

Strong commodity pricing outlook drives rebound in farmer confidence

Results at a Glance

- New Zealand farmer confidence rebounded strongly in the fourth quarter, but remains at net negative levels overall
- Expectations for the broader agricultural economy were up across the board with dairy farmers recording the biggest rise in confidence
- Rising commodity prices were the key factor cited by farmers with an optimistic outlook for the economy, while government policy was the major concern among those with a negative outlook
- Farmers' expectations of their own farm business performance were marginally up on last quarter, led by a strong jump in confidence among sheep and beef farmers
- Investment intentions remain robust and relatively unchanged from last quarter with horticulturalists recording the strongest investment intent.

After plunging in the previous quarter to its lowest level since early 2016, New Zealand farmer confidence has rebounded strongly, the fourth and final Rabobank Rural Confidence Survey of the year has found.

While farmer sentiment remains at net negative levels, improved confidence among farmers from all sector groups saw the overall reading rise to -12 per cent in the latest quarter, from -33 per cent in the previous survey.

The latest survey – completed late last month – found the number of farmers expecting the rural economy to improve in the next 12 months increased to 21 per cent (from eight per cent last quarter), while the number expecting the rural economy to worsen fell to 33 per cent (from 41 per cent). A total of 44 per cent were expecting similar conditions (down from 48 per cent).

Rabobank New Zealand CEO Todd Charteris, said improved farmer sentiment had been fuelled by a stronger commodity pricing outlook.

“Farmers across all sector groups were more positive about the prospects for the agricultural economy in the coming 12 months,” he said. “And the key reason for this was rising commodity prices, with this cited by close to two-thirds of farmers holding an optimistic view of the year ahead.”

Mr Charteris said recent market developments had resulted in an improved outlook for New Zealand's key agricultural exports.

"Since the last survey in September, dairy farmers have been buoyed by continued strong commodity prices. In addition, we've seen Fonterra lift their forecast milk price range for the 2019/20 season on two occasions, with an increase of 30 cents to their forecast range in late October, and a further 30 cents increase announced just last week," he said.

"We've also seen the outlook for beef pricing improve, with the recent surge of Chinese demand for New Zealand beef as a result of the pork supply shortfall created by African Swine Fever (ASF) expected to continue into 2020. Similarly, sheepmeat pricing is expected to continue at elevated levels next year with demand forecast to remain strong in our key sheepmeat export markets."

Mr Charteris said while confidence had lifted from last quarter, there were still more farmers adopting a pessimistic stance over an optimistic one, and the key reason for this was uncertainty created by government policy.

"Among the one-third of farmers expecting the agricultural economy to deteriorate, 91 per cent cited government policy as the key reason for holding this view," he said.

"We've seen government policy feature as the major concern for farmers across recent surveys, however, this percentage is an increase on recent quarters and the highest proportion of farmers citing government policy as a concern in the survey's history."

Mr Charteris said while a range of government policies were likely to be causing unease among farmers, this spike was likely attributable to recently proposed freshwater reforms – released in October – and new bank capital requirements.

"While farmers broadly support the government's goal of improving water quality and reducing pollution entering waterways from cities and farms, there is concern among farmers that these reforms will not achieve those goals in a fair and balanced way. As Rabobank stated in our [recent submission](#) to the Ministry for the Environment on these proposals, the reforms, as they stand, will have significant implications for New Zealand's food and agribusiness sector and it's important that they are considered alongside other proposals impacting the sector," he said.

"New bank capital rules are another factor likely to have been playing on farmer's minds with plenty of discussion over recent months about how any changes might impact farm borrowing costs. Last week's announcement on the finalised rules came after the cut-off for the most recent survey, and farmers are likely to be relieved that the RBNZ has slightly relaxed the rules from its original proposal."

Farm business performance



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**Media Release
December 10, 2019**

The survey found farmers' expectations for their own farm business performance were up slightly on the previous quarter, increasing to a net reading of +10 per cent from +4 per cent previously.

A total of twenty-eight per cent of farmers were expecting their own farm business performance to improve in the next 12 months (up from 24 per cent), 18 per cent were expecting conditions to worsen (down from 20 per cent) and 54 per cent were expecting conditions to remain the same (down from 55 per cent).

