



**Rabobank**

*Media Release  
August 9, 2012*

## ***Global economy continues to create headwinds for New Zealand farmers***

### **Results at a Glance**

- Farmer confidence declined for the second consecutive quarter, to remain in negative territory
- Global markets continue to create headwinds for New Zealand farmers
- Farmers remain realistic, not expecting the run of good seasonal conditions and commodity prices to last
- Investment intentions remain firm, indicating the longer-term confidence in the sector

**The prevailing uncertainty in global markets and softer commodity prices, combined with the expectation that the run of good seasonal conditions cannot continue, has taken its toll on New Zealand farmer confidence.**

The latest quarterly Rabobank Rural Confidence Survey has shown that while New Zealand farmers remain more optimistic about the performance of their own farm businesses relative to the wider agricultural economy, both confidence indicators fell this quarter. Both indicators are now in negative territory, showing that more New Zealand farmers expect conditions to worsen, rather than improve.

The survey – completed in late June – showed a more modest deterioration in confidence amongst New Zealand farmers, on the back of the significant fall that was reported in the previous quarter. This quarter, more than a third of farmers (36 per cent) expect the agricultural economy to worsen in the coming 12 months, compared to 27 per cent in the previous quarter. While half of the surveyed farmers expect stable conditions, only 11 per cent expect conditions to improve - down from 17 per cent previously.

Rabobank New Zealand CEO Ben Russell said the further fall in confidence reflects the uncertain global economic environment that New Zealand farmers are operating in, which has placed downward pressure on commodity prices.

“For many, coming out of a season where the planets aligned in terms of climatic conditions and commodity prices, many are pragmatic in their outlook that these conditions are unlikely to be repeated. Farmers have also seen commodity prices come back off their more recent highs, while the New Zealand dollar has remained very strong,” he said.



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Of those farmers expecting conditions to worsen, nearly half were concerned about global markets (48 per cent), up from 29 per cent in the previous quarter. Softer commodity prices also weighed on farmer sentiment, with 46 per cent citing this as the main reason for their pessimism, compared to 25 per cent previously. The strong New Zealand dollar also remained a prominent factor, with 30 per cent nominating this as a concern, down slightly from the 39 per cent in the previous survey.

By sector, sheep and beef producers were the least optimistic, with only nine per cent of farmers expecting conditions to improve (down from 13 per cent) and 36 per cent expecting a deterioration (up from 24 per cent).

Mr Russell said the fall in confidence reflected the decline in lamb prices from historically high levels and the state of the economy in key export markets. "Tough trading conditions in the UK and EU markets, combined with the high dollar have seen lamb prices drop by around 20 to 25 per cent since this time last year. While beef prices in the all-important US manufacturing market remain strong, farmers have not yet seen this fully materialise at the farmgate," he said.

Dairy farmers also lowered their expectations for the coming year, with just 10 per cent expecting an improvement in conditions - down from 21 per cent in the previous quarter. "The current Fonterra milk price of \$5.50 per kilogram of milk solids, is down around nine per cent from last season's lowered forecast, as demand fails to keep pace with strong global supply. At current commodity prices and currency levels there remains considerable downside risk to this forecast payout," he said.

Farmers remain more optimistic about the performance of their own individual farm business than that of the agricultural economy as a whole; although this confidence index has fallen into negative territory for the first time since May 2009. While half the respondents expect their farm performance to remain stable, 21 per cent are expecting an improvement (down from 28 per cent last quarter), and 29 per cent are anticipating a poorer farm business performance.

Mr Russell said that while external factors had weighed on the short-term outlook, investment intentions indicated the underlying confidence in the farming sector.

"The survey indicated that 89 per cent of farmers expect to maintain or increase their level of on-farm investment over the coming year," he said. "Pleasingly, investment intentions in the horticultural sector continue to improve, with 33 per cent of producers in this sector looking to increase their investment."

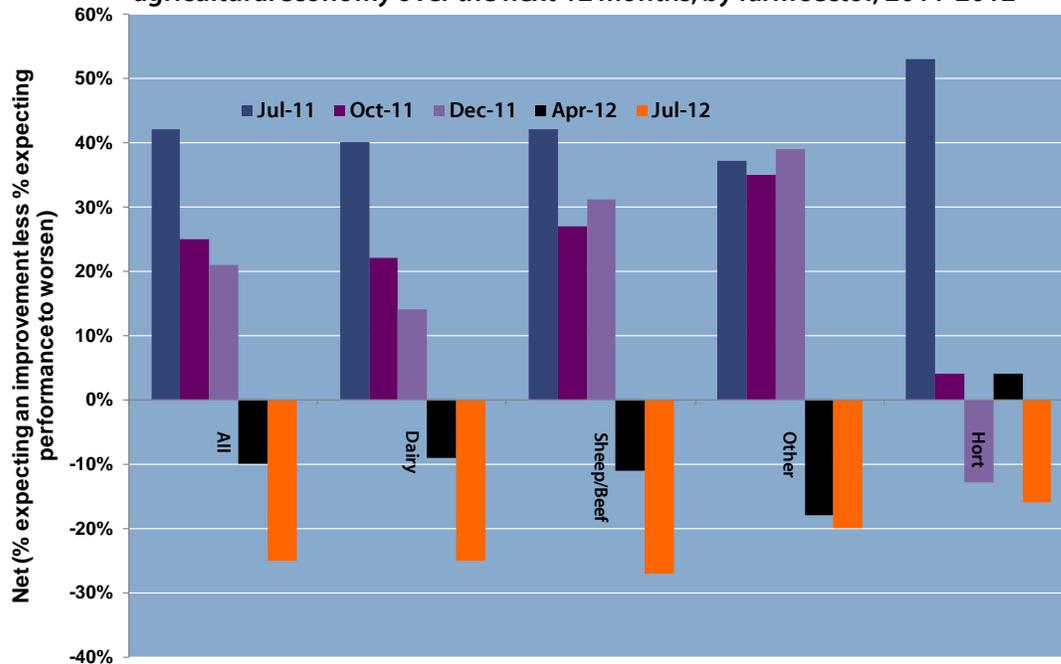
Conducted since 2003, the Rabobank Rural Confidence Survey is administered by independent research agency TNS, interviewing a panel of approximately 450 farmers each quarter.



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**Rabobank Rural Confidence Survey - expectation of performance of agricultural economy over the next 12 months, by farm sector, 2011-2012**



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