



Australian farmers buoyed by prices and season - but sector prepares for threatened dry times ahead

Results at a glance:

- *Australian farmer confidence moderates, but remains at high levels*
- *Elevated commodity prices – particularly in beef and sheep sectors – underpin confidence*
- *Autumn rains also provide a boost, but parts of Queensland and northern NSW remain extremely dry*
- *Farmers proactive in their approach to drought-preparedness in light of El Nino*

Australian farmers remain upbeat about their prospects, with the latest Rabobank Rural Confidence Survey showing farmer sentiment remaining at high levels, although moderating from last quarter's peak.

Underpinned by elevated commodity prices – particularly for beef, lamb and wool – as well as favourable seasonal conditions across much of southern Australia, 94 per cent of farmers viewed their business as having viability.

However, with an El Nino weather pattern now officially emerging – and ongoing severe drought in parts of Queensland and north-western New South Wales – the survey found two-thirds of farmers are actively preparing for potential future dry weather, implementing a range of measures to mitigate the impact on their business.

The survey – completed approximately a month ago – reported overall positive sentiment across all commodity sectors, except sugar where the overhang of global stocks has been weighing on prices.

Overall, 38 per cent of the nation's farmers expect conditions in the agricultural economy to improve in the coming 12 months, while 44 per cent expect them to remain similar to last year. This compares with 45 per cent and 40 per cent who held that view, respectively, last quarter. Those expecting conditions to worsen this quarter stood at 14 per cent (compared with 13 per cent previously).

Rabobank group executive for Country Banking Australia Peter Knoblanche said a number of positive factors had aligned for farmers, with strong demand for agricultural commodities, historically low interest rates and the depreciation of the dollar all occurring against the backdrop of reasonable seasonal conditions across much of the country.

Mr Knoblanche said going forward, however, the season would be the key determinant of confidence.

“Most of southern Australia has received good autumn rains, which has supported farmers' cropping programs and given pastures a boost going into winter, although follow-on rains will be needed,” he said.



“Large parts of Queensland and northern New South Wales, however, remain drought declared, with it being particularly severe and prolonged in central-west Queensland around Longreach and in north-western New South Wales.”

Mr Knoblanche said that while no amount of drought-preparedness would mitigate the impact of the severe and prolonged drought in certain parts of eastern Australia, the survey found that farmers across the nation had been taking a proactive approach to drought-preparedness.

“Overall, 69 per cent of farmers indicated that they actively adopt measures to help mitigate dry conditions, with drought-preparedness highest in New South Wales,” he said.

“Measures that farmers adopt include storing feed and growing fodder, managing livestock numbers, investing in water and irrigation infrastructure and careful cash flow management including the utilisation of Farm Management Deposits.”

Any concerns about an El Nino weather event weren't pronounced in this survey's findings however, with seasonal conditions and commodity prices underpinning much of the positive sentiment this quarter.

Of those expecting conditions to improve over the coming year, 53 per cent cited the season and 63 per cent, commodity prices – which were similar readings to last quarter.

Other factors underpinning confidence were the lower dollar (28 per cent) and the state of overseas markets (20 per cent).

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

Farm business performance, income and investment intentions

This quarter, all farm performance indicators pointed to overall both short-term and longer-term confidence. The viability index (which measures farmers' perceptions of their business viability) remained at its four-year high, with 94 per cent of farmers viewing their business as having viability.

In line with overall confidence levels, producer expectations of their farm business performance over the next 12 months remained strong, although moderated from last quarter. Those expecting a better performance in the next 12 months stood at 40 per cent, while 44 per cent anticipated a similar result and 14 per cent a deterioration.

This correlated with income expectations with four out of every five farmers expecting higher or similar gross incomes to last year. Income projections were particularly strong amongst beef producers, reflecting record prices – with the Eastern Young Cattle Indicator up around 50 per cent on this time last year.

The appetite for investment in their farm businesses also remained strong with a quarter of farmers looking to increase investment and a further 66 per cent set to maintain it.



States

After posting a rally in every state last quarter, rural confidence moderated in all states this survey, except Western Australia and South Australia where it posted a lift to hit four-year highs.

“Autumn rains have got the cropping program off to a good start in most of Australia’s southern cropping regions, with farmers in the west particularly upbeat about the prospects for their winter crop,” Mr Knoblanche said.

