



Rabobank

Media Release
May 30, 2016

Dairy concerns weigh on Victoria's agri sector

Results at a glance:

- *Victorian farmer confidence retracts from last quarter's high, pulled down by concerns in dairy sector*
- *Recent rains alleviate seasonal concerns, with grain growers now looking at a full plant*
- *Longer-term confidence remains sound, with 1 in 5 farmers looking to buy land in next 5 years*

After starting the year on a high, Victorian farmer confidence has declined, weighed down by a sober outlook held by the state's dairy farmers, the latest quarterly Rabobank Rural Confidence Survey has shown.

Dry conditions throughout summer and early autumn were also behind the more subdued rural sentiment in the state, however weather concerns have recently been alleviated, with a widespread break in the season in early May.

The survey – completed last month – found after lifting strongly last quarter, Victorian farmer confidence has moderated, with the net confidence index now sitting at one per cent, down from 16 per cent previously.

Overall, 25 per cent of the state's farmers had a positive outlook on the year ahead (down from 33 per cent in the previous survey), while 24 per cent expected the agricultural economy to deteriorate (up from 17 per cent). A total of 45 per cent expected similar conditions to the last 12 months.

Rabobank state manager for Victoria Hamish McAlpin said while overall confidence had been weighed down by a pessimistic outlook in the dairy sector at the time of the survey, it would be even lower now, due to the recent cut in milk prices – which were announced just days after the survey was conducted.

"The retrospective pay cut, announced by two of the major processors to \$4.75- \$5.00 per kilogram of milk solids for the 2015/16 season, has dairy farmers across the state reeling from the news," Mr McAlpin said. "But what is really tough is the timing of the cut, with farmers unable to pare back this year's costs of production at this late stage of the season."

Mr McAlpin said while there has been no announcement regarding the opening milk price for the 2016/17 season, many in the sector were expecting the processors to err on the conservative side and open at the low end of their price ranges.

"With dairy farmers bracing for low milk prices next season, the recent rain – while late in the season – has provided some relief in the outlook with unusually mild conditions accommodating some late season pasture growth" he said.

In stark contrast to their dairy farmer counterparts, the state's grain growers were upbeat about their prospects for the coming season, with the recent widespread break in the season providing the "much-needed" moisture for a full plant.



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“The Bureau of Meteorology has been forecasting the chances of average or above-average rainfall for the coming season for some time and early in May the state did receive significant and widespread rainfall to get the break well under way,” Mr McAlpin said.

While many farmers had started planting their crops before, the early May rains had spurred widespread planting across the state, with farmers now able to fulfil their planting intentions, he said.

“Crops that were dry sown before the break have benefited strongly from the rain, while those that are currently being planted are being sown into a good soil moisture profile,” he said.

While the moisture was “enough to get the crops well underway”, Mr McAlpin said crop farmers would need a good spring to maximise yield potential.

“The previous failed spring is fresh in people’s minds,” he said, “however farmers are hopeful that this year will be different, with weather modelling indicating an increased likelihood of a La Nina weather pattern.”

Commodity prices were the dominant concern for farmers in the state – 59 per cent of those expecting conditions to worsen over the coming 12 months citing commodity prices as the reason for their subdued outlook. This was particularly high among dairy farmers, at 76 per cent.

This was closely followed by concern about dry seasonal conditions, nominated by 58 per cent of respondents as cause for their negative outlook, during the survey period.

On the flipside, beef producers were buoyed by the state of commodity prices, with strong cattle prices underpinning their bullish outlook.

Mr McAlpin said the recent rains will also provide a boost to beef and sheep producers.

“While the rains have come late in the season, the unseasonably warm weather has seen pastures respond immediately to the moisture. However, there will still be graziers feeding their stock through winter more than usual given the poor spring and late break,” he said.

In line with the decline in overall confidence levels, Victorian farmers also lowered their income expectations for the coming 12 months. The percentage expecting gross farm incomes to increase fell to 31 per cent (from 41 per cent in the previous quarter), while the proportion of respondents expecting lower gross farm incomes stood at 28 per cent, up from 16 per cent. However, the majority (39 per cent) expected similar incomes to last year.

Reflecting longer-term confidence in the sector though, farmers still had strong investment intentions, with 86 per cent planning to increase or maintain the level of investment in their farm businesses over the coming year – compared with 92 per cent in the previous survey.

Of the 21 per cent looking to up their level of investment, on-farm infrastructure and, to a lesser degree, increasing livestock numbers were the key priority areas.



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Mr McAlpin said while on-farm investment was strong across the grains and beef/sheep sectors, it had now been “shut down in the dairy sector”.

“Dairy farmers have put their expansion plans on hold,” he said, “as they batten down the hatches to get through the coming season,” he said.

This quarter, farmers’ longer-term expansion intentions were also surveyed, with 20 per cent of the state’s producers looking to purchase additional property over the coming five years – in line with the national average. Appetite for expansion was highest in the grains sector, with 38 per cent of Victorian grain growers hoping to buy property.

“Interest in ‘next door’ remains strong, as farmers look to increase their economies of scale,” Mr McAlpin said. “However, as the survey shows, this appetite is muted somewhat by high property prices as well as lack of property on the market and competition at auction.”

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 Rabobank Rural Confidence Survey has been conducted since 2000 by an independent research organisation.

The next results are scheduled for release in September 2016.

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