



Rabobank

*Media Release
March 31, 2016*

Ongoing market challenges weigh on New Zealand farmers, with confidence close to 10-year low

Results at a Glance

- New Zealand farmer confidence declined in the past quarter to reach a near 10-year low.
- Concern about falling commodity prices was the main driver of reduced confidence.
- While dairy farmers continued to be the most pessimistic in outlook, sheep and beef sector confidence was also down, off the back of lower lamb prices.
- Horticulture growers had a more positive outlook, with growers increasingly optimistic about their future business performance.

The significant and persisting challenges in market conditions continue to weigh heavily on the nation's farmers, with New Zealand's rural confidence at the second lowest level recorded in the past 10 years, the latest Rabobank Rural Confidence Survey has shown.

Completed earlier this month, the survey found more than half of farmers surveyed (53 per cent) had a pessimistic outlook on the agricultural economy over the coming 12 months. This was significantly up from 30 per cent with that view in the previous survey, in late 2015.

Only 11 per cent were expecting conditions to improve – less than half the 24 per cent who had an optimistic view in the last quarter.

With 34 per cent expecting the agricultural economy to remain the same as the previous year, the net rural confidence reading for this quarter came in at -42 per cent, down from -6 per cent in the previous survey.

There was some positive news though in the horticulture sector, with growers having an increasingly optimistic outlook on their business performance in the year ahead.

Rabobank New Zealand general manager for Country Banking Hayley Moynihan said while rural confidence had edged slightly lower in the middle of last year – when the realisation of the severity of the current dairy downturn had “hit home” – the last time farmer sentiment had been at the current lows previously was in February 2006. Ms Moynihan said this had been at a time when the general outlook had been low across all farmers, with New Zealand agriculture then contending with a high dollar, but also impacted by a very negative outlook among sheep farmers with record low wool prices and softening lamb prices.

“Given the length and severity of the current downturn that is now being experienced in the dairy sector, which has such a dominant position in New Zealand's agricultural economy, it is not surprising that rural confidence is again at this low level,” she said.



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"The effects of the dairy downturn are not just confined to the sector itself, but have a knock-on impact to the wider economy and community and naturally influences sentiment across the board in other rural sectors."

The survey showed the factor overwhelming driving increased pessimism among farmers this quarter was commodity prices, reflecting the persisting downturn in the global dairy market and recognition that a price recovery was still some time away.

"Falling commodity prices were nominated by 83 per cent of farmers as the reason for their negative outlook on the year ahead," Ms Moynihan said.

"Interestingly this wasn't just in the dairy sector though, with commodity prices being nominated as the main concern across all sectors."

Sheep and beef farmers' outlook for the performance of their own businesses declined in the quarter, with 27 per cent expecting a worsening business performance (up from 19 per cent with that view in the previous survey) and 22 per cent expecting improved business performance (compared with 26 per cent previously).

Ms Moynihan said disappointing lamb returns for the current season were likely impacting on sentiment in this sector.

"The weaker lamb prices are reflecting the challenging trading conditions at present in key markets, such as China, particularly for frozen product," she said. "We have also seen Beef and Lamb release its mid-season update, which revised down the average farm profit (before tax) by 25 per cent in the sector to reflect a drop in sheep revenue."

However, Ms Moynihan said, "a supply shortage of lambs is looming and this may bolster returns to sheep farmers towards the latter half of 2016. Higher slaughter volumes much earlier in the processing season, combined with a smaller lamb flock, suggests lamb supplies will contract significantly during the second half of this year."

When it came to farmers' expectations for the performance of their own businesses in the year ahead, horticulture growers had the most positive view. Of these, 54 per cent expected business performance to improve in the coming 12 months, and only nine per cent believed performance would deteriorate.

"Seasonal conditions for many growers have been largely supportive of strong crop yields and improving market access in strategically-important regions, particularly Korea, is set to bolster returns for key horticulture industries in the coming year," Ms Moynihan said.