Confidence didn’t trail too far behind in the other states, underpinned largely by graziers who were buoyed by strong beef, sheep and wool prices.

Beef producers were also positive in Queensland, however the drought continued to weigh on confidence.

“Currently around 80 per cent of Queensland is drought-declared and there are farmers in the state’s central west that are facing their worst drought in living memory. The dry also extends down into north-west New South Wales, with it particularly dry around Walgett.”

Sectors

Beef – and to a lesser extent the sheep industry – continued to underpin much of the positive sentiment this quarter with producers buoyed by beef, sheep and wool markets.

That said, confidence among graziers eased this quarter, but remained well supported at positive levels.

“The cattle market is really fired up, with the Eastern Young Cattle Indicator (EYCI) trading in uncharted territory at about 150c/kg above prices seen this time last year,” Mr Knoblanche said. “And there is further upside, if we get some decent rain across Queensland.”

Mr Knoblanche said the lamb market also remained well-supported, and producers had also welcomed the recent rally in wool prices.

“After tracking largely sideways, the Eastern Market Indicator has risen about 15 per cent in the last two months to its highest level since 2012, on the back of some positive demand signals for wool,” he said.

Confidence remained positive amongst the nation’s grain and cotton growers with autumn rains giving grain growers the ‘green light’ to get their crops in.

Mr Knoblanche said confidence amongst growers would remain largely dependent on weather, with follow-up rains needed to realise the potential of the 2015 winter crop, and to fill irrigation storages in key cotton regions.

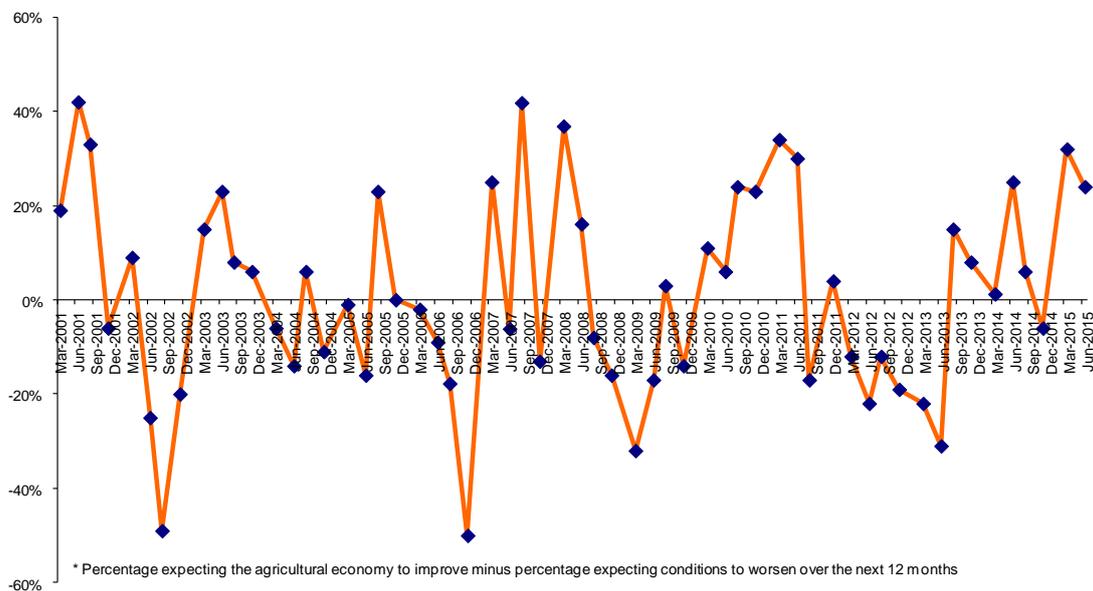
“On the whole, irrigation storages remain low which has curtailed cotton production to around 55 per cent down on last year. That said, farmers have been reporting excellent yields and quality for this year’s crop,” Mr Knoblanche said.



In contrast to most of the other key commodity sectors, confidence amongst dairy farmers improved this quarter – albeit to trail behind other sectors (except sugar) with recent pricing signals indicating good milk prices for the coming season, despite weaker global sentiment.

Mr Knoblanche said confidence in the sugar industry had fallen further, and remained weak.

“The current spot price is below what many would consider nearing the cost of production, and there is little upside in the near term with the overhang of global stocks and the depreciation of the Brazilian real,” he said.



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 September 2015.

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