COMMENTARY

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HARVESTING FARM POTENTIAL

Food security and higher profits leave everyone better off

JOHN DURIE

Asia is home to half the world's population but has only 20 per cent of the agricultural land, highlighting the need for better data and farm practices to bridge the gap.

The largest study in the world looking at the connection between natural capital and farm profitability is being conducted by Macdoch Foundation's Farming for the Future (FFT) program.

More productive and resilient farms boosting natural capital means better food security to help feed Australia and Asia.

FFT program director Sue Ogilvy will be a speaker at this month's Global Food Forum, explaining how more data guides helps farmers make better decisions.

Its first study of 130 livestock farms across the country is due to be completed in August. It will feature at a symposium in Canberra in September, showing the costs and benefits of investing in natural capital.

Climate Change Minister Chris Bowen is helping by supporting the previous government's move to allow farmers to include income earned from carbon credits and the like as farm income, which means it can be averaged over five years rather than taxed each year as non-farm income.

But it's not just farmers who benefit from better data on natural capital. BHP recently released a study on the rehabilitation of its closed Beenup titanium mine in Western Australia. BHP environment chief Anne Dekker noted in a report that natural capital's "underlying premise is that since the environment is important to society and the economy, it should be recognised as an asset that must be maintained and managed, and its contributions (services) be better integrated into commonly used frameworks like the System of National Accounts.

"Companies need better information to incorporate nature-related risks and opportunities into their strategic planning, risk management and capital allocation decisions."

The Beenup study showed significant improvement in the quality of water flows and a net gain in carbon storage, which was better than expected.

Fund managers like Melior's Tim King are working with the Taskforce on Nature Related Financial Disclosure, which in September will release guidelines for companies to report their natural capital management and risks to help investors and management incorporate nature risks in their decision making.

The Macdoch Farming for the Future study on livestock production will be followed by work on cropping farms.

The program is working with Brisbane-based agricultural data analytics group Cibo Labs, which specialises in remote sensing and machine learning to better analyse farm productivity, La Trobe University and Bush Heritage.

One outcome would be developing a diagnostic tool that a farmer can use to work out what would work best to improve output and better using the untapped natural capital on the farm.

Macdoch's Sue Ogilvy

Banks do it tough

In a manner almost akin to price signalling, the banking oligopoly has one by one signalled the home loan market is tough.

Credit growth has slowed with higher rates, costs are rising with high deposit rates, Macquarie has swooped on 5 per cent market share and mortgage brokers account for 71 per cent of new home loans.

CBA is the only one of the big four to originate more than half of its own home loans.

EY's Doug Nixon said bank net interest margins are at 20-year lows, an average of 2.3 per cent compared with 3.6 per cent for business loans.

CBA has 26 per cent market share, ANZ 17 per cent.

In October 2020 the broker market share was 59.4 per cent, so punters have voted with their feet. Worse, brokers have some incentive to ensure you only stay with the one bank for two years.

Upfront commissions of around 65 basis points and trail commissions of 17 basis points apply for loans up to two years, but the banks are getting smarter by offering higher trail commission for long-term loans, rising to as much as 30 basis points in year five.

This is still less than half the upfront fee.

In the good days banks were earning returns on equity of 25 per cent-plus on their new home loans but now it's back to cost of capital or around 10 per cent. The backbook of existing loans is still highly profitable at double these levels compared to the big four average return of 12.6 per cent.

There are tweaks around the edges with present APRA rules requiring home loan buffers of 300 basis points.

This means if home loans are at 5.5 per cent the bank must assess credit quality at 8.5 per cent, and if the borrower can't afford this rate they are stuck with their existing bank.

Resimac, as previously noted, is undercutting this with a 200 basis point buffer.

Given long-term customers are bigger earners for the banks, the happy consequence of knowing a mortgage borrower is stuck due to the buffers also means you don't have to offer too many incentives to keep them.

The major issue today is loan quality, with the rush of fixed-rate loans converting to variable rates, but against this backdrop, big banks (CBA excluded) have clearly dropped the ball when it comes to exploiting their brand equity.

