



Rabobank

*Media Release
December 14, 2012*

NZ farmer confidence stages mild recovery yet remains in negative territory

Results at a Glance

- Farmer confidence improved slightly yet remains in negative territory for the fourth consecutive quarter
- Global economic outlook diminishes farmers' expectations of their own business performance
- Dry seasonal conditions are concerning for New Zealand farmers
- Sheep and beef farmers the most pessimistic

Weaker economic conditions, combined with dry seasonal conditions have impacted New Zealand farmer confidence, particularly in the sheep and beef sector.

The latest quarterly Rabobank Rural Confidence Survey has shown farmer confidence has improved slightly in December 2012, but remained negative overall for the fourth consecutive survey.

The survey – completed in late November – showed 31 per cent of farmers expected the rural economy to worsen over the coming 12 months, down from 44 per cent last survey and up from 12 per cent at the same time last year. Only 18 per cent expect an improvement versus 33 per cent last year, although this is a slight lift from 15 per cent expecting an improvement since the September survey.

Farmers were fairly evenly split on the reasons for expecting the agricultural economy to worsen – one third cited the rising NZ dollar and one third overseas markets and economies, with just less than one third noting lower commodity prices. Other reasons commonly cited included lower dairy and lamb prices particularly, the rising costs of compliance and growing regulatory burden.

Rabobank New Zealand CEO Ben Russell said the survey results were not surprising given the ongoing uncertainty in the global economy and the very high New Zealand dollar were impacting farm gate prices, following a period of relatively good prices and climatic conditions last season.

However, those expecting an improvement in the agricultural economy mentioned also the drought in the US and globally tight food supplies as having positive flow-on effects for New Zealand exporters.

Farmers expectations of the impact on their own businesses also mirrors the economic outlook, with 33 per cent of farmers expect their own farm performance to worsen in the next 12 months versus 42 per cent in September.



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“While this is an improved outlook, it is a big change from 12 months ago when only eight per cent of farmers expected their own business performance to worsen,” Mr Russell said.

Sheep and beef farmers are the most pessimistic with more than half (55 per cent) expecting their farm business performance to worsen and only 10 per cent expecting an improvement. Around one quarter (26 per cent) of farmers expect their farm business performance to improve, up from 20 per cent in the September survey.

“Sheep farmers are responding to the lower farm gate lamb prices, in 2012 to 2013,” Mr Russell said.

“This was signalled earlier in the year and has been reinforced with lamb prices down 25-30 per cent over the first two months of the new season.”

Dairy farmer expectations have nudged back into positive territory with those expecting the agricultural economy to worsen reducing from 41 per cent to 21 per cent. More than half (52 per cent) now expect it to stay the same, while 25 per cent expect an improvement (versus 20 per cent at the last survey).

“Dairy farmers had generally enjoyed milk production flows higher than last year over the first half of the season,” Mr Russell said.

He added that while the survey was conducted before Fonterra lifted its expected milk price to NZD5.50/kg milk solid, this still remained 10 per cent below last season’s price.

Mr Russell said dry seasonal conditions were also a driver of confidence this quarter, with expectations that it “could get tough” over the summer – this is in contrast to the favourable 2012 summer-autumn period – especially in the North Island.

“Already, cattle and sheep slaughter numbers are higher as dry conditions have prevailed over the North Island in particular,” Mr Russell said.

“The upper North Island was most impacted with 70 per cent of farmers from that region considering conditions were too dry, while around three-quarters of those in the South Island considered soil moisture to be ‘just right’.

“We need to bear in mind that we’re not talking about drought here – rather, that it’s too dry to be ideal pasture growing conditions and this is affecting confidence levels.”

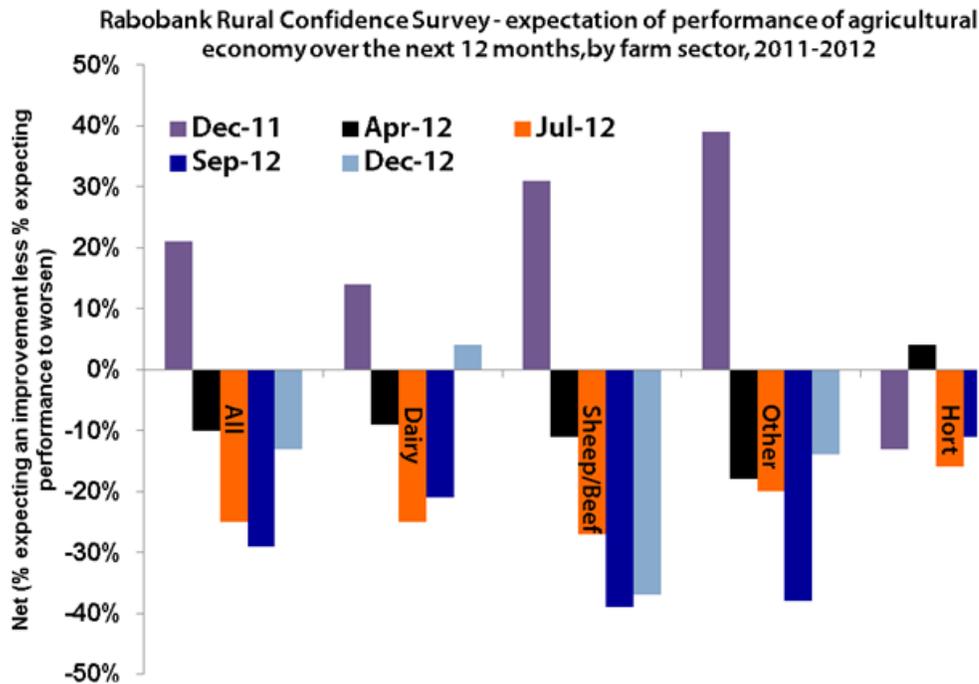
Investment intentions have improved with 27 per cent expecting to increase their farm investment over the coming 12 months versus 20 per cent in the last survey. Those expecting to decrease their investment was static at 14 per cent. The improvement was largely driven by dairy farmers and horticulturalists with around one third in each sector expecting to lift investment.



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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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