

RURAL BANK Insights

February 2013



WELCOME

It seems that lately every year begins with an extreme weather event. In 2012, we saw flooding across much of the Eastern states and, in a similar dramatic fashion, 2013 arrived with bush fires and flooding in Tasmania, Victoria, Queensland and New South Wales. Our thoughts are with affected residents of these areas during these challenging times.

The impact of these events is felt by all Australians, through tragic loss of life and property and devastating damage to livelihood. The flow-on effect on the cost and supply of produce will continue to impact the farming industry, as well as all Australian consumers, for some time.

As the only wholly Australian owned and operated agribusiness bank in the country, we are looking

forward to assisting the Australian farming sector and local communities to respond to the challenges, as well as the opportunities presented in 2013.

We wish you a prosperous year ahead and look forward to speaking to you soon.

Paul Hutchinson
Managing Director and CEO



In this issue

- Welcome
- Outlook for 2013
 - Economic
 - Agrisector
- Digital technology - how is it being used on the land
- Equipment finance - designed to meet the needs of farmers
- Local faces, local expertise



About Rural Bank

Rural Bank is a wholly owned subsidiary of Bendigo and Adelaide Bank Limited and specialises in providing banking products and services to the Australian farming sector.

Our customers are primarily based in rural and regional Australia, although many of our deposit customers are

from metropolitan areas.

Rural Bank's heartland is in rural Australia. We are committed to providing a specialised banking service to primary producers, agribusiness participants and individuals or businesses seeking business loans.

As part of the Bendigo and Adelaide

Bank Group, we also offer the broader capabilities offered by Bendigo and Adelaide Bank.

Our products and services are available at over 400 regional locations nationally including Bendigo Bank branches, Elders Rural Services branches and our own metropolitan branches in Adelaide and Perth.

OUTLOOK FOR 2013

What were the hot topics of 2012 and will they still be topical in 2013? We've compiled a commentary on some of last year's most talked about trends and what the likely developments are in the coming year.

Economic Outlook

Interest Rates

The global interest rate environment is expected to remain weak (rates to remain low) as central banks around the world maintain accommodative monetary policy settings to stimulate economic growth. We expect monetary policy to loosen further in the near-term and to remain so for an extended period.

Compared to the rest of the world, Australia still has relatively high interest rates and while most economists agree that there is a lag of up to nine months before the economy records the impact of a rate cut, analysts are still forecasting further rate cuts over 2013.

There is still no clear evidence that the domestic economy is getting any major traction from the series of RBA rate cuts to date. Both business and consumer confidence are soft, credit appetite remains weak, house prices are flat and job openings have declined. The latest unemployment rate has risen to 5.4% and remains relatively low when compared to other countries, but is expected to rise over the first half of this year.

With GDP growth now forecast to be around 2.5% this year, slightly lower than consensus, and inflation no barrier to further easings of monetary policy, analysts continue to forecast further rate cuts this year. There is however a wide variety of market views on the forecast official cash rate at the moment ranging from no change (from the current 3%) to a low of 2% by late this year.

The nation is now gearing up for more than seven months of unofficial election campaigning, as we edge towards a recently announced Federal election date of 14 September 2013.

Historically, elections have had no real impact on either the dollar or interest rates and there was little reaction from markets at the time of the announcement. One of the biggest issues weighing on the market has been political instability within the



Parliament and the difficulties in passing legislation, not necessarily who holds government. Regardless of who governs post-September, the resolution of this situation will be seen as a positive step.

Currency

The Australian Dollar (AUD) has traditionally been a commodity-based currency and has benefited for some time now from the demand for our resources (iron ore, coal and gas) as well as the relatively high interest rates on offer in Australia compared to the rest of the world.

Many of the traditional drivers of the AUD – terms of trade, commodities and interest rate differentials – are taking a back seat to capital flows at the moment with Australia standing out as an attractive investment destination for offshore investors.

Therefore, despite lower interest rates, it is expected that the AUD should remain above parity (to the USD) throughout 2013.

Equities

Global equity markets were very resilient into the end of 2012 with many markets closing broadly at their highs. The run into the fiscal cliff deadline in the US caused a pause in the rally but the eleventh hour resolution to this issue provided a catalyst for markets to continue to push higher and open 2013 very positively.

This trend is expected to continue this year as dividend yields become more attractive compared to alternative interest rate products and investors seek to re-enter the equity market to improve returns.

‘The global interest rate environment is expected to remain weak (rates to remain low) as central banks around the world maintain accommodative monetary policy settings to stimulate economic growth.’

Weekly Economic Update



Keep in touch with the latest economic data and local market activity, including interest rates and the agribusiness sector through our free weekly economic update.

To subscribe visit:
www.ruralbank.com.au/publications

Agrisector Outlook

Industry profile

Data from the June 2011 ABS Agricultural Census reveals a large shift in the structure of Australian farming. The trends identified in the study remain key considerations for the sector.

