



Rabobank

Media Release
December 3, 2018

Dry saps sentiment in Victoria's ag sector – with dairy the hardest hit

Results at a glance:

- *Vic farmer confidence remains subdued – as drought prevails across northern Vic and east Gippsland*
- *Half of the state's farmers expecting conditions to deteriorate in coming year*
- *Concerns particularly heightened in dairy – as fodder, feed and water prices remain elevated*
- *But 95% of farming businesses surveyed indicate some level of drought preparedness*

Dry seasonal conditions across northern Victoria and east Gippsland continue to take their toll on the state's rural sector, with Victorian farmer confidence remaining subdued at near-decade lows.

The final Rabobank Rural Confidence Survey for 2018, released today, has found half of the state's farmers are pessimistic about their prospects for the year ahead, with drought the primary concern.

While late-spring rains – which have since fallen across much of eastern Victoria – are expected to now provide some reprieve, follow-up rainfall will be needed to help restore confidence in the sector.

Despite ongoing seasonal concerns, 95 per cent of surveyed farming businesses in Victoria indicated a level of preparedness for drought – with more than half stating they are more prepared now than five years ago.

The latest survey, completed in November, found rural sentiment in the state was little changed from last quarter, with 50 per cent of those Victorian farmers surveyed expecting conditions in the agricultural economy to worsen in the next 12 months, compared with 51 per cent in the previous survey. Drought remained the key driver of this pessimistic sentiment, cited by 94 per cent as the reason conditions were likely to deteriorate.

Meanwhile, those expecting conditions in the agricultural economy to improve stood at just 18 per cent (up slightly from 14 per cent previously), while 28 per cent expected similar conditions to the previous 12 months.

Rabobank regional manager for Southern Victoria & Tasmania Hamish McAlpin said circumstances were particularly challenging for those in the dairy sector, with 61 per cent of surveyed dairy farmers reporting a pessimistic outlook, up from 47 per cent with that view in the September quarter.

“The dry season has increased the requirement for, and the cost, of bought-in feed and water for dairy farmers, particularly in the Murray Dairy region,” he said, “with these input prices around double that of last year and little relief for margins foreseen in 2019.”



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“This could see a sizeable drop in milk production in this northern region and, if it eventuates, the national milk pool is at risk of falling to its lowest level in two-decades.”

In the south-west of the state and west Gippsland, Mr McAlpin said, it had been a dry start to spring, but there had been some good rainfall in recent weeks and milk production was largely on par with last year.

“This highlights how disparate the season is between the north and south of the state,” he said, “with much of southern Victoria enjoying a good spring, except east Gippsland, where conditions have been tough. Decent rain in recent weeks, and after the survey was taken, however, has seen a more positive outlook for those on irrigation in the Macalister Irrigation District.”

With sentiment in the state's dairy sector lagging other commodities, Mr McAlpin said confidence was also found to be relatively subdued in grain, beef and sheep – albeit tracking above last quarter's levels.

“The dry start to spring and a series of frost events have taken their toll on the grains crop, with quite significant frost damage reported in areas west of Ballarat and around Horsham,” he said. “But thankfully, frost-damaged crops that have been cut for hay have still been able to realise good returns.”

Mr McAlpin said Victoria's winter crop was expected to be down around 40 per cent on last year's strong harvest result, with the multiple frosts and dry start to spring limiting grain filling. Also incentivised by high fodder prices, upwards of 50 per cent of planted area will not be harvested for grain in the Wimmera and Northern Central region, he said.

“However there will still be some good yields in areas like Hamilton and those crops around Horsham that have not been frost affected are yielding better than expected given how dry it has been.”

With availability of grain tight, Mr McAlpin said the cost of feeding livestock was weighing on the sentiment of beef and sheep graziers.

“The decisions facing graziers are becoming tougher, as many have already made decisions around the sale of older or younger stock, and are now weighing up whether to sell breeding animals,” he said.

With little change in overall confidence levels, farmers' expectations about their gross farm incomes also remained relatively in line with last quarter. A total of 43 per cent of Victorian farmers surveyed were expecting their incomes to fall in the coming year (up slightly from 38 per cent in the previous survey), while 36 per cent expected similar incomes to the past 12 months. Those expecting an improved financial position stood at 22 per cent, the same percentage as last quarter.

Longer-term confidence in the Victorian sector remained relatively sound, however, as reflected in farmers' investment intentions for the coming year – with 17 per cent looking to increase their investment, and the majority (67 per cent) planning to maintain current levels.



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For those farmers looking to expand, Mr McAlpin said, the rural property market remained quite active, particularly in western Victoria – which had exhibited strong land value growth in recent years.

“In the Western District, we are continuing to see a fair bit of interest and activity in the property market, indicating the buoyant longer-term outlook for the ag sector,” he said. “But in Gippsland, there remains a lack of property coming on to the market, as land in the region remains very tightly held.”

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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