



Australian farmer confidence mixed as season dictates sentiment

Results at a glance:

- *Australian rural confidence eases as season and commodity price outlook drives sentiment*
- *Victorian dairy farmers remain the most upbeat, while grain growers in WA and SA are also optimistic*
- *Prolonged dry conditions across Queensland and northern NSW continued to weigh on overall confidence levels*
- *New survey data shows more than 50 per cent of farmers struggling to attract/retain farm labour*

Australian farmer confidence has eased for the second consecutive quarter on the back of mixed seasonal conditions, although bright spots exist across the country, the latest Rabobank Rural Confidence Survey has found.

Victorian dairy farmers were the most upbeat, buoyed by record farmgate prices, while farmers in the major grain-growing states were also positive, with Western Australia and South Australia binning a bumper crop and an above-average harvest also recorded in Victoria and parts of southern New South Wales.

In contrast, farmers in Queensland and northern New South Wales continued to tackle prolonged drought conditions with cattle producers doing it particularly tough.

The survey – completed earlier this month – found net overall rural confidence eased to near neutral levels this quarter with close to one third of farmers (29 per cent) reporting optimism about the state of the rural economy and close to one third reporting pessimism (27 per cent). A total of 39 per cent of farmers expect similar conditions to last year.

Rabobank group executive for Country Banking Australia Peter Knoblanche said, as in the previous quarter, rural confidence continued to be largely dictated by seasonal conditions, with the dry having intensified across large parts of Queensland and northern New South Wales in the early part of the year.

“With as much as 70 per cent of Queensland experiencing drought, this had had a direct effect on cattle markets as farmers continued to de-stock,” he said.

“In contrast, timely rains saw Western Australia and South Australia harvest one of their best crops on record, while strong domestic demand and a weaker Australian dollar underpinned robust grain prices.”

A comprehensive monitor of the outlook and sentiment in Australian rural industries, the Rabobank Rural Confidence Survey questions an average of 1000 primary producers across a wide range of commodities and geographical areas throughout Australia on a quarterly basis.



The impact of seasonal conditions on farmer sentiment was more pronounced this quarter with 64 per cent of those expecting conditions to worsen citing the season as cause of their pessimism (up from 40 per cent with that concern previously). Input costs were also raised as a concern by 29 per cent of farmers (from 23 per cent previously), while a quarter of farmers attributed their negative view to the commodity price outlook (down from 33 per cent).

Farmers confident about the year ahead noted seasonal conditions (43 per cent) and commodity prices (34 per cent) as the primary reasons for their optimism – mainly driven by dairy and grain producers. The state of overseas markets was also nominated as a positive factor (by 23 per cent).

Farm business performance, income and investment intentions

While their outlook for the overall rural economy had eased, Australian farmers were generally more bullish about the expectations of their own farm businesses. More than one-third (34 per cent) still held positive views on the performance of their business over the next 12 months, while 18 per cent expected a deterioration in business performance (up from 14 per cent previously).

Farmers reported robust income expectations with 73 per cent of farmers expecting the same or better incomes compared to last year. On the back of record dairy prices recently, dairy farmers held the strongest income outlook with 70 per cent anticipating their incomes to be higher than in 2013.

Reflecting their healthy outlook for farm incomes, Australian farmers' investment intentions remained strong with 80 per cent expecting to maintain or increase their level of investment in their farm business over the next 12 months (down marginally from 85 per cent in the previous quarter).

States

The survey saw mixed results across the states this quarter with some improvement in net sentiment recorded among farmers in South Australia and New South Wales compared to the previous quarter.

Confidence in South Australia was underpinned by strong sentiment among grain growers, who recorded a record harvest as well as sheep producers, who reported improved market dynamics.

“Farmers in South Australia couldn't have asked for a better season last year with 85 per cent of the state's farmers expecting this year to be as good if not better,” Mr Knoblanche said.

“NSW farmer confidence meanwhile is mixed on the back of recent rains alleviating the dry conditions across much of southern and central NSW.”

For the sixth consecutive survey, farmers in Victoria remained the most optimistic in the country with a net confidence level of 20 per cent (down from 22 per cent in the previous quarter). This was largely underpinned by the positive fundamentals for dairy – particularly over the last 12 months.



Meanwhile, confidence eased among farmers in Western Australia and Tasmania with both states coming off previous highs. WA rural confidence however remains at healthy levels.

“While confidence eased this quarter the positive signs for WA farmers are reflected in robust income projections, investment plans and debt repayment intentions,” Mr Knoblanche said.

