. Demand continues to be reported as the major concern for agribusiness, with 37 per cent of respondents expecting a lack of demand to be a constraint to profitability over the next year. For 12 per cent of respondents, rising input costs; including raw materials and fuel, remain a key constraint to profitability, with a further 14 per cent still concerned about the drought.

Concerns with high exchange and interest rates weakened in the September quarter, with 5 per cent (down from 12 per cent) and 0 per cent (down from 9 per cent) of respondents citing these factors as the main drag on the profitability outlook.

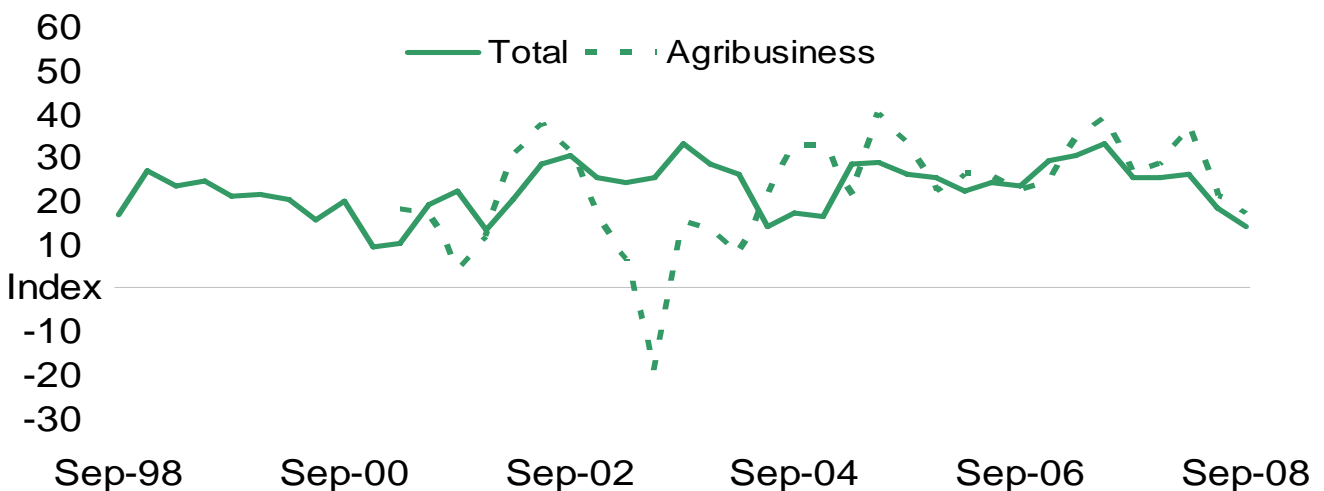
Next 12 months business conditions



Capital Expenditure Plans revised down

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

Capital Expenditure - Next 12 months



Agribusiness Confidence in Commodities & Other Suppliers

Looking forward, confidence in major commodities increased for the December quarter, with expectations of higher prices in AUD terms for most rural commodities and significant recovery in winter crop production in 2008-09.

In terms of crops, confidence in wheat increased for the December quarter as average seasonal conditions in most areas up to the end of August lifted expectations of a significant increase in wheat production in 2008-09. Higher sugar and cotton prices in AUD terms resulted in confidence in sugar also increasing.

