



Dry weather saps farmer confidence moving into summer

Results at a glance:

- *Australian rural confidence falls to 12 month low, but remains at still positive level, with more farmers expecting conditions to improve than worsen*
- *Dry and hot seasonal conditions drive much of the fall, with grain growers feeling the brunt*
- *Long-term confidence remains unshaken, with nine out of 10 farming businesses expressing viability*

The nation's farmers are taking a cautious outlook moving into summer, with concerns about dry weather conditions seeing rural sentiment decline in the latest quarterly Rabobank Rural Confidence Survey.

Although at still relatively positive levels, Australian farmer confidence was shown to be at its lowest measure for the past 12 months, according to the survey.

The hot, dry start to spring was behind much of the drop, with weaker confidence reported across most agricultural sectors, but with grain growers taking the brunt due to damaged yield prospects.

Longer-term confidence in the agricultural sector remained unshaken however, with nine out of 10 farming businesses indicating they had ongoing viability – one of the strongest results in four years.

The latest survey – completed last month – found confidence fell from the highs reported throughout the year, with 28 per cent of the state's farmers now expecting conditions in the agricultural economy to improve in the next 12 months (down from 47 per cent with that view in the previous survey). The proportion expecting the agriculture economy to deteriorate grew to 23 per cent (up from 13 per cent), while 41 per cent of respondents expected conditions to remain the same.

Rabobank Australia deputy CEO Peter Knoblanche said below-average spring rainfall across much of the country had taken its toll on farmer sentiment, which had been further exacerbated by heatwave events – with last month the warmest October on record.

Mr Knoblanche said devastating bushfires in Western Australia and South Australia in the past two weeks – causing tragic loss of life and injury, as well as significant damage to agriculture, including stock loss and destruction of crops and infrastructure – had brought home the severity of the current seasonal conditions in many parts of the country.

“These awful fires have had terrible consequences for the local rural communities, with the loss of six people and a number of injuries,” he said. “This is tragic for their families and friends, and will also be having a profound impact on those in the local regional communities,” he said. “These fires also bring home to farmers everywhere just how exposed agricultural regions are to bushfires at this time of year.”



Mr Knoblanche said before the blast of hot, dry weather that came across the continent in September and October, many of the nation's grain growers had been expecting a bumper crop.

“Disappointingly, the adverse seasonal conditions have hit yields and we are now looking at a wheat crop of around 23 million tonnes – down by around two million tonnes on earlier season forecasts.”

Mr Knoblanche said rain events which had come late in the season, in early November, had also been damaging, causing concerns about grain quality, with growers reporting downgrades from milling grade to feed wheat.

While the news had not been good for many grain growers, beef (and to a lesser extent, sheep) producers were more positive about their prospects with market returns remaining at very strong levels.

For those farmers with a positive outlook this quarter, commodity prices remained the primary driver of sentiment, cited by 63 per cent as reason for their optimism. This was underpinned largely by the livestock sector.

Reflecting the deterioration in seasonal conditions, only 25 per cent of respondents (down from 48 per cent) cited the season as a reason for optimism, while 23 per cent reported strong overseas markets.

Conversely, those with a negative outlook on the coming year blamed the season for their pessimism, nominated by 81 per cent, up considerably from 57 per cent last quarter.

Education/Training

This survey revealed the strong appetite Australian farmers have to invest in their own education and training, with one-in-three farmers looking to increase their skills and knowledge through education or training over the coming year.

Improving their on-farm management practices was top of the agenda, with 68 per cent looking to increase knowledge around maximising crop and livestock productivity, while 56 per cent were interested in garnering more information on emerging technologies.

Mr Knoblanche said grain, cotton and sugar growers had been at the forefront of technology adoption for years, but there were now increasingly new technologies being trialled to help boost efficiencies in the livestock sector.

“For example, there are opportunities for digital technologies to assist producers track and monitor their mobs, including individual measurements of their supplementary feed intake,” he said.

Operational financial management, business planning and management, marketing and communications, succession and personal health and wellbeing were also key areas of interest among farmers for training and upskilling.



Farm business performance, income and investment intentions

In line with their more subdued outlook on the agricultural economy, Australian farmers also had lower expectations for their own farming businesses over the coming year.

This survey, the proportion of farmers expecting their business performance to improve fell to 30 per cent of respondents, down from 44 per cent in the previous quarter. Those expecting their own businesses to worsen in performance over the coming 12 months increased to 23 per cent (from 14 per cent), while 41 per cent expected a similar business performance to last year.

Farmers' income projections were down across all commodities, except dairy and cotton where they remained stable. Income expectations were considerably revised down in the grains sector, but remained strongest among beef and sheep producers, with beef producers, in particular, pegging another year of strong returns.

Indicators of longer-term confidence among farmers, however, remained robust, reflected in the viability index (which measures farmers' perceptions of their business viability). This quarter, 91 per cent of farmers viewed their business as having long-term viability.