Queensland reported the weakest overall rural sentiment with the state’s prolonged drought weighing heavily on many of the state’s farmers.

Sectors

Confidence among the nation’s dairy farmers remained higher than those in other sectors with 54 per cent expecting conditions to improve in 2014 on the back of stronger prices.

“Dairy farmers supplying the export market are generating healthy returns with prices tracking towards \$7/kgMS. In contrast, farmgate returns for producers supplying the domestic market have not followed the same course,” Mr Knoblanche said. “After record import demand for milk powder out of China lately, we may start to see an easing there in the year ahead as local supply stabilises.”

Confidence also picked up in the grains industry with many of the nation’s farmers harvesting an above-average crop.

Sheep producers retained a fairly stable outlook on the year ahead with graziers relying on autumn rains to hold on to stock over winter.

Little upside was seen from the nation’s beef farmers with oversupply and drought forcing the hand of many farmers.

“Many centres in Queensland have reported record yardings. This had increased the total number of cattle slaughtered by around one million head in 2013, from 2012 levels. This was the highest rate seen since 2002,” Mr Knoblanche said.

“Importantly though, the fundamentals around the emerging markets remain a bright spot for many beef producers.”

Confidence eased this quarter among Queensland sugar producers as price worries weighed on sentiment.

“While prices have picked up recently, the market remains oversupplied and highly sensitive to any developments in the larger sugar producing nations such as Brazil,” he said. “We are also starting to see higher input costs reported as a concern for many sugar growers likely due to increases in irrigation costs because of the prolonged dry conditions.”

Questioning respondents for the first time on human resources, the survey found 56 per cent of Australian farmers reported it difficult or very difficult to attract and retain farm employees. Cane farmers reported the most challenges with farm labour with 71 per cent finding it difficult or very difficult to retain and attract farm employees, while cotton farmers had the least problems in this regard (only 13 per cent reporting difficulties).

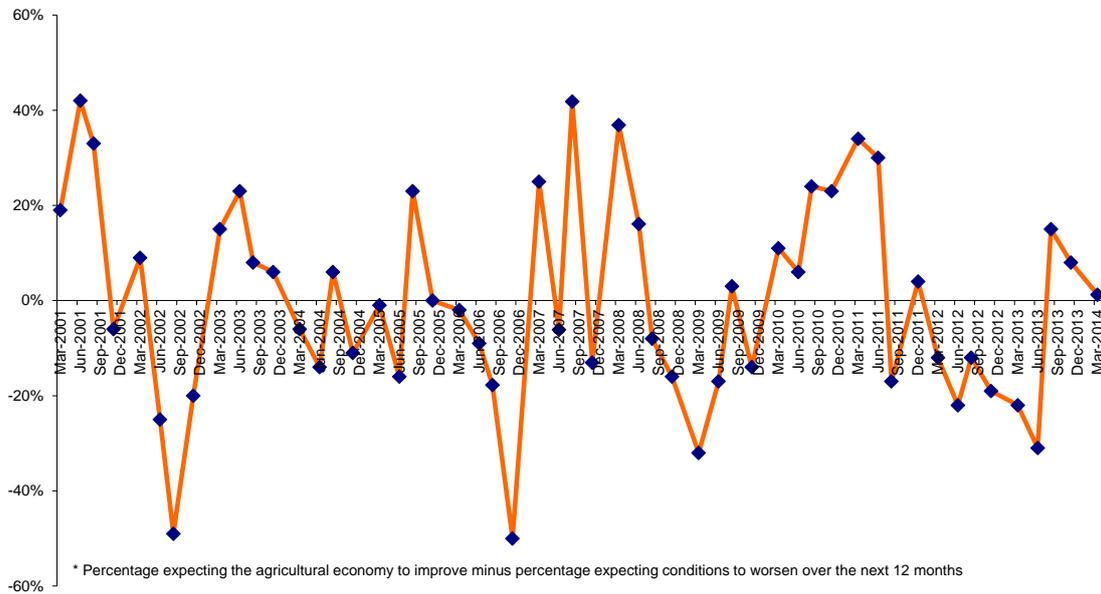


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Mr Knoblanche noted availability of farm labour and farm succession were among the issues being canvassed in the Federal Government's White Paper on Agricultural Competitiveness.



The most robust study of its type in Australia, the Rabobank Rural Confidence Survey has been conducted by an independent research organisation interviewing farmers throughout the country each quarter since 2000. The next results are scheduled for release in June 2014.

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To arrange an interview with Rabobank group executive for Country Banking Australia, Peter Knoblanche, or for more information on Rabobank's Rural Confidence Survey, please contact:

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