



Dry autumn start and dairy challenges weigh down Australian farmer sentiment

Results at a glance:

- *Australian farmer confidence retreats from the highs reported early in the year*
- *Impacted by dry autumn start, though recent rains have provided relief*
- *Dairy challenges weigh on sector, while cotton and grain sector confidence also down*
- *Longer-term outlook remains robust, with 1 in 5 farmers looking to buy land in next 5 years*

A dry start to autumn in much of the country – coupled with challenges hanging over the dairy industry – have taken their toll on the nation’s rural confidence levels.

After starting the year on a strong note, the latest quarterly Rabobank Rural Confidence Survey has shown a decline in farmer sentiment.

Dairy, cotton and grain producers drove much of the downturn in confidence, while farmers across many parts of the nation expressed concerns around seasonal conditions – though recent rains in the south-east of the country have provided some good relief.

In terms of longer-term prospects though, Australian farmers expressed more optimism, with one in five looking to expand their business through property purchase over the next five years.

The survey, completed last month, found fewer farmers were optimistic about the coming 12 months this quarter – with 28 per cent reporting they expected the agricultural economy to improve (down from the 34 per cent with that view in the previous survey). The proportion expecting conditions to worsen had increased to 19 per cent (from 11 per cent previously).

This still saw net confidence remain in positive territory however, with more farmers having a positive, than negative, outlook.

Rabobank national manager Country Banking Australia Todd Charteris said the dry and unseasonably warm conditions throughout much of summer and autumn was behind the more subdued outlook, however recent widespread falls in Victoria, New South Wales, Tasmania and South Australia had alleviated a lot of the seasonal concerns in south-eastern Australia, while WA had received “great starting rains” for the cropping season.

“After very little rain to speak of since January, farmers were grappling with dry conditions until the rains fell in early May,” he said. “This has spurred winter crop plantings across the south-east of the country, with farmers now able to fulfil their planting intentions.

“While the south-east of the country has received the much-needed break in the season, some parts of South Australia have still been awaiting rains to get their crops



in, and rainfall has been very patchy in Queensland – although there have been some good falls in the north-west, the Maranoa (or Western Downs) and parts of Central Queensland,” he said. “In contrast, the season has got off to an excellent start in Western Australia, with many grain producers reporting their best start to the season in over a decade.”

Mr Charteris said that while the rains had come too late in some regions to promote significant pasture growth, the unseasonably warm weather had provided some benefit – however many beef and sheep graziers would be feeding their stock through winter.

Mr Charteris said the current significant challenges facing the dairy sector were also hanging over the latest survey results.

“At the time of the survey, sentiment in dairy was already low due to the global market downturn and dry seasonal conditions in many dairying areas. But since then, these concerns have been eclipsed by the recent cut in milk prices,” he said.

“The retrospective pay cut, announced by two of the major dairy processors, had export-oriented producers reeling from the news, as it creates significant cash flow issues in the short-term,” he said. “While the medium-term forecast for the sector remains more positive with global prices expected to improve, it will take a while to flow back to the farmgate, with producers bracing for low milk prices next season.”

Across the board, concern about seasonal conditions was a major factor nominated by farmers who had a pessimistic outlook on the 12 months ahead – cited by 59 per cent of those expecting conditions to worsen, up from 35 per cent with that concern previously.

Seasonal concerns were behind the drop in cotton and grain grower confidence. However grain producers would now be more positive about their prospects, with recent rains anticipated to support a full winter crop plant in Victoria and New South Wales, Mr Charteris said.

Commodity prices were the main reason given by producers who had a positive outlook on the agricultural economy – cited by 62 per cent (down slightly from 68 per cent in the previous quarter). In contrast to previous surveys, but reflective of the upswing in prices, sugar growers were the most upbeat about the market outlook.

Investment intentions

Despite the moderation in overall confidence levels, investment intentions remained relatively strong, with 87 per cent of the nation’s farmers expecting to increase or maintain their level of farm business investment over the coming 12 months – down slightly from 91 per cent.

Of the 23 per cent looking to increase investment, 51 per cent were prioritising on-farm infrastructure such as fences, yards and silos, while 29 per cent were planning to build livestock numbers.

This quarter, longer-term expansion plans were also measured, with one out of five farmers looking to purchase additional property over the coming five years. Appetite was particularly strong in Western Australia and South Australia – with the ratio



increasing to nearly one in three – largely due to expansionary plans held by grain growers.

High property prices and, to a lesser extent, lack of property on the market and heightened competition at auction were reported as the biggest barriers to property expansion.

Farm business performance/incomes

Farmers' income expectations for the next 12 months also lowered.