Cyber safety

Small business lobby COSBOA is reportedly a couple of weeks off appointing a new chief executive but at least has still leveraged the work of former boss, Alexi Boyd, to collect $23.4m in the budget over three years to run its CBA and Telstra-backed Cyber Warden program.

Small business faces the same risks as Medibank or Optus when it comes to cyber crime, but without the resources, so the program is designed to educate the sector through designated cyber wardens who are meant to be the point guard ensuring passwords are changed and systems are in place.

Watchdog woes

ASIC and the ACCC were left short-handed from this week's modest federal budget, with ACCC staffing increasing by 115 to 1456 and the funds increasing by 6 per cent to $475.7m.

Scam Watch is the major focus in terms of extra cash, with a new door open to fast-track concerns to the regulator.

The ACCC will shortly have a "designated complaints function" to allow consumer and small business advocacy groups to submit a complaint to the ACCC where they have strong evidence of systemic market issues.

Under the initiative from Competition Minister Andrew Leigh, once the complaint is lodged the ACCC will be required to publicly respond, making clear what enforcement action, if any, will be taken.

Nicholas Moore's Financial Regulator Assessment Authority (FRAA), overseeing ASIC and APRA, will be wound back to a report every five years instead of very two years. Given the first APRA report is due in July, the planned review of ASIC's enforcement policy will take the back seat.

Not that ASIC is short of reviewers, with two dedicated parliamentary committees peering over its shoulders, but the key is what is done with the reports, and FRAA reports have the benefit of market-savvy expectations of the regulator as opposed to headline-hunting politicians.

Chief Joe Longo's data revolution outlined here earlier received no funding support, and instead the $433m budget received top-ups of $4.3m to help monitor greenwashing and $4.8m to disrupt scams.

Racing to be king, queen or other of the desert

JOHN CONNOLLY

Forget Italy, Monaco and Spain – there is only one race you want to focus on in the next two months and that's the 460km drive on the old Ghan railroad track to the St Tropez of the Northern Territory, Aputula. But St Tropez didn't have the largest police patrol on camels in the world, wasn't named the tidiest town in the Territory or doesn't have a plentiful groundwater source with good quality water, which is disinfected with sodium hypochlorite and monitored monthly for microbes.

Of course, up until a few years ago Aputula was named Finke and gave its name to the Finke Desert Race in which, last year, 883 persons in 332 cars and on 551 bikes (temporarily) arrived in town after 229km. The next day they did the same thing in reverse. Given, if you are any good at the car or bike in the sand caper it only takes 100 minutes each way, it doesn't seem all that hard. But they tell me it's the toughest race in the world, that people camp out along the route to see the bike riders when they fall off and that the celebrations in Alice Springs the night before and the night of the finish are pretty epic and that you can see the Shane Van Gisbergen of sand racing, Toby Price, getting crowned King, Queen or Other Royalty of the Desert (again!). Why would you head to Europe?

When we say cars, they are naturally not like, say, a 2007-11 Honda CRV. This is probably a good thing since in the USA, 563,000 of the CRVs are being recalled because the rear trailing arm can fall off due to excessive corrosion. "In some cases, the rear frame may be so corroded that Honda will offer to buy the vehicle back from owners to get the safety hazards off the road."

Now, I asked Honda Australia about whether your local CRV might have bits falling off. Ms Honda promptly replied: "Honda Australia recall vehicles as advised by Honda Motor, in line with the DITRDCA (Department of Infrastructure, Transport, Regional Development and Communications and the Arts) policy and FCAI guidelines. Information on current recalls under way in Australia is available from the DITRDCA website."

OK, what about the class-action lawsuit in the land of the free that details a dangerous sticky steering defect that leaves 2022-2023 Honda Civic drivers unable to control vehicle? "Despite numerous consumer complaints, Honda has failed to issue a recall on 2022-2023 Civics, and the suit accuses the automaker of actively concealing information about the defect from the public while it continues to sell defective vehicles" the lawsuits says.

"Honda Civic for the US market is manufactured in a separate factory to those manufactured for the Australian market. Honda Australia has not been notified of any issue affecting 2022-2023 Honda Civic in Australia." All good here then.

