



Rabobank

Media Release
August 29, 2016

Rain buoys outlook for Victoria's agri sector, but can't offset dairy woes

Results at a glance:

- *Significant, widespread rainfall buoys confidence in Vic's grain and beef/sheep sectors*
- *Conditions remain challenging in dairy*
- *Overall rural confidence remains at around neutral levels*

Significant, widespread rainfall has buoyed the outlook for Victoria's grain and livestock producers, but hasn't been enough to offset the challenges facing the dairy sector.

The latest Rabobank Rural Confidence Survey has found the state's rural sentiment failed to rally in the past quarter, despite very good seasonal conditions, with dairy sector concerns keeping a lid on overall confidence levels.

The quarterly survey – completed last month – saw the net Rural Confidence indicator for Victoria remain at around neutral levels, with 29 per cent of the state's farmers expecting the agricultural economy to improve in the next 12 months (up marginally from 25 per cent), while 26 per cent expect conditions to worsen (from 24 per cent).

A total of 44 per cent were expecting conditions in the agricultural economy to remain similar to the previous year.

Rabobank state manager for Victoria Hamish McAlpin said while much-needed rainfall had "set up grain and livestock producers for a great season after last year's failed spring", it wasn't enough to offset significant revenue concerns in the dairy sector.

"The state's dairy farmers are under no illusion and realise this season is extremely challenging," he said. "Global markets have been low for some time and while we expect some recovery in the first half of next year, this will likely not flow through until the following season".

Mr McAlpin said while it would take some time for an improvement to be seen in farmgate milk prices, cost pressures had thankfully eased, with fertiliser prices around decade lows and grain also at lower levels not seen in recent years.

"The good start to the season will also reduce the dairy sector's reliance on buying in feed with expectation of increased levels of home-grown feed," he said.

With market prices also lacklustre in the grains sector, Mr McAlpin said pricing concerns for grain growers were eclipsed by the prospect of good yields.

"After a poor season last year, this year's wheat crop is shaping up to be around 40 per cent higher than last season, with farmers across the state expecting average to above-average yields," he said.



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Mr McAlpin said “with the whole of the state reporting good winter rainfall”, irrigation catchments in Victoria were refilling from low levels after the previous dry year.

“Fears of low water allocations this season have now been alleviated, with expectations that allocations will be at 100 per cent earlier than previously forecast, which gives enormous comfort to those in the irrigation sector,” he said.

Rain had also filled on-farm water storages and set graziers up for a fantastic spring, Mr McAlpin said, with sentiment further boosted by strong market prices for beef, lamb and wool. “The Eastern Young Cattle Indicator has been trading at record levels above \$7 per kilogram and cattle saleyard prices have been setting records,” he said.

The impact of improved seasonal conditions on Victorian farmer sentiment was pronounced in the survey, with 66 per cent of those expecting the agricultural economy to improve in the next 12 months citing the season as cause for their optimism, up from 62 per cent.

In line with this, concerns about drought diminished, with only 10 per cent of the state’s farmers expecting conditions to worsen blaming seasonal conditions, down significantly from 58 per cent in the previous survey.

Milk price woes in the dairy sector saw commodity prices remain the dominant concern for farmers in the state, with 82 per cent of those expecting conditions to worsen citing prices as the reason for their subdued outlook, up from 59 per cent. This was particularly high among dairy farmers, at 94 per cent.

Given the disparity in the outlook for Victoria’s key commodities, the state’s farmers were split in their views as to whether gross farm incomes in the 2016/17 financial year would increase (35 per cent) or decrease (30 per cent). Meanwhile those expecting similar incomes to last financial year stood at 35 per cent.

Longer-term confidence in the agri sector remained strong however, reflected in Victorian farmers’ investment intentions, with 87 per cent planning to increase or maintain the same level of investment in their farm businesses over the coming year – a similar reading to last quarter.

Of the 18 per cent looking to up their level of investment, on-farm infrastructure remained the key priority, while there was strong appetite to increase livestock numbers.

Mr McAlpin said expansion and cap-ex plans had naturally been put on hold in the dairy sector however, with 37 per cent of dairy farmers looking to reduce their on-farm investment over the coming 12 months.

“Last season’s retrospective milk price cut – 10 months into the season – didn’t give dairy farmers the opportunity to pull any levers to reduce costs,” he said. “So this season, producers are making on-farm adjustments to reduce their costs.”

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.



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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 December 2016.

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