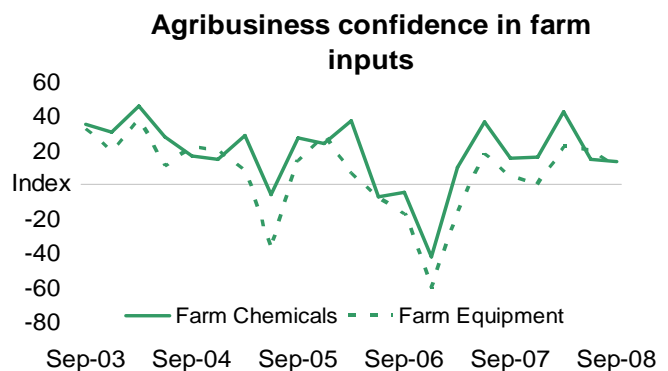
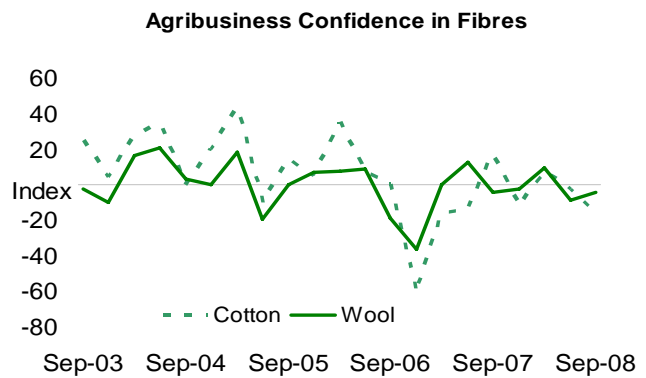
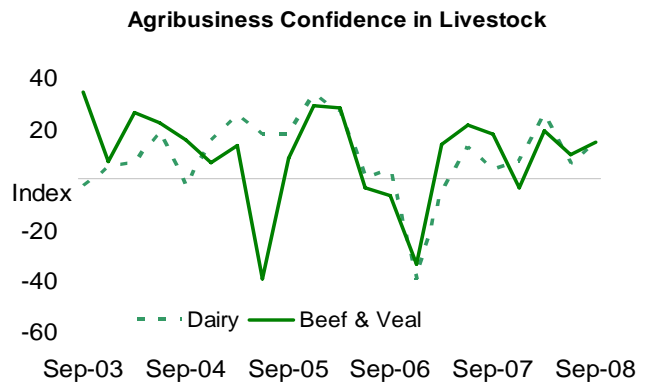
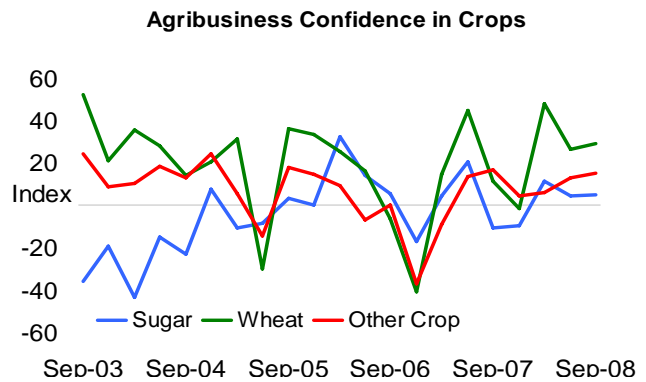
Despite cotton prices increasing in AUD terms during the September quarter, confidence in cotton declined. This may be partly contributable to the continued uncertainty around the size of cotton plantings in Australia in 2008-09. Current forecasts are for a 98 per cent increase in the area planted to around 125 000 hectares – still 41 per cent below the 5 year average area planted.

For wool, further falls in the eastern market indicator in the September quarter and forecast lower production in 2008-09 resulted in confidence in wool remaining poor. The eastern market indicator declined in the September quarter to average 865.7c/kg, 5 per cent below the corresponding period last year, as a slow down in world economic growth resulted in reduced demand for Australian wool.

Confidence in beef increased for the December quarter, as lower feed grain prices combined with average to above average spring rainfall in northern NSW and southern Queensland lifted demand for cattle from lotfeeders and restockers. Confidence in lamb also increased during the quarter, as limited supplies of well conditioned lambs resulted in a significant increase in saleyard lambs prices.

Confidence in dairy increased, underpinned by high farm gate milk prices and expectations of lower fodder costs in 2008-09, in line with increased winter crop production.

Confidence in both farm equipment and farm chemicals declined for the December quarter. The depreciation in the AUD reducing importers purchasing power may be a key factor behind the decline in farm equipment confidence.



