



Rabobank

Media Release
December 3, 2018

SA farmer confidence shows signs of recovery – encouraged by better-than-expected start to harvest

Results at a glance:

- *SA farmer sentiment shows signs of recovery, but remains at subdued levels*
- *Sheep graziers the most positive, but grain sector confidence starts to lift as start of harvest provides more yield and income certainty*
- *More than half of farmers surveyed say they are better prepared for drought than five years ago*

A more promising start to harvest – along with rainfall in pastoral regions – has raised the spirits of South Australia’s farmers, the latest quarterly Rabobank Rural Confidence Survey has found.

After falling substantially last quarter, sentiment in the SA agricultural sector has shown tentative signs of recovery, with the final Rural Confidence Survey for 2018 finding the state’s farmers are finishing the year on a more positive note.

The latest survey – completed in November – showed the percentage of SA farmers holding an optimistic view on the outlook for the agricultural sector in the next 12 months had risen to 31 per cent, up from 13 per cent last quarter.

The proportion of the state’s farmers holding a negative outlook remained high at 45 per cent, but was down from 59 per cent with that view in the previous survey. Those expecting similar conditions to last year stood at 22 per cent.

Rabobank regional manager for South Australia Roger Matthews said the improved outlook particularly reflected positive market conditions for sheep graziers as well as a greater level of certainty for grain growers, with the season essentially completed and harvest underway.

“With the season largely completed, growers are more confident now that they know where they stand, and for the most part this has been a fairly positive finish,” he said.

The upswing in confidence this quarter was led by the state’s sheep graziers, with sentiment in the sector lifting strongly – 35 per cent expecting agricultural economic conditions to improve (up from 24 per cent in the previous quarter) and the number with a negative outlook falling to 25 per cent (compared with 43 per cent previously). A total of 37 per cent had a stable outlook on the year ahead.

Mr Matthews said despite some softening in commodity prices, the state’s sheep producers remain on solid ground.

“At this time of year, we do tend to see sheepmeat prices pull back a bit with the abundance of spring lamb, but the drought seen in eastern states is keeping supply tight and the bank’s RaboResearch analysts are expecting prices to remain above five-year averages,” he said.



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“For wool, the aggressive Chinese buying in the market also seem to have pulled back a little and we are seeing a bit of a price correction, but it is coming back from such highs that South Australian sheep producers will unlikely be too concerned in the short term as most businesses here are now built to run on a far lower cost base.”

Confidence also lifted somewhat in the grains sector with 31 per cent now indicating a positive outlook, an improvement on the 15 per cent with that view last quarter.

Mr Matthews said while the forecast was for the state’s winter crop to be down by 16 per cent on last year, in some regions crops were yielding better than had been anticipated.

“On the Eyre Peninsula, things are largely looking really positive,” he said. “While they did have a dry start, growers received decent falls in August and all, except a small pocket at the top of the region, seem to be boasting crops of either average or above-average yields.”

“For those who have suffered yield loss due to dry conditions or because of this year’s frost, tight domestic supply has offered prices that have gone a long way to help alleviate the pain of fewer tonnes.”

Dairy and beef producers remained more subdued in their outlook with those anticipating worsening conditions sitting at 65 per cent and 62 per cent, respectively.

For these commodities, falling prices and dry seasonal conditions were of equal concern.

This quarter, the Rabobank Rural Confidence Survey also questioned farmers about their ability to prepare for and manage drought conditions, finding 96 per cent of SA producers surveyed felt either somewhat or very prepared to handle drought.

Farmers also indicated their ability to manage drought had improved in recent years, with 54 per cent saying their businesses were better prepared for drought now than five years ago.

Mr Matthews said South Australia agriculture had been fortunate to have had a succession of really strong years, helping to build the resilience of the sector.

“There are a number of producers, particularly in sheep, who now have good, strong cash flow and a particularly strong balance sheet because of the jump in land values,” he said.

“Having this financial buffer will provide a lot of farmers with confidence to withstand some of the leaner years, but it also means that farmers have a bit more cash available to continue to improve water storage and feed storage infrastructure.”

However, while the state’s farmers are feeling confident about their ability to handle drought conditions, they are still very aware of the impact on their bottom line.

Overall, South Australian farmers revised up expectations for their gross farm incomes in the coming 12 months, with 26 per cent now expecting an improvement (from 17 per cent last quarter) and 31 per cent expecting a similar financial result to



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the previous year. However, the share of farmers expecting their income to contract remains high at 43 per cent, the same as last quarter.

Of the farmers surveyed, dairy producers held the most pessimistic income projections, with 65 per cent anticipating lower incomes.

“With dairy, we are anticipating things will continue to be tough in the short term as there hasn’t been much in the way of an upswing in prices and this, coupled with increasing feed costs and a less-than-ideal season, will continue to squeeze margins,” Mr Matthews said

“However, since the survey was taken, we have seen decent rains in the lower south east around Mt Gambier, which we expect to improve confidence in the dairy sector.

“Beef is a little more fortunate, in that while feed costs have increased, there has also been a tightening supply for finished cattle. For those able to do so, there is some opportunity to buy young cattle at a decent price and take advantage of the current price variance.”

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 March 2019.

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