



## **Spring rains see bounce back in Australian farmer confidence**

### **Results at a glance:**

- *Rural sentiment has improved, but remains at relatively low levels*
- *Improved seasonal conditions primarily driving rise in confidence*
- *Sentiment improved across all states and sectors, except dairy*
- *Beef producers have moved from the least to the most confident sector*

**Australian farmer confidence has staged a mild recovery, off the back of good spring seasonal conditions across much of the country. However, sentiment remains at relatively low levels as grain producers await the final outcome of harvest.**

**The latest quarterly Rabobank Rural Confidence Survey found Australian farmer sentiment has improved from last quarter's lows. Confidence returned to positive territory – with more farmers expecting the agricultural economy to improve than those expecting conditions to deteriorate.**

The survey – completed approximately a month ago – found 24 per cent of primary producers expected the agricultural economy to improve in the next 12 months (up from 18 per cent in the previous survey). The number expecting conditions to deteriorate dropped to 20 per cent (from 35 per cent previously), while 53 per cent expected conditions to remain stable.

A comprehensive monitor of outlook and sentiment in Australian rural industries, the Rabobank Rural Confidence Survey questions approximately 1200 farmers across a wide range of commodities and geographical areas throughout Australia on a quarterly basis.

Rabobank general manager Rural Australia Peter Knoblanche said very good growing conditions throughout spring across much of the country had been the major factor boosting farmer confidence.

“We are now looking at one of the biggest grain harvests on record, although recent rains in northern and central New South Wales, as well as parts of Victoria and Western Australia, have delayed harvest and impacted the quality of the grain coming off,” he said.

Mr Knoblanche said while farmers had been buoyed by the positive spring conditions, concerns about another wet finish to harvest and into summer were keeping confidence at subdued levels.

“With a La Nina weather pattern back this year, farmers are on tenterhooks that there might be a repeat of last year's wet summer that saw what would have been a good year for grain marred by a wet harvest and rain damage,” he said.



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Favourable seasonal conditions and positive commodity prices were the primary reasons nominated by farmers for their optimistic outlook this survey.

Of those expecting the agricultural economy to improve over the next 12 months, 49 per cent cited seasonal conditions as a driving factor, while 40 per cent nominated commodity prices (with mainly graziers having this view).

Farmers had mixed views on commodity prices this survey though, with prices also being nominated as a concern among those expecting the conditions to deteriorate. Of those respondents expecting the agricultural economy to worsen over the next 12 months, 33 per cent gave falling commodity prices as a primary reason.

“While beef and sheepmeat prices have held at relatively high levels, grain prices have been softening – and have come off even further since the survey was taken,” Mr Knoblanche said.

Other concerns included overseas economies and markets (21 per cent) and rising input costs (20 per cent). Public policy and government intervention – of major concern for farmers last quarter – were still an issue, cited by 27 per cent (though well down from 45 per cent previously).

“With some space now put between the live cattle trade suspension to Indonesia and the announcement of the carbon tax, these issues are not as top of mind for producers as they were last survey, although they are still registering as concerns,” Mr Knoblanche said.

Queried on the topic of foreign investment, half of farmers surveyed viewed it as a threat to Australian agriculture. Only 16 per cent of producers believed foreign investment presented an opportunity for the Australian agricultural sector.

### **Farm business performance, income and investment intentions**

Farmers' expectations of their own business performance had also improved.

The Rabobank survey found 38 per cent of those surveyed expected to see improved performance in their business over the next 12 months, up from 31 per cent last quarter. Only nine per cent expected their business performance to worsen (down from 21 per cent previously), while 51 per cent of farmers expected the performance of their business to remain the same.

Overall, income expectations improved, with 39 per cent of respondents expecting to have higher incomes over the next 12 months (up from 34 per cent) and 13 per cent expecting lower gross farm incomes (down from 22 per cent). A total of 46 per cent expected their income to remain the same.

The improved income expectations follow a generally favourable third quarter for gross farm income this year. A total of 45 per cent of Australian producers surveyed reported higher gross farm incomes compared to the same period the previous year, 35 per cent the same and 18 per cent lower.



Farmers' investment intentions also staged a moderate improvement this quarter. A total of 91 per cent intended to maintain or increase the level of investment in their business, up from 87 per cent last survey.

### **States**

The survey found all states recorded improved sentiment compared to the previous quarter, with confidence strongest in Western Australia and Tasmania.

Mr Knoblanche said Western Australian farmer confidence had been driven by very positive seasonal conditions experienced in the state, although excessive rainfall had impacted cropping. "Quality is expected to be lower on large tonnage as a result," he said. "However the yield will hopefully help offset quality issues and lower commodity prices."

Mr Knoblanche said Tasmanian confidence had largely been driven by plentiful spring rainfall, especially in the areas that had been drier. "If the higher than average rainfall continues into the remainder of the year, good pasture cover should continue well into summer for graziers, while crop yields are expected to be good," he said.

