



Rabobank

Media Release
September 3, 2018

South Australian farm businesses in strong long-term position despite deteriorating season

Results at a glance:

- *SA farmer seasonal confidence dips sharply due to deteriorating conditions*
- *Income expectations down in grains sector, but remains strong in sheep*
- *Long-term confidence still robust with farmers maintaining or increasing on-farm investment*

South Australian farmers have prepared themselves well to navigate the impacts of the current drought, with the latest Rabobank Rural Confidence Survey revealing farm viability and levels of farm business investment are much higher now than past dry periods.

While confidence among South Australian farmers has dropped sharply to its lowest level in 12 years due to deteriorating seasonal conditions, three quarters of the state's farmers still intend on maintaining or increasing their investment.

Even with a big hit to farmer confidence since the previous quarterly survey, the overwhelming majority of farmers, at 96 per cent, rate their farms as viable.

The latest Rabobank Rural Confidence Survey, released today, found 59 per cent of the state's surveyed farmers now expect agricultural economic conditions to worsen in the coming 12 months (up significantly from 19 per cent) while just under a quarter of farmers surveyed (24 per cent) expect similar conditions to the past 12 months. The proportion with optimistic outlook declined considerably to 13 per cent (from 31 per cent previously).

The drought plaguing Queensland and NSW has spread its reach to South Australia and emerged as the major driver of negative sentiment this quarter, with 93 per cent of those expecting business conditions to worsen blaming the season (up from 73 per cent last survey).

Rabobank regional manager for South Australia, Roger Matthews, said even though many farmers are concerned seasonal conditions are getting worse, the story for South Australian farmers was still a positive one.

"Balance sheets are strong and many farmers in South Australia have businesses which are now in a strong position and able to cope with this seasonal downturn," Mr Matthews said.

The fall in confidence was recorded across all commodity sectors, but particularly grains with 71 per cent of the surveyed SA grain producers expecting conditions to deteriorate over the coming year. This is a sharp increase from the 26 per cent who held that view last quarter.

"There are some areas of South Australia that had a poorer season in 2017, parts of the Mallee, parts of the mid-north, and the Eyre Peninsula, however in 2018, we are seeing more concern as we haven't had good general rain, we've had patchy rain," Mr Matthews said.



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“There are isolated areas like Yorke Peninsula which are actually faring okay, but there is a lot of concern the deteriorating conditions are going to worsen.

“And that’s the ultimate measure of confidence, where people feel that the conditions are going to worsen.”

Last quarter the Eyre Peninsula was the only region surveyed where confidence was subdued, but this time confidence is down amongst producers in all regions.

Mr Matthews said this year’s grain harvest is forecast to be down again, after a reduced 2017 crop. He said 2016 was “a blockbuster year for croppers”, at 10 per cent above the previous record harvest for South Australia, helping build balance sheets.

He said with pricing still very good for livestock, the problem in terms of confidence was almost all to do with drier seasonal conditions.

“Ultimately I think people are comparatively comfortable with their positions on the whole,” Mr Matthews said.

“We’ve still got strong viable businesses that are continuing to look to invest. They know these downturns in seasonal conditions are part of the ebb and flow of agriculture. There’s nothing dramatically new in this one.”

It’s a view endorsed by the survey data, which reveals that even though income estimates have been revised down in many sectors, investment intentions are still strong.

This quarter 43 per cent of SA farmers surveyed expect gross farm incomes to be weaker in the next 12 months (up from 18 per cent in the previous quarter) while 37 per cent expect a similar financial result to last year (was 55 per cent).

While the previous survey revealed almost a quarter of farmers expected improved farm incomes, that figure has come down to 17 per cent.

The sheep sector is the most optimistic regarding improved farm incomes, with 36 per cent of producers expecting higher incomes over the coming year, while a further 52 per cent expect incomes to be similar.

Income outlook amongst SA grain producers has taken a significant hit, with 62 per cent of those surveyed expecting lower gross farm income in the coming year, a sharp increase from 24 per cent last quarter.

Despite this, nearly two-thirds of SA farmers intend to keep farm investment at current levels (64 per cent) and 12 per cent intend to increase farm investment.

Mr Matthews said maintaining or improving on-farm infrastructure is the major activity, however some property purchases have also taken place.

“We are seeing a number of people prepared to purchase properties outside their immediate area or region,” he said, “particularly pastoral farmers, where they have destocked a little, but want to maintain their breeding herd or flock.



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“They don’t want to be buying feed and trucking it a long way which would cost hundreds of thousands of dollars and instead some are looking to put the hundreds of thousands of ‘feed’ dollars towards a property purchase outside their immediate zone.”

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 December 2018.

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