NATIONAL RESULTS

AGRIBUSINESS	AGRIBUSINESS				ALL INDUSTRIES
	June Qtr 2008	Sept Qtr 2008	Prev Survey	Dec Qtr 2008	Sept Qtr 2008
	Actual	Actual	Outlook	Outlook	Actual
	Experience	Experience			Experience
	%	%	%	%	%
1. Business Confidence					
Significant improvement	1	2	1	8	3
Minor improvement	18	20	24	25	15
No change	36	28	45	45	32
Minor deterioration	40	42	24	23	39
Significant deterioration	4	9	6	0	12
Index(a)	-14.2	-18.5	-4.5	8.5	-21.9
2. Business Conditions					
Very poor	3	3	2	1	3
Poor	18	24	19	20	21
Satisfactory	55	54	59	60	54
Good	22	14	17	16	18
Very good	1	5	1	3	3
Index(a)	2	-8	-3	-1	-3
3. Trading					
Very poor	3	3	4	2	3
Poor	19	25	21	20	24
Satisfactory	46	52	48	57	49
Good	31	15	25	18	20
Very good	0	5	1	3	4
Index(a)	9	-8	1	0	-3
4. Profitability					
Very poor	4	5	3	0	4
Poor	25	29	18	26	26
Satisfactory	43	42	58	49	45
Good	24	18	18	18	20
Very good	3	6	3	6	4
Index(a)	-3	-9	0	-2	-6
5. Employment					
Much less	1	2	0	0	1
Less	10	17	19	14	14
Unchanged	76	69	72	74	69
More	12	9	9	12	15
Much more	0	3	0	0	1
Index(a)	0	-6	-10	-2	2
6. Forward Orders					
Much less	1	3	1	2	3
Less	15	11	12	11	15
Unchanged	36	40	39	32	28
More	15	9	15	17	10
Much more	0	0	0	0	2
Index(a)	-1	-5	1	5	-6

	AGRIBUSINESS				ALL INDUSTRIES
					TOTAL
	June Qtr 2008	Sept Qtr 2008	Prev Survey	Dec Qtr 2008	Sept Qtr 2008
	Actual	Actual	Outlook	Outlook	Actual
	Experience	Experience			Experience
	%	%	%	%	%
7. Stocks					
Much less	0	3	3	3	1
Less	19	17	27	17	15
Unchanged	39	37	40	43	38
More	21	23	15	17	16
Much more	7	5	1	5	2
Index(a)	9	8	-13	2	2
8. Export Sales					
Much less	1	5	3	0	2
Less	4	12	15	9	5
Unchanged	33	28	76	63	17
More	10	5	3	25	4
Much more	0	0	3	3	1
Index(a)	4	-12	-12	19	-2
9. Capital Expenditure					
Much less	6	5	4	5	4
Less	15	23	10	22	18
Unchanged	52	45	54	42	49
More	21	20	25	25	22
Much more	6	6	6	6	5
Index(a)	6	-2	16	5	4
10. Total Labour Costs					
3% or more	4	17	15	17	20
2% to less than 3%	4	9	13	8	10
1.5% to less than 2%	3	5	3	5	3
1% to less than 1.5%	4	6	4	8	6
0.5% to less than 1%	15	3	9	6	6
Less Than 0.5%	1	8	1	2	2
No change	67	48	51	52	47
Less Than -0.5%	0	0	0	0	0
-0.5% to less than -1%	0	3	1	3	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	2	0	0	1
-3% or more	0	0	1	0	2
Average Change % (a)	0.51	1.05	1.04	1.07	1.12