Unsurprisingly, dairy farmers continued to be the most pessimistic of the sectors in the outlook for their own farm businesses. A total of 52 per cent expected worsening business performance in the next 12 months (compared with 28 per cent who had that view last survey). Only seven per cent expected their business to improve, down from 32 per cent with that expectation previously. A total of 40 per cent expected their own business performance to remain the same over the coming 12 months.



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In terms of investment intentions, there has been an increase in the number of farmers overall who were intending to reduce investment in their farm businesses – 22 per cent (compared with 13 per cent last survey). However, 56 per cent were intending to maintain the same level of investment and 21 per cent to increase investment.

Reflecting the positive outlook on business performance in the horticulture sector, 53 per cent of horticulture farmers were looking to increase investment in their orchards over the coming 12 months. This was up from 41 per cent last quarter.

Dairy farmers were continuing to pull back on on-farm investment, with 38 per cent expecting to reduce investment over the upcoming season (the second highest reduction in dairy farmer investment since mid-2009).

Farmers' working capital requirements also decreased slightly – with the number expecting to need increased working capital now at 34 per cent (down from 39 per cent), and more farmers expecting their requirements will stay the same (54 per cent, compared with 46 per cent previously).

The survey also showed 55 per cent of dairy farmers were expecting to make changes to their farming systems over the next two years. Of those farmers looking to make changes, 69 per cent were expecting to further de-intensify their dairying operations over the coming months.

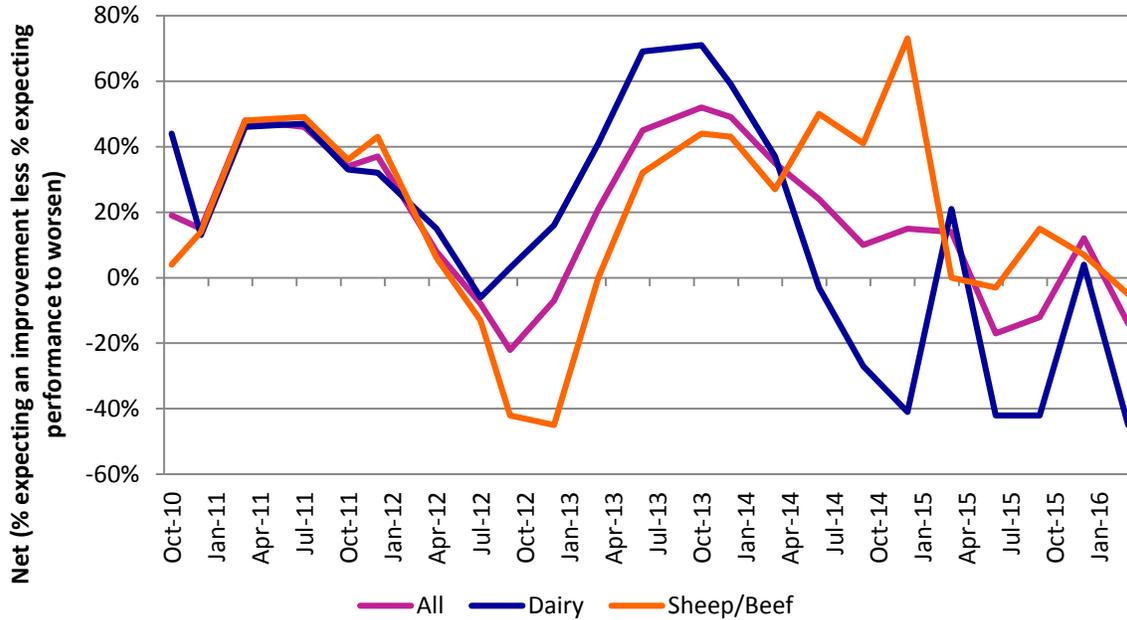
Conducted since 2003, the Rabobank Rural Confidence Survey is administered by independent research agency TNS, interviewing a panel of approximately 450 farmers each quarter.



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Expectations of own farm business performance



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