Overall, 32 per cent were expecting higher gross farm incomes (down from 42 per cent with that expectation last quarter), while 23 per cent were anticipating their farm income to be lower (up from 14 per cent)

Income projections were lower across all commodities, with the biggest downward revision reported in the cotton industry. Income expectations were down in dairy, but are expected to fall further in the next survey, reflecting the retrospective milk price cut announced just days after the survey was conducted.

States

Confidence across most states retreated from the highs reported earlier in the year, especially in Queensland, with sentiment falling to its lowest level since late 2014. Western Australia was the exception, with confidence lifting strongly on the back of widespread rain.

Prevailing drought conditions weighed heavily on Queensland farmer sentiment, with 68 per cent citing dry conditions as the reason for their subdued outlook, up from 50 per cent in the previous survey. While recent rainfall has been well received, Mr Charteris said, it was not widespread and lack of rainfall was impacting the yield potential of just-planted crops.

The season had also been a concern for farmers in South Australia, with a slow start to the autumn break to get crops in the ground or growth underway (for those who had dry sown).

Mr Charteris said while South Australia's season was still considered patchy, recent rainfall had been very beneficial.

Good rainfall has also recently been received across part of New South Wales, Victoria and Tasmania.

Sectors

After reporting an increase in confidence across all agricultural commodities last quarter, confidence returned back to the levels of late 2015, and even lower in dairy. Sugar was the exception, with confidence improving slightly, but to remain at subdued levels – while sentiment was highest amongst beef producers.

Mr Charteris said while dairy farmer sentiment was down, it would now be even lower among export-orientated producers with the recent milk price cut – in the vicinity of



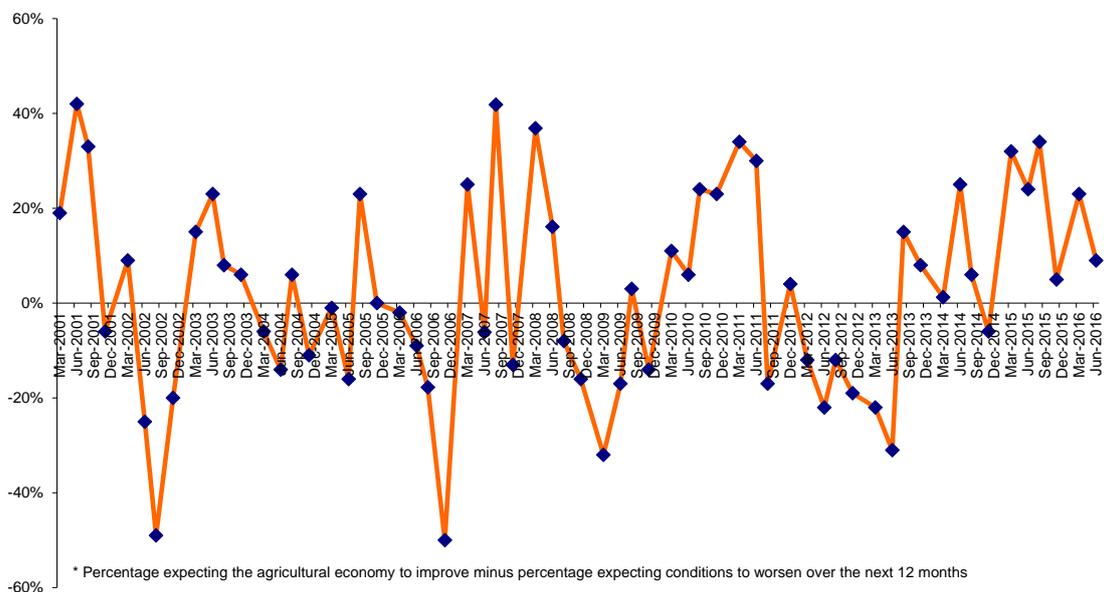
12 to 18 per cent – with the reduction announced just days after the survey was conducted.

“With the milk price cut coming so late in the season, farmers are unable to rein in their costs of production,” he said, “with many purchasing feed earlier in the season to get their cows through the last few months – which they may not have done if they knew the farmgate price would be retrospectively cut to \$5 per kilogram of milk solids.”

The 12-month outlook had however improved for sugar. “Domestic sugar prices are now more than A\$150 per tonne higher than they were this time last year,” Mr Charteris said. “While the global spot price sits around 16.5 US cents per pound, prices are extremely volatile and we expect prices to average around 15 to 16 US cents per pound this year, underpinned by the large global production deficit and drawdown of stocks.”

Confidence was down among grain and cotton producers, however the recent rains have provided a boost to grain growers in the south-eastern states, and growers remain upbeat in Western Australia. In the cotton sector, Mr Charteris said a sustained lift in confidence would remain dependant on irrigation availability, with a wet winter needed to boost water storage levels.

While confidence moderated slightly in beef, it remained the most positive industry by far, although a bigger fall was reported in the sheep sector.



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 September 2016.



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