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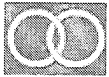
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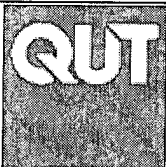
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## Some clouds on the rural landscape

By Ben Rees - posted Wednesday, 24 May 2006

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Currently, there is an atmosphere of unreality pervading rural Australia. Land prices, particularly for beef p all time high. Numbers of farmers have become asset millionaires through acquisitions and rising land pric capital gains, largely the consequence of a wider problem of asset inflation, are likely to generate a differe rural assistance policies.

Past readiness of urban people to come to the aid of depressed rural industries is now clouded by urban v growing army of working poor. The April *Reserve Bank of Australia Bulletin* carries some sobering informa rural leaders should be looking to a new policy direction for rural support programs. These sobering statist the early days of the disastrous 1990s, are contained in annualised growth rates of rural indebtedness anc



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The high growth years of debt between 1980 and 1990 appear to have re-emerged over the past three years; this time is that real output has declined by 1.6 per cent compared to an expansion of 2.5 per cent during the 1990s. The decline in real output is from a combination of drought and environmental policies particularly the ban on land clearing.

Prior to the ban on land clearing, productivity and efficiency could be lifted through bringing undeveloped and underdeveloped land into full production. This option is no longer available. Consequently, productivity and efficiency can only be lifted through improved management techniques and technological advances. From the early picture emerging from the data, reliance on improved management techniques and technological advances will not meet the performance improvements necessary to maintain real farm incomes.

The current situation is a little different to the early 1990s, but just as serious. Currently Australia is well into a recession and once again the Federal Government is unwilling to implement necessary policy changes. In 1990, diesel was 30.9 cents a litre. It depends on where it is bought currently, but is now about four times that cost. Energy prices are volatile and likely to rise even further over the medium term.

Interest rates are more favourable now than in the early 1990s. The RBA monetary policy instrument, the overnight cash rate, was 15.15 per cent in 1990; but, fell to 5.27 per cent by 1993. Although the indicator rate rose to 7.51 per cent in 1996 and early 1997, monetary policy was easier through the 1990s.

Currently, the monetary policy instrument, overnight cash rate, is 5.75 per cent. The RBA is charged with maintaining a domestic inflationary target of 2-3 per cent rate. Fears of inflation suggest that monetary policy is likely to remain tight and this indicates an environment of uncertain interest rates.

A second significant interest rate factor is the current account deficit. In 1990, the current account deficit was 6.4 per cent of GDP. In 2005, the current account deficit was the 6.4 per cent of GDP. This made it the highest current account deficit since 1951-52 when it reached 14.2 per cent of GDP.

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If the RBA wishes to hold the overall balance of payments position through capital inflow, it must maintain competitively with international interest rates. Not to match international interest rates movements would be attracting capital. In reality failure to match international interest rate movements could result in a capital outflow. Consequently, the Australian dollar would decline compounding the current account difficulty through rising payments. The RBA is caught in a cleft stick.

The 1990 value of the AUD/US exchange rate was 78.9 cents. The value of the AUD/US exchange rate is 75 cents and could threaten the 1990 value. While a policy decision to let the dollar depreciate would provide exporters, external debt payments rise and the current account deficit worsens. For a nation addicted to high volumes would have to rise sufficiently to offset both increased debt payments and rising import costs. The balance of its policy direction of domestic inflation, exchange rate stability and current account balance.

Major issues facing rural Australia therefore are: rising domestic and international transport costs, rising in uncertain interest rate environment and a relatively unpredictable exchange rate value. These financial factors compounded by widespread drought and constraints on expansion to lift efficiency and productivity. Domestic factors combine to threaten farm input costs, margins and viability. Given the thirst for debt indicated in the *Bulletin*, there are real storm clouds hanging over the farm sector and rural communities once again.





Current rural assistance programs comprising concessional interest rates and household support to low-income millionaires might come under hostile attack this time around. Urban-based groups looking for relief to provide are likely to look very differently at rural assistance programs. Representatives of the emerging army of workers are also likely to view any rural crisis differently to past attitudes. Taxpayers could require some asset restructuring for farmers through any future crisis.

It is time rural political representatives and the agro-political movement indicated some measure of concern for the economic environment facing rural Australia. They need to spell out policies early to maintain confidence in rural communities and regions.

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**About the Author**

Ben Rees is both a farmer and a research economist. He has been a contributor to QUT research project Rebuilding Rural Australia. Over the years he has been keynote and guest speaker at national and local conferences. Ben also participated in a 2004 Monash Farm Forum.

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