States

Dry seasonal conditions saw confidence in all states fall to its lowest level in a year, with the sharpest falls recorded in Tasmania, Victoria, New South Wales and South Australia.

Despite the decline, the net confidence indicator remained positive (with more farmers expecting conditions to improve rather than deteriorate) in all states except Victoria and South Australia, where it fell marginally into negative territory.

The impact of dry, hot weather on grain yields was the biggest driver of subdued confidence in Victoria, New South Wales and South Australia. The heat damage appeared to be more limited in Western Australia which was still expecting an above-average crop.

"The recent fires in the Esperance region will have impacted sentiment in the West," Mr Knoblanche said. "And while it is too early to gauge the full extent of the damage, there is likely to be a significant loss of grain, for a region that was expected to harvest a record crop."

The continuation of dry conditions in drought-stricken Queensland dampened confidence about the coming year, although recent storm activity provided some reprieve.

"It is promising that there has already been some good storm activity, but we need a good wet season which has been virtually non-existent for the past two or three years," Mr Knoblanche said. "Farmers are hopeful that the El Nino weather pattern will break down early next year, as is being indicated in the Bureau of Meteorology's forecasts and that this would result in monsoonal activity."



Sectors

Confidence was also reported down across all agricultural commodities except sugar, where sentiment lifted slightly, but remained the weakest of the sectors.

Mr Knoblanche said sugar prices had since lifted by around 40 per cent from the lows recorded when the survey was conducted and had averaged just under \$460 per tonne during the first two weeks of November.

“The upswing in prices, driven by the expectation of a global sugar production deficit, is the most promising shift in market fundamentals we have seen in five years,” he said.

Confidence remained highest amongst beef producers and to a lesser extent, sheep producers.

“Each week we continue to see cattle and sheep prices at very high prices,” Mr Knoblanche said. “This is giving graziers some comfort that they can offload stock into a strong market, particularly if they are forced to reduce numbers if the season continues to dry off with this strengthening El Nino weather pattern.”

The biggest falls in confidence were recorded in the grain and cotton sectors, while sentiment remained relatively stable, albeit subdued, in dairy.

Mr Knoblanche said the recent rains had been welcomed by cotton growers, spurring an increase in dryland plantings.

“We are now anticipating a slightly larger cotton crop than what was harvested this year, at around 2.3 or even 2.4 million bales, but this is still down by around 40 per cent on 2014,” he said.

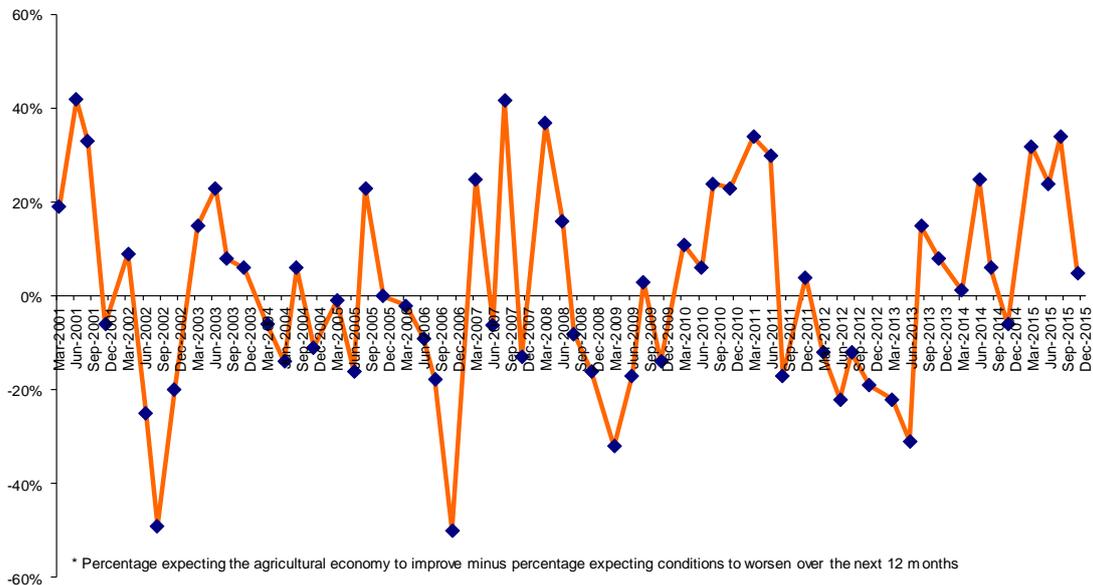
In the dairy sector, Mr Knoblanche said the dry seasonal conditions were starting to impact milk flows and creating a margin squeeze due to higher irrigation water prices and purchased feed prices.

“This pressure on their cost-base is hitting margins, but farmers are hopeful the anticipated step-up in milk destined for the export market will materialise by the end of the year.”



Rabobank

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A comprehensive monitor of 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 most robust study of its type in Australia, the 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 March 2016.

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