South Australian farmer confidence had improved slightly from last survey, however SA was the only state still reporting negative sentiment – with more farmers expecting conditions to worsen than the number expecting them to improve.

"The reality is things are still pretty good in South Australia, but the state is coming off an extraordinarily year in 2010 which saw a record-breaking crop and excellent conditions for livestock and this appears to be influencing their feelings about the year ahead," Mr Knoblanche said. Softer commodity prices in the grain sector were also subduing South Australian farmer confidence levels.

Improved seasonal conditions were the main driver of the improved confidence among New South Wales farmers. "However, in the north of this state, in recent weeks it's become a case of 'too much of a good thing'," Mr Knoblanche said, "with floods affecting cotton crops in the north west and negatively impacting on grains in some other areas."

Concerns about rainfall impacting on this year's grains crop was also keeping Victorian farmer optimism in check, although the state had also seen some rise in rural sentiment.

Queensland rural confidence levels also remained relatively low, though optimism was being driven by expectation of good commodity prices in the meat and sugar sectors.

### **Sectors**

Confidence had improved in all sectors, except dairy.

"With the case of dairy, it's more a matter of returning to the status quo after very high confidence levels seen in this commodity earlier in the year," Mr Knoblanche said. "That said, production looks good in most dairying areas, although farmers are anticipating some wind back in milk prices which has dampened sentiment slightly."



Beef was shown to be the sector with the highest confidence levels, staging a dramatic turnaround from the previous quarter – when beef producers had the lowest confidence.

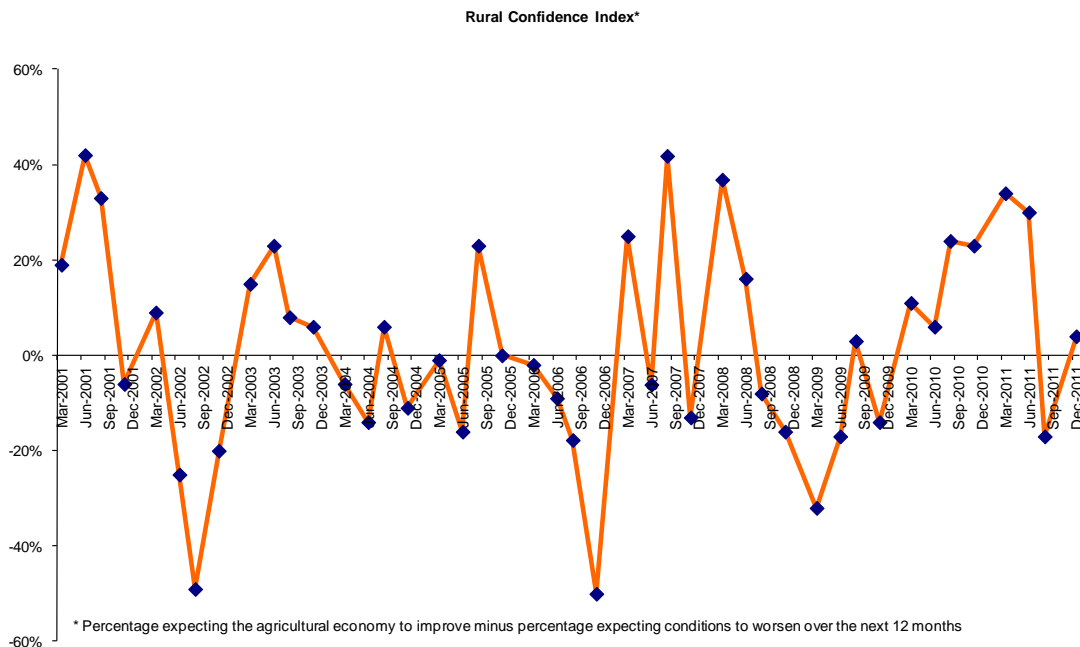
Mr Knoblanche said generally solid prices in the livestock sectors had been experienced through the survey period. Graziers were also benefiting from good pasture growth due to spring rains.

The outlook among the grain sector was less positive, he said, with a significant differential in prices for milling and feed grain wheat. “This is due to residual levels of feed grain held over from last year and a generally softer outlook for global grains this year,” he said.

Cotton and sugar cane sector confidence also improved, though with sugar still at relatively low levels. “Prices for both these commodities eased over the quarter although remain stable and above the historical average,” Mr Knoblanche said.

“For cotton, there has been a successful start to the season with an abundance of rain following planting, although the rain has caused some damage to the predominantly dry land crops around Moree.

“Cane growers have had favourable weather through the Australian crush which is drawing to a close. However weather-related impacts from last season limited Australian sugar production in 2011.”



The most robust study of its type in Australia, the Rabobank Rural Confidence Survey has been conducted since 2000 by an independent research organisation interviewing an average of 1200 farmers throughout the country each quarter. The next results are scheduled for release in March 2012.

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