



Strong commodity prices see farmer confidence rebound to four-year high

Results at a glance:

- *Australian rural confidence bounces back to four-year high*
- *Commodity prices drive upswing in confidence – particularly in beef, sheep and grain*
- *Production prospects for winter crop also positive – but follow-up rain critical in light of El Nino forecasts*
- *Nearly 60 per cent of farmers report productivity growth in past five years*

Australian rural confidence has rebounded to a four-year high, with close to half of the nation's farmers expecting conditions to improve over the coming 12 months, the latest quarterly Rabobank Rural Confidence Survey has shown.

Beef, sheep and grain producers drove much of the upswing in confidence, buoyed by the price outlook and production prospects – particularly for the upcoming harvest.

While across all commodities, 57 per cent of farmers reported an increase in productivity levels over the past five years.

After moderating last quarter, farmer confidence levels bounced back above the highs seen at the beginning of the year, the latest survey – completed last month – has shown.

A total of 47 per cent of farmers said they expected conditions in the agricultural economy to improve over the coming 12 months. This was up from 38 per cent with that view in the previous quarter.

A further 37 per cent expected conditions to remain stable, while those with a pessimistic outlook stood at just 13 per cent.

Rabobank group executive for Country Banking Australia Peter Knoblanche said an overall level of optimism was prevailing across much of the sector with strong commodity prices, generally favourable seasonal conditions and low currency and interest rates.

“Farmers are also generally positive about the future of the industry with agriculture increasingly recognised as an important pillar of the economy,” he said. “This has been demonstrated in initiatives like the Federal Government’s recent Agricultural Competitiveness White Paper.”

Mr Knoblanche said farmer confidence was also apparent in the strong investment intentions seen in the survey, with 25 per cent of farmers looking to increase their on-farm investment.

Commodity prices were a big cause for optimism among beef, sheep, grain and cotton producers this quarter. Overall, 74 per cent of farmers surveyed who expected



conditions to improve identified rising commodity prices as reason for their optimism – up from 63 per cent last survey.

Outside of regions continuing to be impacted by drought, seasonal conditions also remained a significant driver of positive outlook – nominated by 48 per cent of those expecting conditions to improve.

Other factors underpinning confidence were the state of overseas markets (cited by 21 per cent), 'improved marketing' (16 per cent) and the lower dollar (16 per cent).

Productivity

Farm productivity levels were also surveyed this quarter, with 57 per cent of farmers reporting they had boosted their farm productivity levels over the past five years.

Productivity growth had, however, been static for 25 per cent and productivity declined for 18 per cent.

For those who recorded growth in productivity, factors most contributing to this included investment in infrastructure, research and development, better access to global markets and accessing the latest information.

Mr Knoblanche said the results also highlighted the need to reverse the declining growth in public R & D spending and to provide access to new technology and genetics to 'unlock' future productivity growth.

"Productivity was stagnant in a quarter of farms and going backwards in a further significant number, so reviving this growth is a particularly pressing issue, given the rise of emerging low-cost food and agricultural export competitors," he said.

Mr Knoblanche said the drought had understandably slowed productivity growth across much of Queensland, with farmers putting a hold on capital expenditure plans and committing their resources to emerging out of the drought in the best position possible.

Farm business performance, income and investment intentions

In line with their upbeat outlook for the agricultural economy as a whole, Australian farmers were also more positive about prospects for their own farming businesses.

This quarter, 85 per cent of the nation's farmers expected their business performance to either improve (44 per cent, up from 40 per cent) or remain the same as last year (41 per cent).

This was largely due to strong income projections, with 41 per cent of the nation's farmers expecting higher gross farm incomes over the coming 12 months – underpinned by healthy income expectations in the beef sector, but with income outlook among sugar producers lagging well behind.

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 long-term viability.



States

Confidence was up across all states, except in Western Australia where it moderated from last quarter's four-year high.

"We would, however, expect confidence in Western Australia to have picked up since the survey was conducted, as there have been good widespread rains recorded in the state over the past couple of weeks. This has put farmers back on track for an average to above-average cropping season – potentially their third in a row," Mr Knoblanche said.

