



Rabobank

Media Release

June 12, 2018

NSW farmer sentiment plummets as drought bites

Results at a glance:

- *Exceptionally dry summer and autumn drives NSW farmer confidence to five-year low*
- *Nearly half state's farmers had pessimistic outlook on year ahead*
- *Dry season cited by nine in 10 farmers as reason for their pessimistic outlook*
- *Longer-term confidence in sector, however, remains unshaken, reflected in still-strong investment plans*

New South Wales farmer confidence has plummeted to its lowest level in five years as dry conditions intensified through autumn, according to Rabobank's quarterly Rural Confidence Survey, released today.

With much of the state facing drought conditions, dry weather was cited as the main cause for the pessimistic outlook, as winter crop plantings hang in the balance and graziers look to feed stock through winter.

Rabobank regional manager for Central New South Wales Toby Mendl said while the dry was creating anxiety heading into winter, farmers' underlying long-term confidence in the sector appeared to remain sound, with strong commodity price prospects continuing to underpin on-farm investment plans.

"While we certainly expected the rural confidence index to fall this quarter due to the poor seasonal conditions in the state, the scale of the drop to a five-year low reflects that it is coming off a relatively high base following a run of good seasons and generally strong commodity prices," he said.

The quarterly survey, completed last month, found nearly half of the state's farmers, 46 per cent, expected conditions in the agricultural economy to worsen in the coming 12 months, double the 23 per cent with that expectation in March this year.

Those expecting an improvement in the agricultural economy stood at just 14 per cent, down from 20 per cent, while 33 per cent expect similar conditions to last year (down from 54 per cent).

Mr Mendl said the survey results were climate driven, with 93 per cent of farmers with a pessimistic outlook citing the dry season as the key reason conditions were likely to worsen.

"The whole of New South Wales has endured a dry summer and autumn, with above-average temperatures exacerbating conditions, as soil moisture profiles are very low across most of the cropping belt," he said.

Grain and cotton growers were particularly concerned about poor seasonal conditions, he said, with all surveyed growers expecting conditions to worsen blaming the season for their pessimistic outlook.

This had seen confidence in the NSW grain sector take the biggest hit this quarter, with 44 per cent of grain growers now having a negative outlook, up from just five per



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cent in the previous survey. While in the cotton sector, 61 per cent of growers were expecting a deterioration in conditions – although this was in line with last quarter.

Mr Mendl said with no break in the season, nearly all of the New South Wales winter crop that was in the ground had been dry sown, but the pace of plantings was slowing as farmers awaited rain to fulfil planting intentions. “And with the planting window starting to close, rain in the next few weeks will be critical,” he said.

Mr Mendl said the dry weather had curtailed canola plantings, with Rabobank forecasting NSW canola plantings to be down by 17 per cent on the previous season, with growers looking at wheat and barley with its later planting window and relatively strong prices.

“Feed barley prices are particularly strong, recently hitting their highest level in nine years, driven by strong demand from livestock producers,” he said.

With feed prices likely to increase further, and the lucerne hay market already going up, Mr Mendl said feed prices would impact livestock feeding decisions, but wouldn't be the key determinant.

“Graziers are looking to feed their core breeding stock, as a lot have the liquidity to do so, given the returns for wool, mutton and lamb,” he said.

The latest survey found while confidence was down among sheep graziers, they remained the most positive commodity sector in the state, with 54 per cent expecting similar economic conditions to the last 12 months.

Mr Mendl said confidence in the state's beef sector had taken a bigger hit, with 52 per cent of surveyed beef producers expecting conditions to worsen.

“While beef prices have come off, and light cow prices have fallen out of bed, beef prices remain above the five-year average, enticing many to hold on to their breeding stock as the challenge to buy back in following a break in the season is likely to be significant,” he said.

Confidence in the dairy sector improved, but remained subdued, with 41 per cent of the state's dairy farmers expecting the agricultural economy to worsen as they cited concerns around seasonal conditions in an environment of relatively flat milk prices and rising input costs, with increased purchased feed requirements.

Across the state, farmers also significantly revised down the outlook for their own gross farm incomes in the coming 12 months, with 40 per cent expecting their incomes to fall, compared with 22 per cent last quarter.

Cotton and beef producers were particularly pessimistic in regards to their income projections, with 74 per cent and 51 per cent, respectively, anticipating a decline in gross farm income.

Mr Mendl said for cotton growers this was largely due to seasonal concerns, as water allocations were looking very tight heading into next season, unless there was significant winter rain.



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“But in terms of price, cotton is at one of the highest levels we have seen, and forward prices for next season’s crop are currently trading above \$600 per bale,” he said.

Despite concerns around the season, the state’s farmers retained relatively strong investment plans for the coming 12 months, with 22 per cent (down slightly from last quarter’s 26 per cent) looking to increase investment and a further 62 per cent (same reading as previous survey) intending to maintain investment at current levels. Investment was particularly strong among cotton producers, with 51 per cent holding expansionary intentions.

“Continued strong investment intentions shows the resilience of farmers to come through tough seasons, and many have already positioned themselves to manage the dry better than they have done in the past,” Mr Mendl said, “whether that has been through maintenance of cash reserves, upgrades to water infrastructure, storage facilities or sheep-feeding infrastructure.”

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 2018.

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To arrange an interview with Toby Mendl, Rabobank regional manager for Central New South Wales, or for more information on Rabobank’s Rural Confidence Survey, please contact:

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