



**Rabobank**

*Media Release  
September 23, 2014*

## ***Plunging dairy prices take toll on New Zealand rural confidence***

### **Results at a Glance**

- Lower dairy prices dampening farmer sentiment.
- New Zealand rural confidence at two-year low.
- Beef and sheep farmer confidence tempered, but remain at strong levels.
- Dairy sector investment intentions lowered, but beef and sheep farmers expecting to invest more.

**Plunging dairy prices have taken their toll on farmer sentiment, driving New Zealand rural confidence levels to a two-year low.**

**The latest quarterly Rabobank Rural Confidence Survey – completed earlier this month – has found the country’s rural sentiment at its lowest level since September 2012, with 37 per cent of farmers having a negative outlook of the rural economy in the next 12 months, compared with 24 per cent with that view in the previous survey.**

**Those with a positive view decreased to 20 per cent, down from 25 per cent previously. A total of 42 per cent expect conditions to remain the same.**

**However, while dairy farmer confidence had declined considerably, beef and sheep farmer sentiment – though tempered – remained at robust levels, the survey showed.**

Rabobank New Zealand CEO Ben Russell said the softening in overall rural confidence was clearly a reflection of the impact of the bearish global dairy outlook and lower milk prices on dairy farmer sentiment.

“Falling dairy commodity prices are the overwhelming factor at play here. At the time of the survey being taken, the global DairyTrade auction prices fell six per cent, taking them down 45 per cent from their February peak,” Mr Russell said.

“And with global dairy supplies continuing to increase from all key exporting regions, a significant price recovery is not imminent.

“That said though, farm commodity prices move in cycles and, clearly, dairy commodity prices are entering a lower part of the cycle right now. While this is always a difficult time, the important thing to remember is the medium to long-term picture for the dairy industry is strong.”

Mr Russell said dairy farmers were also cautious with the dairy industry approaching a critical time in the year, with the peak production and selling period for New Zealand milk just weeks away.



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The dampened confidence among dairy farmers was reflected in their business performance expectations in the coming 12 months.

Dairy farmers had the most pessimistic outlook of their own farm business performance. However, Mr Russell said, it should be noted this was coming off record highs for business performance expectations among dairy producers over the past 12 months.

The latest survey found almost half of dairy farmers surveyed (47 per cent) expect the performance of their own farm business to worsen in the coming 12 months, up from 30 per cent with that expectation in the previous quarter. Just 20 per cent expect an improvement in performance, compared with 27 per cent previously. A total of 32 per cent expected performance to remain stable.

While there was also a tempering in sentiment among beef and sheep farmers, after reaching three-year record highs in the previous survey, confidence in this sector remained at overall strong levels.

Mr Russell said lamb prices were up on the previous season and beef prices were currently hitting record highs due to tight global supply.

In terms of expectations of their own businesses, the number of beef and sheep farmers expecting improved performance declined from 57 per cent last quarter to 48 per cent this survey. However, the percentage expecting their farm business performance to worsen remained stable, at just seven per cent. A total of 42 per cent anticipated business performance would remain at the same level.

Despite the decline in overall confidence, New Zealand farmers' investment intentions were overall stable, the Rabobank survey showed.

Sheep and beef farmers increased their investment appetite – with 43 per cent indicating they intend to increase investment in their farm businesses over the next 12 months, up from 37 per cent previously. Only six per cent intended to decrease investment (compared with four per cent in the past quarter).

For dairy however, investment appetite had waned, with 21 per cent intending to invest less in their businesses (up from just seven per cent with that view in the previous survey) and 20 per cent expecting to increase investment (down from 27 per cent). This was the lowest level of dairy farmer investment intentions in more than five years (since August 2009).

Mr Russell said this change in sector investment dynamics may be an early indication the decline in the national sheep flock and the rate of dairy farm conversions were slowing.

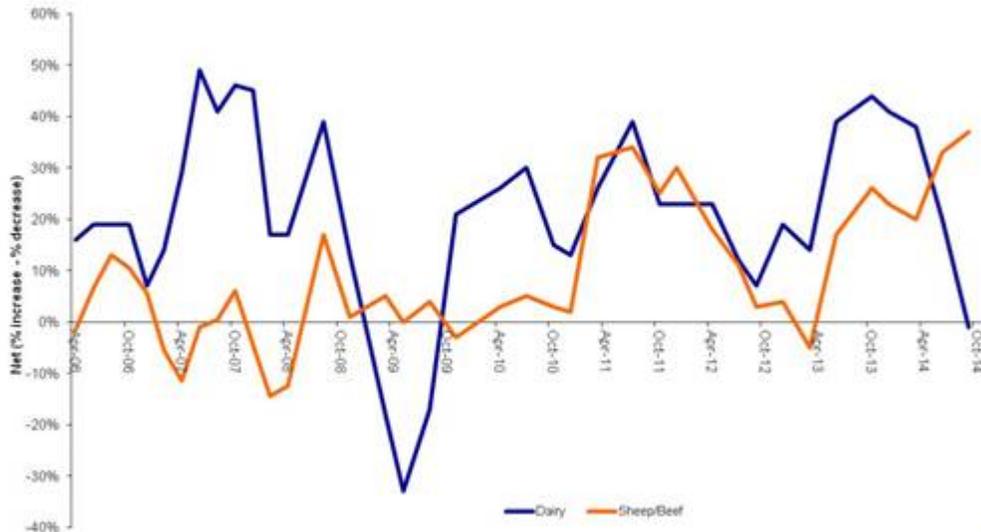
Conducted since 2003, the Rabobank Rural Confidence Survey is administered by independent research agency TNS, interviewing a panel of approximately 450 farmers each quarter.



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**NZ Farmers Investment Intentions**



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