



Australian farmers start year on a positive note, with bounce in rural confidence

Results at a glance:

- *Australian farmer confidence rebounds strongly, with lifts reported across all commodity sectors*
- *Good summer rainfall drove much of the boost in confidence, while commodity prices continue to underpin the outlook*
- *Investment intentions at near four-year highs, with strong plans for on-farm investment and property expansion*

Australian farmers have started 2016 on a positive note, with producers across all sectors increasingly optimistic about their prospects in the year ahead, the latest Rabobank Rural Confidence Survey has found.

Good summer rainfall early in the year drove much of the boost in confidence, with farmers also reporting overall healthy commodity returns – particularly in the livestock sector.

With rural confidence remaining relatively strong for the past two years, farmers' appetite for investment is now at a near four-year high, with more than a quarter of the nation's agricultural producers looking to increase investment in their businesses via improved farm infrastructure, increased livestock numbers, upgraded plant/machinery or property purchase.

The latest survey – completed last month – found after falling last quarter, Australian rural confidence rebounded to strong levels, with eight out of 10 farmers expecting conditions to improve or remain similar to last year.

A total of 34 per cent expected conditions in the agricultural economy to improve over the coming year (up from 28 per cent with that view in the previous survey). The proportion expecting conditions to deteriorate dropped to just 11 per cent of surveyed respondents, down from 23 per cent previously.

Rabobank national manager Country Banking Australia Todd Charteris said while farmer sentiment remained robust, further rainfall would be needed over the next few weeks to ensure this positive outlook was maintained.

“After good January rains, which were above-average for most of the southern half of the country, there has been limited rain to speak of in many regions through February and into March,” he said.

“Thankfully though there have been some significant falls across Queensland and parts of north-western New South Wales which have been struggling with ongoing drought conditions, but there are still areas there in desperate need of follow-up rain – if indeed, they received the initial falls.”



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Mr Charteris said much of the prevailing optimism in the rural sector hinged on the prospects of a good autumn break, with farmers hopeful that the weakening El Nino weather system would bode well for rainfall and underpin production intentions.

The season emerged as the dominant driver of farmer sentiment this quarter, with 44 per cent of respondents nominating seasonal conditions as the reason they expected conditions to improve over the coming year – up considerably from 25 per cent with that view in the previous quarter.

Commodity prices also remained a significant factor supporting the optimistic outlook, with 68 per cent attributing market fundamentals to their view that conditions would improve, up from 63 per cent.

This was a view held particularly by beef and sheep graziers as prices remained around record levels. Sugar producers were also more positive about the price outlook – although sugar prices volatile through the first quarter.

The solid lift in overall rural confidence levels translated into strong projections at the farmgate – with investment, gross farm incomes and farm business performance all set to increase this year.

Investment intentions

Investment intentions were near a four-year high, with 91 per cent of the nation's farmers expecting to increase or maintain their level of farm business investment over the coming year – up from 86 per cent last survey.

Of the 28 per cent looking to increase their investment, half of the respondents were prioritising on-farm infrastructure such as fences, yards and silos.

Increasing livestock numbers was also high on the agenda, particularly rebuilding the beef herd in Queensland, as was new plant and machinery.

Meanwhile, 27 per cent of those intending to increase their investment was via property purchase, with cotton and grain growers holding the strongest expansionary intentions.

Farm business performance/incomes

Farmers reported even higher levels of confidence about the outlook for their own farming business than the wider agricultural economy. This was largely driven by the outlook for gross farm incomes, with 42 per cent expecting incomes to increase over the next 12 months – up from 32 per cent. While a further 42 per cent of respondents expected incomes to remain similar to last year.

Farmers' income projections were up across all commodities, except dairy where it remained stable at slightly negative levels. Income expectations increased considerably in the sugar, grains and cotton sectors after being at subdued levels last quarter.

Indicators of longer-term confidence among farmers remained robust, reflected in the viability index (which measures farmers' perceptions of their business viability). This



quarter, the viability indicator reached its highest level in 14 years, with 95 per cent of farmers viewing their business as having long-term viability.

States

Confidence lifted strongly in all states except Western Australia, where it remained steady. This reversed most of the falls across states reported in the previous survey.