The long term trend of small farmers leaving the industry continues with almost 300 farmers having left the land each month in the past 30 years resulting in a 40% drop in their number.

In 2011, there were 157,000 farmers across Australia, 106,200 fewer than in 1981. This is partly a reflection of smaller holdings being consolidated into larger farms and instances of children being reluctant to take over the family farm.

Those farmers who are still working are getting older, with the median age now approximately 53, up from 44 in 1981 and compared to a median age of 40 now for other workers.

There has also been significant movement in the corporate bracket with incomes greater than \$2 million. There are now 2601 farms in this category, up by 791 or 44% since the count in 2006. These 2601 farms represent 39% of total agricultural income.

For further details visit:
www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features10Dec+2012



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Commodities

Farm production is forecast to fall in 2012-13, with the latest ABARES' Agricultural Commodities report (December 2012) projecting a decline of approximately 6.3%. The expected fall reflects a projected drop in crop production, partially offset by higher livestock production.

The December Agricultural Commodities report also forecasts a decline of approximately 1.2% in index of unit returns for Australian farm exports in 2012-13. Higher world prices for grains and oilseeds are expected to offset lower global prices for rice, cotton, sugar, wool and dairy.

Wheat

Australian wheat production is forecast to decline by 26% in 2012-13, largely

due to average yields resulting from generally dry conditions and increased planting of other crops with higher expected returns.

The world wheat indicator price is forecast to rise by 20% in 2012-13 to average approximately US\$360 per tonne reflecting an expected % fall in world wheat supplies.

Beef

After more than two years of herd rebuilding, supplies of finished cattle for processing are expected to increase in 2012-13. The weighted average saleyard price for cattle is forecast to fall by 6% in 2012-13 to 310 cents per kilogram due to declining demand for young restocker cattle and the increase in supply of finished cattle mentioned earlier.

Lamb

Downward pressure will continue on lamb saleyard prices due to a number of factors including a strong increase in supply, reduced processor demand at saleyards (partially as a result of producers selling direct to processors), generally lower quality lambs, continued issues with European economies, restrictions on the live export trade, a high Australian dollar and an increasing supply of cheaper chicken & pork.

Weather

Year on year, weather is a factor no primary producer can ignore. As a result of warmer than normal waters in the Indian and Pacific Oceans, the national outlook for February to April 2013 indicates:

➤ A wetter than normal season is more likely for northern Queensland and a large part of southern and western Western Australia, with a drier seasonal forecast for a small region in eastern Australia and South Australia.

➤ Cooler days and nights are likely over a large region in the south east of Australia, with cooler days likely over parts of northern and central Australia. Warmer days and nights are likely over western and southern Western Australia.



Commodities Continued

Wool

It is projected that wool prices will continue to fall by 17% during 2012-13 partially due to low global demand for wool clothing, particularly in Western Europe, the United States and Japan.

Dairy

The farm gate price for milk is forecast to decline by 7% in 2012-13 to average 39 cents a litre as a result of expected lower world dairy prices. While milk production is forecast to increase by 1.3% in 2012-13, exports are forecast to decline by 0.6% over this period primarily due to expected lower average global dairy product prices.

Cotton

The world indicator price for cotton is projected to decline in 2012-13 due to slow growth in demand. Lower world cotton production is also forecast. A lower price, combined with recovery in the global economy in 2013, would see an expected increase of 4% in world mill consumption, the first growth in three years.

Sugar

With the 2012-13 cane harvest in Australia complete, the year's sugar production is estimated to increase by around 21% to 4.5 million tonnes. This reflects an increase in both the

area harvested and higher yields due to generally favourable conditions during harvest. Exports are forecast to increase by around 12% in 2012-13, however the value of sugar exports is projected to fall by 9% and average return to growers in Australia is forecast to drop by \$5 per tonne.

For further details, visit:

www.daff.gov.au/abares/publications_remote_content/publication_series/australian_commodities

Source: Agricultural commodities: December quarter 2012, Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES).

PRODUCT NEWS

Equipment Finance designed to meet the needs of farmers

When it comes to purchasing, up grading or replacing farm or business equipment, we understand that a range of factors need to be considered.

For example, the decision may be influenced by cash flow considerations, timing and urgency and the need for flexibility and peace of mind at the time of purchase. There are also potential tax implications and benefits that need to be taken into account.



Rural Bank's General Manager Marketing, John Marshall said that Rural Bank's Equipment Finance product supports farmers who are looking to achieve an efficient and fast equipment purchase process.

"In comparison to other financing alternatives, our Equipment Finance provides a reliable and cost-effective option for funding the purchase of farm machinery," Mr Marshall said.