Most of the Finke racing cars are brands you've never heard of. For instance, TP (Toby Price) is back in his Mitsubishi TSCO Trophy Truck 3600cc. Except it is not really a Japanese import. And it's $700k more than your Pajero. No, TP's truck is a fibreglass body with the Mitsubishi name on it, on top of a TSCO Racing chassis. TSCO, like JIMCO and Alumicraft, build big mothers (and often fathers and others) that come with 750kW engines (non-electric), one metre of travel in the wheels, sequential gearboxes and are about a metre longer and wider than a Honda. They also build buggies that look like the creatures from the documentary, Guardians of the Galaxy Vol. 3, with names like Canam X3 and Rush, the Australian Ikea of buggy racing. The truck comes in a flat cardboard box with "an easy numbering system that gives you everything you need to build this truck to create your race-ready Rush Truck" at home. All these vehicles are built to do is go very, very fast in red dust. Red dust that can swallow suspecting cars and bikes.

TP was thinking about entering both the bike and car comps. He's done it before. Drive to Finke. Chopper back and bike down to Finke. Repeat on the way back and try to win both.

Ford have taken my advice and entered the Raptor that took out a class win in Mexico's Baja 1000. Yup, they were the only entrant in that class. Hamo has been talking to me about this strategy. Someone paid $1.8m for Paul Walker's Fast and Furious, Nissan Skyline R34 GT-R by Kaizo to enter it in the Finke, but shipping cost from soap dodger land to the Alice was too high.

Of course, our money is on the thoroughbreds. Like Col Desbrow's Commodore ute and reader 15 Richard McNay's VY Commodore ute. Like the old bloke and me, Richard is driving his race car to and from the track. In Mac's case from Geelong to Alice, compete in the Finke then turn around and drive back to Geelong. (Swags in the back for accommodation.)

Now we tried to get some more info on the Finke but race organisers were tied up with the coronial inquest into the death of 60-year-old spectator Nigel Harris during the 2021 rally. This week counsel assisting the coroner, Jodi Truman said: "The evidence is clear that at least since September 2018, and likely before then, both Motorsport Australia and Finke Desert Race Inc knew it was not uncommon at all for spectators to be close to the track and to be in locations considered dangerous."

Coroner Elisabeth Armitage was concerned about the level of secrecy around safety concerns by Motorsport Australia. "By that I mean marking documents as confidential, highly confidential, privileged and legally privileged. I'm also concerned about the failure to minute the discussions in the meetings which addressed safety issues, and I was concerned that was potentially a deliberate endeavour to have secrecy around those discussions and those issues."

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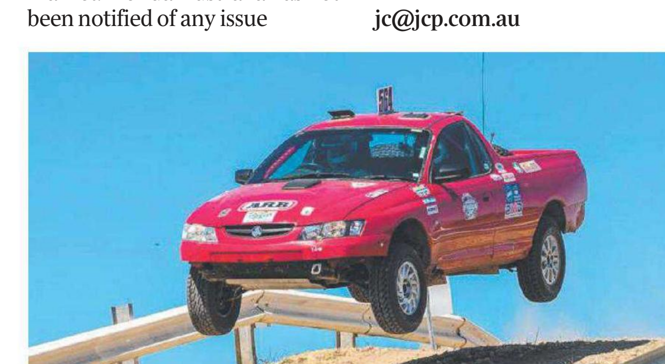

Richard McNay gets airborne in his VY Commodore ute

Budget's a good start, but there's more to do to fix economy

AMY AUSTER

If this budget were up for auction, the real estate agents would be marketing it as a renovator's delight. It underpins our strong foundations and forms a steady frame through targeted interventions, yet work is required if we wish to turn this sturdy structure into a modern, dynamic economy.

The Treasurer said this budget was about repair, restraint and relief – the underpinnings. In my book, he delivered all three.

If we start with repair, we need to look no further than the bottom line, which has rebounded at warp speed since the dark days of the Covid-19 pandemic, when our fiscal deficit hit $134bn (an alarming 6.5 per cent of GDP). The fact that only two years later we are registering a fiscal surplus is a combination of good luck and hard work, and something that must be credited to both the current and previous governments.