Grain growers, and beef and sheep producers, were also behind much of the positive sentiment in South Australia, Victoria and New South Wales. Although follow-up rainfall would be critical to realising the potential of the wheat crop, Mr Knoblanche said.

Farmer confidence was shown to be highest in Tasmania, with the net confidence indicator back close to its highest level since the survey began 14 years ago – and with nearly half of the state's farmers looking to increase their on-farm investment.

Confidence also picked up in Queensland with almost half of farmers in that state expecting conditions to improve.

"Record beef prices and strong prices for grain and cotton are underpinning much of the improved sentiment in Queensland, but the drought continues to take its toll with many holding the opinion that it 'can't get much worse' as they remained bunkered down until they get a break in the season," Mr Knoblanche said.

Sectors

Stronger confidence was reported across all commodities – except sugar and dairy – with beef producers remaining the most upbeat about their prospects.

"Each week we continue to see the cattle market break new records, with the Eastern Young Cattle Indicator trading well into uncharted territory and showing little sign of easing," Mr Knoblanche said.

For sheep, while prices aren't setting any new records, he said, they "remained strong, and wool prices also seemed to be back on an upward trajectory at present".

"Confidence has also picked up strongly amongst grain growers, with farmers reporting that their crops are emerging well," Mr Knoblanche said.

"Spring rainfall will be critical however, particularly as there is limited sub-soil moisture in many areas, and farmers are closely monitoring weather forecasts in light of the strengthening El Nino weather pattern."

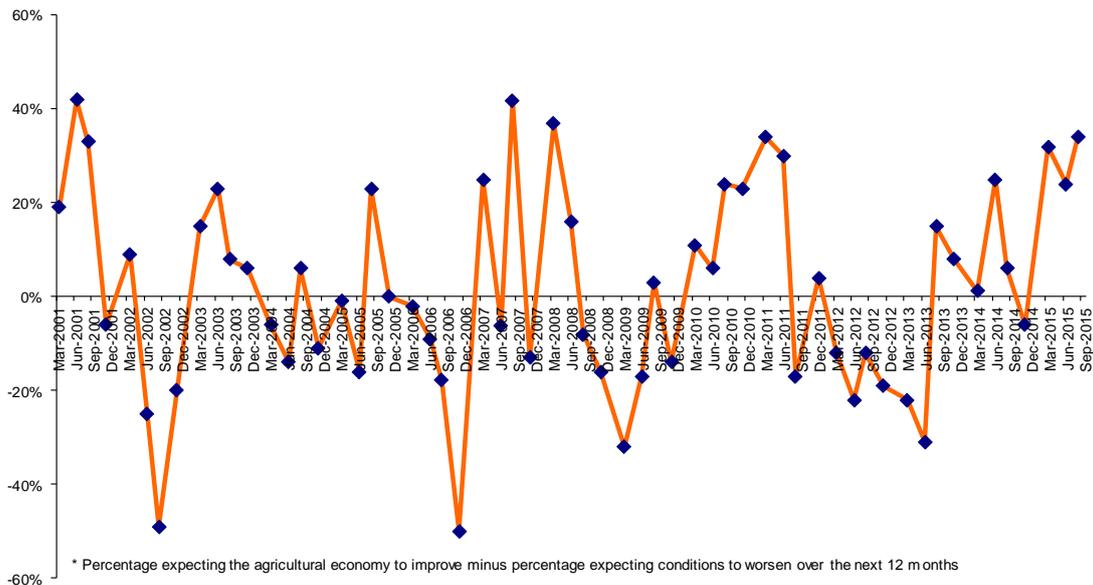
Mr Knoblanche said wheat and barley prices, as well as the cotton price, were holding up well – with domestic prices continuing to attract a strong premium compared to international values.

"Dairy prices here have also continued to outstrip global prices so far. However this wasn't enough to keep confidence from falling back into negative territory," he said.



“The weakness in global dairy markets is weighing on the minds of dairy farmers, and while the depreciating currency and flexibility in product mix has largely buffered the downturn for farmers here in Australia thus far, there is clearly some downside risk to the full-year price.”

Sentiment remained lowest in the sugar industry, with the global price trading at its lowest level since 2008 as the world market remains well supplied in its fifth year of surplus production.



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 December 2015.

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Media Release

August 24, 2015

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