Producers in New South Wales were particularly upbeat about their prospects, holding the highest confidence levels in the nation. This was fuelling strong plans for on-farm investment and property expansion in the state.

Victoria posted the biggest upswing in confidence, with farmers buoyed by good rainfall earlier in the year.

“Similar to New South Wales, Victorian producers welcomed good January rains, however with not a great deal of rain to speak of in recent weeks, we would expect confidence would have started to wane,” Mr Charteris said.

He said Queensland had also had some decent summer and early autumn rains, however there were some areas that had missed out all together with weak monsoonal activity.

In Western Australia and South Australia, Mr Charteris said, confidence in these major grain-producing states would all hinge on rains in coming weeks, as it dictated farmer’s planting programs for the year.

Sectors

This quarter, confidence was higher across all agricultural commodities. That said, sugar and dairy producers were comparatively subdued in their outlook.

“After reporting weak sentiment throughout 2015, confidence in the sugar sector lifted in line with the improvement in prices, however at around US 15 cents a pound, prices are still sitting well-below the five-year average,” Mr Charteris said.

In the dairy sector, he said, prices remained capped by the global commodity market crunch, with the rebalancing of the market taking longer than expected. “With producers not expecting a step-up in milk prices this season, they will be looking for reasonable seasonal conditions to alleviate some pressure on margins associated with feed costs,” he said.

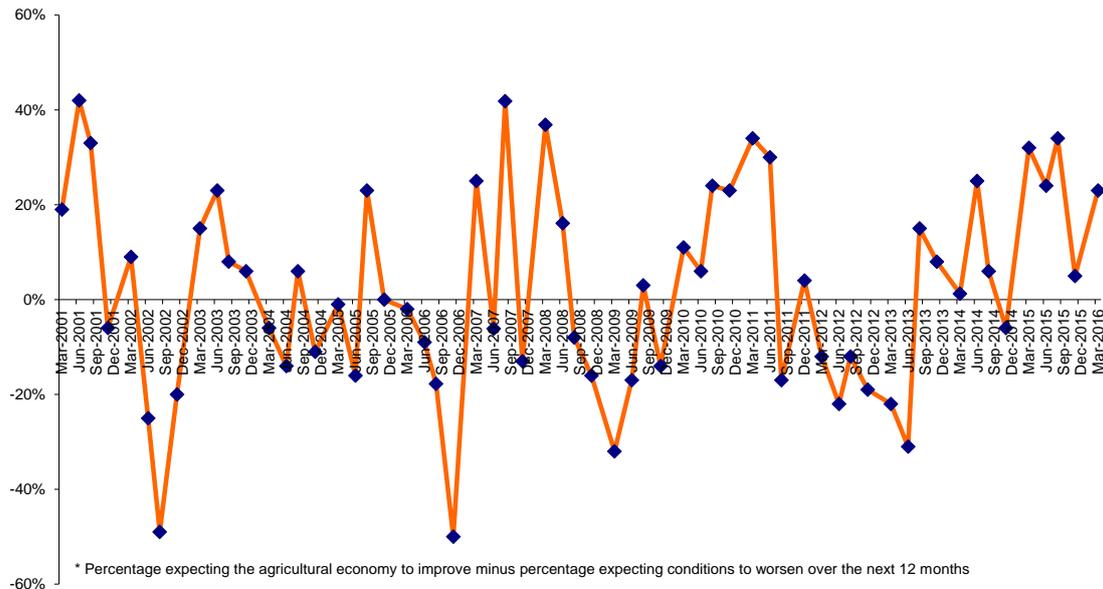
Somewhat surprisingly, Mr Charteris, given the water constraints in the irrigated cotton sector, confidence was highest amongst cotton growers, with sentiment at its best level since mid-2013.

“Cotton growers who locked in prices earlier in the season will be somewhat shielded by the recent drop in prices, however the price decline is not thought to be a structural downward adjustment, with prices expected to improve throughout 2016,” he said.



Confidence in the grains sector also lifted, with Mr Charteris saying next quarter's survey results would reveal production expectations for this season, as the outlook hinged on the autumn break.

Beef and sheep producers were also positive about their prospects, underpinned by the continued strength in the livestock markets.



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 June 2016.

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