	AGRIBUSINESS				ALL INDUSTRIES
	June Qtr 2008	Sept Qtr 2008	Prev Survey	Dec Qtr 2008	TOTAL
	Actual	Actual	Outlook	Outlook	Sept Qtr 2008
	Experience	Experience			Actual
	%	%	%	%	Experience
					%
11. Purchase Costs					
3% or more	16	15	12	3	16
2% to less than 3%	16	17	12	12	14
1.5% to less than 2%	6	3	6	5	7
1% to less than 1.5%	9	9	9	12	7
0.5% to less than 1%	9	14	7	14	9
Less Than 0.5%	4	3	3	5	2
No change	33	31	46	42	37
Less Than -0.5%	0	0	0	0	0
-0.5% to less than -1%	0	3	0	0	1
-1% to less than -1.5%	0	0	1	0	1
-1.5% to less than -2%	0	0	0	0	0
-2% to less than -3%	0	2	1	3	0
-3% or more	4	3	0	3	1
Average Change % (a)	1.20	1.13	1.02	0.59	1.24
12. Overheads					
3% or more	1	3	4	3	7
2% to less than 3%	13	12	9	6	9
1.5% to less than 2%	4	6	9	2	6
1% to less than 1.5%	10	18	13	22	9
0.5% to less than 1%	9	8	7	11	10
Less Than 0.5%	6	3	6	2	3
No change	49	46	46	52	51
Less Than -0.5%	0	0	0	2	0
-0.5% to less than -1%	1	0	1	0	0
-1% to less than -1.5%	3	0	1	0	1
-1.5% to less than -2%	0	0	0	0	0
-2% to less than -3%	0	0	1	2	1
-3% or more	1	3	0	0	1
Average Change % (a)	0.58	0.71	0.73	0.62	0.73
13. Price of Final Products					
3% or more	6	11	6	9	15
2% to less than 3%	9	6	3	11	8
1.5% to less than 2%	7	5	1	3	2
1% to less than 1.5%	7	14	6	12	7
0.5% to less than 1%	4	2	4	5	4
Less Than 0.5%	9	5	6	2	2
No change	45	52	64	51	53
Less Than -0.5%	0	0	0	2	1
-0.5% to less than -1%	0	0	0	0	1
-1% to less than -1.5%	1	0	1	2	1
-1.5% to less than -2%	3	2	1	0	1
-2% to less than -3%	3	0	1	2	2
-3% or more	3	3	1	2	2
Average Change % (a)	0.48	0.72	0.33	0.77	0.84
14. Sales Margins					
Much less	3	3	1	0	2
Less	22	29	22	20	26
Unchanged	57	51	63	55	56
More	16	14	12	23	13
Much more	0	0	0	0	0
Index(a)	-9	-18	-12	3	-15

AGRIBUSINESS	ALL INDUSTRIES		
	TOTAL		
	June Qtr 2008	Sept Qtr 2008	Sept Qtr 2008
	Actual	Actual	Actual
	Experience	Experience	Experience
	%	%	%
15. Current Output Level			
Full capacity	10	8	15
90% of full capacity	21	22	27
80% of full capacity	33	35	28
70% of full capacity	19	17	17
60% of full capacity	7	11	7
Below 60% full capacity	7	8	3
National Capacity Utilisation Rate (%)	78.5	77.5	81.8
16. To What Extent Are These Factors Constraining Output			
(a) Premises and plant			
Significant constraint	1	5	7
Minor constraint	24	20	22
No constraint	69	71	64
Not applicable	6	5	7
(b) Availability of suitable labour			
Significant constraint	18	17	23
Minor constraint	45	37	41
No constraint	33	45	34
Not applicable	4	2	2
(c) Sales and orders			
Significant constraint	28	29	26
Minor constraint	22	34	28
No constraint	42	32	39
Not applicable	7	5	7
(d) Availability of materials			
Significant constraint	15	14	5
Minor constraint	24	23	16
No constraint	51	57	60
Not applicable	10	6	19
17. Anticipated Capital Expenditure (Next 12 Months)			
Decline strongly	10	6	10
Decline moderately (by less than 5%)	7	14	10
Remain steady	40	42	45
Increase moderately (by less than 5%)	24	23	17
Increase strongly	15	14	17
Index (a)	21	17	14

Group Economics



About the Agribusiness Survey:

This is the 29th 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 25th August and 11th September 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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