Yes, the Commonwealth has benefited from a massive $28bn uplift in revenue relative to the October budget. This was a tailwind updraft from high commodity prices and inflation, but also growth in personal and corporate income tax made possible by avoiding a Covid-era recession with fiscal and monetary stimulus. Policy kudos all around.

It must also be recognised that the May 2023 budget books $12bn in cuts to FY22/23 payments relative to October forecasts. This is down to the Government closing the "emergency relief" cookie jar, resisting the temptation of extending temporary measures, and cutting back planned or programmed expenditure. It's never easy to say no, particularly when economic times are so uncertain.

Next let's assess restraint. The surplus may have drawn headlines, yet the forward estimates reveal it won't last for long. Is this evidence of a trigger-happy Treasurer? Not by my calculations. Revenue forecasts are conservative, with Treasury only slightly lifting long-term commodity price assumptions, and tax revenue forecasts limited to 5 per cent per annum growth after falling in 2024/25 with Stage 3 tax cuts (should they go ahead).

Expenditure growth is cut to fit the cloth woven by topline revenue growth, rising more slowly than revenue over the forward estimates. In the end, the forecast for the underlying cash balance has improved from -1.8 per cent to -2 per cent of GDP forecast in the October budget to no worse than -1.3 per cent of GDP in May 2023 budget.

This reads to me as the government intending to chip away at the structural deficit, previously estimated to stand at around 2 per cent of GDP.

As a result, net debt is now projected to land at 24.1 per cent of GDP by the end of the forward estimates, and to fall to below 20 per cent of GDP by 2033-34. No doubt US President Joe Biden might look with envy at our Prime Minister given the ongoing debate within congress in regard to raising the US Government's debt ceiling.

And the third leg – relief. While debate rages over inflationary impacts, the relief measures are targeted at the 1.1 million Australians living in our lowest income decile. The rise in the basic JobSeeker rate and extension of the parenting payment support Australians who have been unable to work full time in the tightest labour market conditions we have ever experienced; they are, in the main, challenged by disability, chronic health conditions or other factors that impede full-time employment. To provide an additional $40 a fortnight for people who live in rental accommodation and can rarely afford to buy meat does not risk a rush on plasma TV screens.

To those who complain that the majority of Australian households got nothing out of this budget, I refer you to the October edition. By my calculation, Australian households earning income of $100,000 a year will receive a $1375 boost with the Stage 3 tax cuts next year, and more than $5000 this coming year if they have two children in full time care. Better than a kick in the proverbial gut.

Two other key measures – lifting the Commonwealth Rental Allowance and increasing Medicare bulk billing incentives – potentially reduce inflationary pressure by adding capacity. The failure to raise the CRA in recent years has put the social and affordable housing sector on the back foot, depressing rental yields and reducing the commercial ability to bring in new stock. Raising the CRA does not solve the problem but it will help. Similarly, improving bulk billing incentives for the cohorts who are the most frequent users of medical services means everyone should have better, faster access to the primary health care system.

The 2008 GFC earthquake destabilised our economic house and the Covid cyclone delayed our repairs, but budget 2023/24 has finally underpinned our foundations. What now remains is necessary renovation of our above-ground structure.

To know where to focus our efforts, we only need to look at where inflation is proving to be sticky: housing, health, energy and food. We have inflation in these areas because supply is not keeping up with demand, and the reason for the shortages is structural. They have to do with vulnerable supply chains, including limited domestic manufacturing capacity, our small and relatively expensive pool of workers and our very inefficient use of land.

Housing, energy and food are largely private markets. To end our shortages will require market participants to do something different to business-as-usual, and co-ordinating that effort is the job of government. The effort with energy, including legislated net zero targets and a safeguard mechanism, is a good first step.

Housing is just as complicated and does not have a budget expenditure solution. Indeed throwing more public funds at new buyers to enter the private housing market may add more demand with no supply. Reshaping our housing market is a big task.

We must make a start, and we must do it now.

Amy Auster is PwC Australia's chief economist and insights officer.