Mr Charteris said farm business expectations were now net positive for farmers across all sector groups (with more farmers expecting the performance of their farm businesses to improve than deteriorate in the coming 12 months).

"Farm business expectations rose among both dairy farmers and sheep and beef farmers, with sheep and beef farmers recording the most dramatic jump lifting to a net reading of +16 per cent from a zero reading previously," he said.

"Despite falling slightly on this measure, horticulturalists continue to be the most optimistic of all farmer groups with 32 per cent expecting improved conditions and only 12 per cent expecting conditions to deteriorate."

Farm Investment

Farm investment intentions remain robust the survey found, increasing marginally on the previous quarter.

A total of 23 per cent of farmers were expecting to increase farm investment in the coming 12 months, with 16 per cent intending to decrease investment and the remainder expecting to invest the same.

"While we saw horticulturalists marginally less positive about their own farm businesses in this survey, they did record an increase in investment intentions with 38 per cent now looking to invest more in the coming year and only three per cent looking to reduce investment," Mr Charteris said.

"This extends a remarkable run for horticulturalists which has seen investment intentions in positive territory for every quarter dating all the way back to quarter three in 2012."

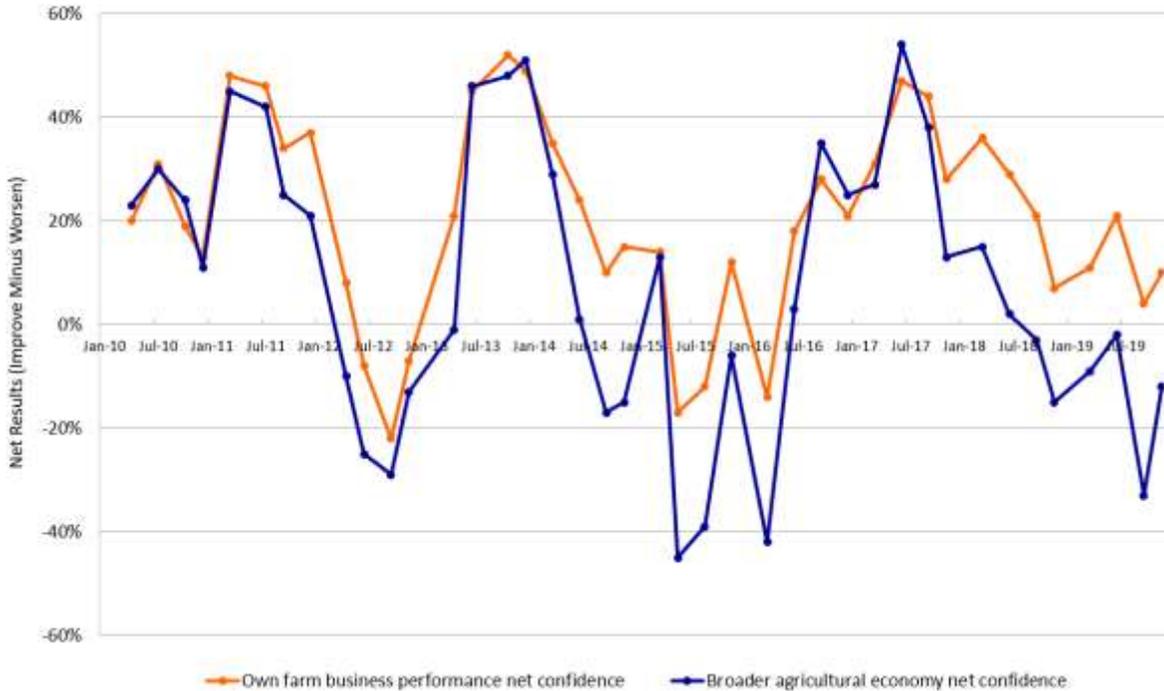
Conducted since 2003, the Rabobank Rural Confidence Survey is administered by independent research agency TNS, interviewing a panel of approximately 450 farmers each quarter.



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Rural Confidence Survey Net Results
Nov 2019



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