



Rabobank

Media Release
Dec 21, 2011

Commodity prices sustain NZ farmer confidence, despite global uncertainty

Results at a Glance

- Farmer confidence held up by above-average commodity prices
- Confidence remains highest among sheep and beef farmers
- Farmers more confident about their own farm business performance than the wider agricultural economy
- Despite confidence, global instability remains top of mind

New Zealand farmer confidence has remained at relatively high levels throughout 2011 (when compared to 2010 and 2009), largely on the back of above-average commodity prices, however global economic uncertainty remains top of mind.

The latest survey – completed earlier this month – found 33 per cent of the country’s farmers expected the agricultural economy to improve in the next 12 months, compared to 35 per cent in the previous survey. Those expecting conditions to worsen increased slightly to 12 per cent, from 10 per cent previously. While 53 per cent expect conditions to remain stable.

Rabobank general manager New Zealand, Ben Russell said overall, the results of the survey show farmers remain more confident about expectations for their own farm business performance than that of the broader agricultural economy, due to the uncertainty surrounding the global economic outlook, a key feature weighing heavily on confidence.

“Cautious optimism among the farming sector stems from relatively high commodity prices against a backdrop of global financial market turmoil,” Mr Russell said.

“However, farmers are well aware that they are not immune from the financial instability at play in the Northern hemisphere.”

Of those expecting the agricultural economy to improve, 54 per cent cited rising commodity prices as the reason – particularly sheep and beef farmers (56 per cent) and a greater number of dairy farmers (50 per cent – up from 37 per cent). Thirty-one per cent of respondents were also optimistic about the state of overseas markets, citing strong global demand (particularly for protein), as a key driver of expected market returns.

“These sentiments will have been supported by very favourable seasonal conditions across most of New Zealand during spring,” Mr Russell said.



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Among those expecting conditions to worsen, 51 per cent nominated overseas market conditions (up from 44 percent previous quarter) and 26 per cent cited falling commodity prices (down from 31 percent previous quarter) the main reasons for their pessimistic outlook. Those in the horticultural sector were the least confident, with 30 per cent expecting the economic outlook to deteriorate.

With regard to farm business performance, by sector the survey showed sheep and beef farmers remain the most optimistic, with 48 per cent (up from 42 per cent) expecting their own farm business to improve over the coming 12 months, and only five per cent expecting performance to worsen (was six per cent).

Mr Russell said the ongoing optimism from sheep and beef farmers reflects the strong farmgate returns received lately with record high lamb prices and strong beef prices.

“Also, we’ve seen improved returns for wool with the outlook remaining bright on the back of constrained global supplies,” he said.

The survey showed dairy farmers remain cautiously optimistic, with 42 per cent (down from 46 per cent) of dairy farmers expecting an improvement, and 10 per cent (previously 13 per cent last quarter) expecting business performance to worsen.

“While dairy farmer confidence has weakened slightly, this is likely to be an expectation that record high prices are unlikely to persist into 2012 with the gradual softening of global dairy trade prices over recent months,” Mr Russell said.

According to the survey, business confidence in the horticultural sector is comparatively weak, with more farmers expecting business performance to worsen in the next 12 months than improve, maintaining a negative trend for the past three quarters. Psa continues to affect confidence in the kiwifruit industry with the short-term future highly uncertain for this important sector.

Overall, optimism in farm business performance is reflected in investment expectations, with 33 per cent (up from 30 per cent last quarter) of farmers expecting to increase their total farm investment and 59 per cent expecting to hold their total farm business investment steady (down slightly from 63 per cent).

Of those expecting to decrease investment, this remained steady at eight per cent (from seven per cent last quarter). In particular, horticulturalists are more likely to decrease investment than other sectors, with 39 per cent expecting to reduce their investment (up from 16 per cent the previous quarter).

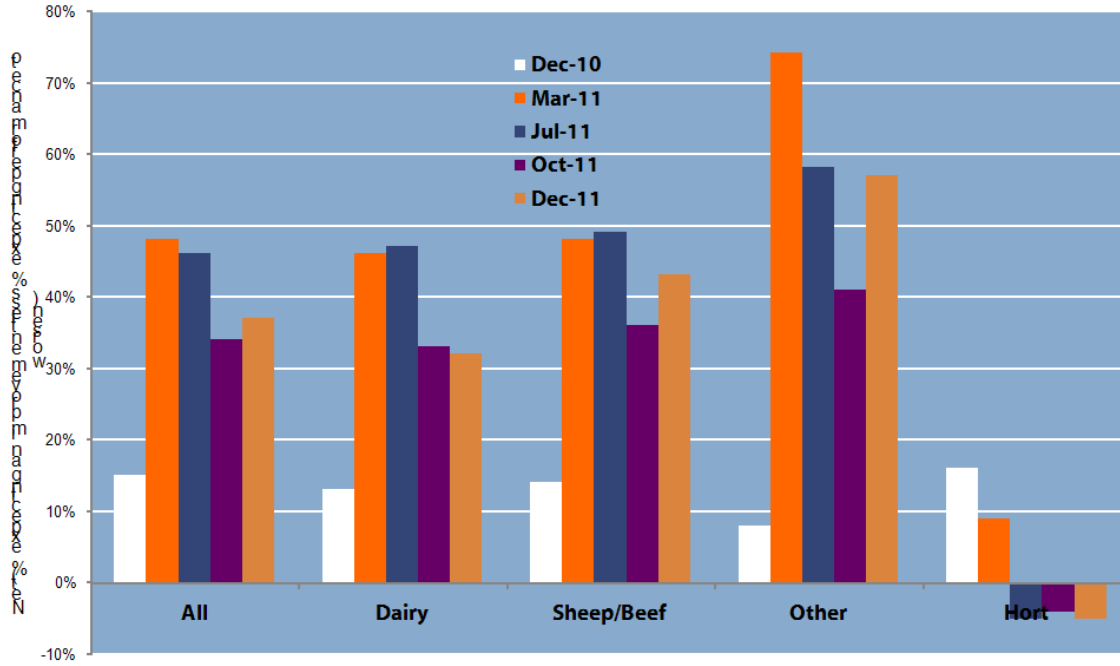
Conducted since 2000, the Rabobank Rural Confidence Survey is administered by independent research agency TNS, interviewing a panel of approximately 450 farmers each quarter.



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Rabobank Rural Confidence Survey - expectation of farm business performance over the next 12 months, by farm sector - 2011



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