



Rabobank

*Media Release
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Concerns over Mycoplasma bovis leave farmer confidence in the balance

Results at a Glance

- New Zealand farmer confidence has declined since last quarter with the number of farmers expecting conditions to improve now only slightly outweighing those expecting conditions to worsen
- Concern over Mycoplasma bovis was the main reason cited for farmer pessimism
- Farmers' expectations of their own farm business performance are down on last quarter but remain at elevated levels, particularly for horticulturalists
- Investment intentions remain strong and increased slightly
- Farmers' perceptions of their own farm business viability are marginally up and now at a record high.

Concerns about the impact of Mycoplasma bovis disease on the country's agricultural sector have seen New Zealand farmer confidence decline over the past quarter, the latest Rabobank Rural Confidence Survey has shown.

While farmer confidence remains at net positive levels, the overall reading dropped to +two per cent in the latest quarter, from +15 per cent in the previous survey.

The latest survey – completed last month – found the number of farmers expecting the rural economy to improve in the next 12 months had fallen slightly to 26 per cent (from 27 per cent last quarter), while the number expecting the rural economy to worsen rose to 24 per cent (from 12 per cent). A total of 46 per cent were expecting similar conditions (down from 59 per cent).

Rabobank New Zealand general manager for Country Banking, Hayley Gourley, said New Zealand rural confidence was now in the balance with the number of farmers expecting conditions to improve closely matched by those expecting conditions to worsen.

“The run of strong commodity prices across virtually all sectors continues to support on-farm profitability and farmer optimism, but, despite the positive broad-based returns, the uncertainty in the operating environment means many farmers are wary of what the next 12 months will bring,” she said.

Ms Gourley said a key contributor to farmer uncertainty, and the chief reason for the 13 per cent slide in the farmer confidence net reading, was the impact of Mycoplasma bovis disease.



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“Of the 24 per cent of farmers expecting the agricultural economy to deteriorate, 78 per cent of these cited *Mycoplasma bovis* and the consequences of the eradication process as the key reason for holding this view,” she said.

“Government intervention was the second predominant reason for farmer pessimism, however, this was cited far less frequently than in previous quarters.”

The survey found overall confidence in the broader agricultural economy had been driven lower by reduced expectations among sheep and beef farmers and horticulturalists. Net confidence dropped sharply among sheep and beef farmers to -six per cent (from +11 per cent previously) while among horticulturalists it fell to -nine per cent (from +34 per cent previously). Dairy farmer confidence remained robust, rising slightly to +14 per cent (from +11 per cent previously).

Ms Gourley said one of the factors holding up confidence among dairy farmers was Fonterra’s strong opening forecast of \$7/kgMS for the 2018/19 season.

“The Fonterra opening forecast was announced just prior to this survey being undertaken and has set a positive tone for the coming year, amidst a period of uncertainty as the industry continues to work through the eradication of *mycoplasma bovis*,” she said.

“Spirits have been further buoyed by a weak kiwi dollar relative to the USD, helping to underpin favourable farmgate milk prices.”

For drystock farmers, and particularly those reliant on trading or grazing third party livestock for the dairy sector, Ms Gourley said, the greater pessimism recorded this quarter was driven by uncertainty about how the decision to eradicate *Mycoplasma bovis* would impact on their businesses.

“Many operations will need to revisit their existing business models in the longer term, however, in the short term there is still a significant level of uncertainty as testing for the disease continues and the ramifications of the disruption across the supply chain continues.”

The less optimistic outlook on the overall agricultural economy flowed through to farmers’ expectations for their own farm business performance in the coming 12 months, with the net reading on this measure dropping to +29 per cent (from +36 per cent).

The survey found horticulturalists continued to have the most positive outlook about the performance of their own business in the coming 12 months, recording an unchanged net reading of +46 per cent. Dairy farmer net confidence in their own farm business performance rose to a reading +34 per cent (up from +33 per cent) while sheep and beef farmer net confidence fell to +19 per cent on this measure (+37 per cent previously).

Ms Gourley said despite lower expectations for the performance of their own businesses, farmers’ investment intentions were marginally up on the previous quarter.



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“Across farmers from all sectors, we saw the net reading for farm investment increase by one per cent, with 31 per cent of survey respondents now expecting to increase investment over the coming year and only six per cent expecting it to reduce,” she said.

Investment intentions were strongest among horticulturalists at a net reading of +41 per cent, while sheep and beef farmers recorded a net reading of +25 per cent on this measure and dairy farmers +18 per cent.

As well as increased investment intentions, Ms Gourley said there had also been a lift in farmers’ perceptions of their own business viability.

“Seventy–six per cent of surveyed farmers assessed their business as ‘easily viable’ or ‘viable’ this quarter. This is up by three per cent on the March 2018 survey and is the highest percentage recorded since this survey question was introduced in early 2009,” she said.

“This record reading of self-assessed viability comes at a unique time with the lower confidence levels among farmers indicating the uncertainty in the industry is taking some of the shine off.”

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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