



Prices keep Victorian farmers positive – but sector preparing for potential dry spell ahead

Results at a glance:

- Confidence moderates, but Victorian farmers remain positive about outlook
- Sentiment underpinned by strong commodity prices
- Farmers proactive in their approach to drought-preparedness, implementing a range of measures

Victorian farmers remain upbeat about the year ahead, with the latest Rabobank Rural Confidence Survey showing farmer sentiment easing just slightly from last quarter's highs.

Strong commodity prices are the key driver supporting confidence. Seasonal conditions were also source for optimism for a proportion of the farmers surveyed.

However, with an El Nino weather pattern now officially emerging, the survey found two-thirds of the state's farmers are actively preparing for potential drought conditions, implementing a range of measures to mitigate the potential impact on their business.

The latest quarterly survey, completed approximately a month ago, found Victoria's farmers were overall positive about their prospects for the coming year, albeit with the net confidence reading moderating from last quarter's high (of 26 per cent) to 16 per cent.

This survey, approximately a third of the state's farmers (32 per cent) expected conditions in the agricultural economy to improve – down slightly from 39 per cent with that view in the previous survey. Those expecting conditions to deteriorate stood at 16 per cent (up slightly from 13 per cent), while the proportion of farmers expecting stable conditions remained at 46 per cent.

Beef producers were particularly buoyant about their prospects with prices at record levels, while grain grower sentiment remained firm in parts of the State on the back of autumn planting rains. Confidence lifted amongst dairy farmers, but slipped in the sheep industry to around neutral levels.

Rabobank state manager for Victoria Todd Charteris said 'the planets seemed to have lined up' for the state's primary producers, with commodity prices trading at historically high levels against the backdrop of low interest rates.

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

"As it stands today, the season is favourable across much of the state and while the rain was late coming and a bit patchy, it has enabled farmers to get their planting program underway and put in their crops which appear to be generally in line with last year," he said.



North Western Victoria, however, remains dry, with confidence in the Wimmera and Mallee regions trailing most of the other regions.

Conversely, farmers in the High Country were the most upbeat, with confidence also strong in Gippsland.

Mr Charteris said across the state – regardless of current seasonal conditions – the survey showed 68 per cent of farmers had a proactive approach to drought-preparedness.

“Farmers are employing a range of measures including storing feed or growing fodder, managing livestock numbers, investing in water infrastructure or utilising Farm Management Deposits (FMD),” he said.

“This is a positive indicator, particularly in the light of current weather forecasts.”

Any concerns around an El Nino event weren't pronounced in the survey results 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, 50 per cent cited the season (from 43 per cent) as reason for their optimism.

Commodity prices were also a dominant driver of confidence, with 53 per cent of those with a positive outlook buoyed by the price outlook – down from 68 per cent.

“Commodity prices are elevated in most sectors, with the Eastern Young Cattle Indicator (EYCI) currently trading in uncharted territory at about 150c/kg above prices seen this time last year,” Mr Charteris said.

“Lamb prices also remain strong. However the recent rally in the wool price wouldn't have been captured in this survey so we would expect sentiment amongst sheep graziers to be higher than what is reported.

“Indicators also point towards a good milk price for next season, with Murray Goulburn forecasting an average price of around 6.05/kgMS, which is a positive pricing signal, given the sentiment in global markets at present.”

In line with overall confidence levels, producer expectations of their own farm business performance also moderated this quarter, but remained strong with 36 per cent of farmers expecting a better bottom-line than last year and 44 per cent anticipating a similar financial result. While those expecting their farm business performance to decline stood at 17 per cent.

Longer-term confidence also remained sound, reflected in intentions to increase investment in their farm business and reduce debt.

This quarter, 88 per cent of farmers indicated their intention to increase or maintain the level of investment in their farm business – of which 22 per cent had expansionary intentions (down from 29 per cent).

In terms of debt, 31 per cent of the state's farmers indicated an intent to reduce debt (up from 22 per cent in the previous quarter). While a quarter of those farmers



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looking to increase debt (which was 15 per cent of respondents) are looking to purchase additional land.

“While we have certainly seen a pick-up in appetite for expansion, which has been underpinned by the last couple of good years and the low interest rate environment, many farmers are using this period to consolidate and strengthen their balance sheet,” Mr Charteris said.

“This should put them in good stead to buffer any potential downturn that could occur in either the season, or commodity markets.”

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.

The most robust study of its type in Australia, the Rabobank Rural Confidence Survey has been conducted since 2000 by an independent research organisation.

The next results are scheduled for release in September 2015.

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