



Rabobank

Media Release

March 13, 2017

Dry summer conditions cause Queensland farmer confidence to cool

Results at a glance:

- *After two strong quarters, Queensland farmer confidence fell sharply*
- *Driven by hot, dry conditions throughout summer, particularly in the Darling Downs*
- *Producers report some concern about new Trump administration with 26 per cent fearing a potential negative impact on Australian agriculture*

After posting two consecutive quarters of strong confidence, sentiment among Queensland primary producers fell sharply this quarter impacted by dry summer conditions, according to the latest quarterly Rabobank Rural Confidence Survey.

The result, while still positive – with more of the state’s farmers optimistic than pessimistic – is down significantly from the previous quarter.

Rabobank regional manager for southern Queensland and northern New South Wales Brad James said hot, dry conditions throughout much of summer, particularly across the Darling Downs, may well be responsible for producers becoming increasingly cautious in their outlook for 2017.

“The season across the state has been varied but particularly in the southern part of the state, it has been generally dry,” he said.

“However, even in the north, where for the most part it’s fairly green at the moment, they haven’t had the wet season they were hoping for.”

The latest survey, completed last month, found while those expecting conditions in the agricultural economy to improve in the next 12 months dropped back to 23 per cent (from 41 per cent last quarter), the majority of the state’s farmers were expecting 2017 to be similar to 2016, with 54 per cent holding this view.

This quarter, 19 per cent of Queensland producers expected agricultural economic conditions to worsen, up from 12 per cent in the previous quarter.

Reflecting the dry conditions, the Darling Downs reported the weakest confidence levels, with the net indicator falling to -eight per cent, from 23 per cent last quarter. The Central Highlands and Coast also entered negative territory at -one per cent (from 23 per cent) while the Channel Country remained upbeat at 20 per cent (from 39 per cent) and rural confidence in North Queensland moderated, but remained positive at 10 per cent (down from 40 per cent).

“The Darling Downs had a stellar year last year,” Mr James said.

“While their sentiment has dropped significantly, I think a lot of it might have to do with returning to a more ‘business as usual’ season and the confidence correction is reflecting that.



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“North Queensland and the Channel Country have had a bit more rain over the summer, but in the Central Highlands and Coast falls have been very patchy.”

Rural confidence in Queensland moderated across most commodity sectors, except grain where it remained steady with a net reading of 12 per cent (from 11 per cent last quarter).

In cotton, sentiment has pulled back markedly with only 10 per cent of the state’s cotton producers expecting conditions to improve in 2017, compared to 55 per cent with that view in the previous survey. That said, the majority (64 per cent) expected similar conditions to last year.

Most cotton producers (75 per cent) cited the dry season as reason for their pessimistic outlook.

“At the time the survey was undertaken, New York ICE#2 cotton futures for March were receiving over 77 US c/lb. These were the best prices seen in a couple of years and the fundamentals look to be supporting prices for at least the first half of the year,” Mr James said.

“In most of our Queensland cotton-growing regions we have seen increased plantings, but, with hot and dry conditions, dryland growers will be starting to get very concerned and those who irrigate will be having to spend more than they hoped to on inputs.”

Queensland beef and sugar sector confidence also eased this quarter with net confidence in sugar falling to four per cent (from 34 per cent), while beef eased back to seven per cent (from 28 per cent).

Mr James said prices across both sugar and beef had pulled back a little from last year, but were still at “pretty good” levels.

“Sugar producers in some regions have been experiencing uncertainty due to ongoing contract discussions with processors, which hopefully will be resolved soon,” he said.

“For beef, while prices have been good for some time now, not everyone has had the product available to take advantage of those prices and the drier conditions will be adding a bit of nervousness to restocking efforts.”

In line with the decline in overall confidence levels, expectations around farm incomes also moderated with 30 per cent of Queensland producers expecting their gross farm income to increase over the coming 12 months, down from 43 per cent with that expectation in the previous survey. Those producers expecting their gross farm income to fall increased to 18 per cent, from 11 per cent last quarter. A total of 48 per cent were expecting a similar financial result to the previous year.

Despite reporting a decline in confidence, income expectations were strongest among the state’s cattle producers.

Farmers’ investment intentions were not, however, impacted by their more bearish outlook – with 92 per cent of Queensland producers intending to either increase or



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maintain the level of investment in their farm business over the coming 12 months, down only slightly from 94 per cent last quarter.

Of those looking to increase their investment (20 per cent of respondents), there was substantial interest in on-farm assets. Producers considering purchasing infrastructure – such as fences, yards and silos – increased to 71 per cent (from 44 per cent), those looking at irrigation and water infrastructure increased to 50 per cent (from 16 per cent) and producers intending to purchase additional plant and machinery also rose to 50 per cent (from 26 per cent).

Mr James said appetite for on-farm investment was generally driven by a decent short-to-medium term outlook among farmers, indicating an underlying strong confidence within the sector.

“There are producers who have had to stall some of their investment plans, particularly over the dry years and, with factors improving over the previous six months, many are now investing in assets that they had put off,” he said.

This quarter, producers were also asked what impact the new Trump administration in the US had made on their confidence in the outlook for the Australian agricultural sector. Of the producers surveyed, 26 per cent saw the new US administration as having a negative impact while 12 per cent expected it to have a positive bearing on the sector.

Of those with a negative view on the change in US presidency, the majority cited concerns around the impact on Australian/US trade (51 per cent), while 18 per cent raised were worried about unpredictability.

Of those Queensland farmers with a positive outlook on the new US administration, impact on Australian/US trade was also cited by many as reason for their optimistic view (nominated by 35 per cent), while 30 per cent saw increased trade opportunities with other countries arising from the change in US government.

Mr James said many in the farming sector were waiting to see how far the Trump administration would take its ‘America first’ agenda.

“From those who I’ve spoken to, there is some concern about the unpredictability and that the dialogue we’re currently receiving seems to be a bit insular, which could potentially impact on our exports to that market,” he said.

“On the flipside, there are producers who are hopeful that if the US cancels some of its larger free trade agreements, that there might be opportunities for Australia to step in and fill the gap.”

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 June 2017.



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