"While people say 'cash is king', using cash to purchase farm equipment ties up money in assets that are continually depreciating. By using Equipment Finance from Rural Bank you can preserve your working capital, as well as realise potential taxation benefits."

"With the opportunity for pre-approval of an Equipment Finance facility, customers can also act with confidence and peace of mind when negotiating a sale with the machinery vendor."

"This presents a significant advantage for the farmer because it creates an alternative to vendor financing, which often incorporates additional costs."

Rural Bank customers also enjoy the flexibility to manage their cash flow with fixed rental/instalment payments

To speak to a Rural Bank farm finance specialist and find out more about Rural Bank's Equipment Finance options, phone 1300 660 115, visit www.ruralbank.com.au or email service@ruralbank.com.au

Digital technology - how is it being used on the land?

While two thirds of farmers still rate their mobile phone reception as poor to average, almost half own and actively use a smartphone according to a recent survey undertaken by Deloitte on behalf of Rural Bank.

The research was conducted to understand how our clients and the agribusiness sector are using digital technology in their day to day operations and what sources of information farmers rely upon

Results showed that the farming community is embracing technology to stay informed no matter how remote the location.

More than 80% of respondents said they use online or mobile banking to transfer funds or check account balances, with almost 60% happy to receive information online, by mobile app or text.

The survey also showed that, when making financial decisions for their business, farmers rely initially on their spouse to assist with decision making, followed very closely by their accountant.

Thank you to everyone who participated in the survey. Your feedback has been valuable and will be used to further enhance Rural Bank's relationship with customers and the farming sector.

Congratulations

Participants in the recent Rural Bank Digital survey were entered into a draw to win a new Apple iPad. The lucky winners were Merino farmers, Rob and Tan Ward of Cooma, New South Wales.

Tan said the email to tell her about the prize “made her day or week or even year!” and we hear that the family are really enjoying the iPad.

“We’ve found it useful for all sorts of things particularly while on holiday for checking emails, keeping up with the news – and a little bit of online shopping!” Tan said.

“In addition to having an easy and convenient way to do our banking anywhere, anytime and to Skype our family and friends, our favourite app would be Instagram for family and holiday snaps. We’ve also been checking in regularly on fires near me for fire updates over summer.”

Photo Competition



Photo: Elders Fairfax National Competition Winner

The photo above was the national winner of the 2012 Year of the Farmer photo competition.

The image was taken by Andrew Hughes from near Thargomindah, Queensland. More details can be found by visiting: www.yearofthefarmer.com.au/get-involved/fairfax-photo-competition.html

Send us your feedback

We welcome your feedback on our Insights newsletter.

Please email your thoughts and suggestions to: ecommerce@ruralbank.com.au

Local faces, local expertise

Jeff Shephard, Relationship Manager for the Riverina region



Jeff was exposed to the world of farming in the Riverina region from an early age via his dad’s business as a stock and station agent.

“I have a lifetime link to the region having spent my childhood and the majority of my 29 year banking career in the area.” Jeff said.

Coming from a role with Bankwest, who have closed the doors on seven branches in the area in the past 12 months, Jeff is pleased to have the opportunity to continue his role in supporting farmers across the region.

“I love the sense of community here and the region’s strong agricultural capabilities.”

Jeff said the outlook for the region could improve in months to come.

An autumn break would see a return to more normal seasonal conditions and a more positive outlook.

To discuss your farm finance needs, contact:
Jeff Sheppard (Riverina) on 0407 696 652 or
James Cameron (Tasmania) on 0409 422 588
 Outside of these regions you can locate your nearest Rural Bank farm finance specialist via www.ruralbank.com.au or by calling 1300 660 115

James Cameron, Relationship Manager, Tasmania



James grew up on the family farm in Tasmania. While his working life commenced in merchant banking in Melbourne, he was drawn back to Tasmania to take over management of the family’s farm.

In 2004, he began his association with Rural Bank as an agribusiness banking specialist with a roving role across Tasmania.

Through his many roles on and off farm, James has a strong working knowledge of the states diverse industries including wool, cattle, poppies and horticulture

James enjoys combining his first-hand knowledge of farming with an extensive understanding of agribusiness finance to achieve good business outcomes for his customers.

“I enjoy helping farmers to identify the opportunities available to them and meet the inevitable business challenges through tailored banking products - and personal service.” James said.

“While its been a tough start to 2013 for business generally in Tasmania, seasonal conditions and markets for farmers are as good as can be remembered for quite some time. I think the sector has the capacity to move forward and I look forward to being a part of that.”

Disclaimer: This information has been prepared without taking into account your personal circumstances, objectives, financial situation or needs. All applications for loans or credit are subject to lending criteria. Terms, conditions, fees, charges may apply. Full details are available on application or by phoning our Customer Service Centre on 1300 660 115, online at www.ruralbank.com.au or by visiting your local branch. All information is subject to change. Products are issued by Rural Bank Limited.

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