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September 24, 2020*

Waning sentiment among sheep and beef farmers pushes rural confidence further into negative territory

Results at a Glance

- New Zealand farmer confidence fell marginally in the third quarter, and remains deep in negative territory – with significantly more farmers pessimistic than optimistic about the year ahead
- Expectations for the broader agricultural economy fell sharply among sheep and beef farmers, but were up among dairy farmers and horticulturalists
- Government policy and Covid-19 were the key factors cited by farmers holding a pessimistic outlook for the rural economy. Rising demand was the key reason nominated by farmers with a positive outlook
- Farmers' expectations of their own farm business performance were marginally up on last quarter, led by a strong jump in confidence among horticultural growers
- Investment intentions remain relatively unchanged from last quarter with horticulturalists recording the strongest appetite for investment.

After staging a strong recovery last quarter from historic lows recorded early in the year, New Zealand farmer confidence has reversed course again sliding deeper into negative territory, the latest Rabobank Rural Confidence Survey has found.

The survey – completed earlier this month – found net farmer confidence across the nation fell to -32 per cent, down from -26 per cent previously. The number of farmers expecting the rural economy to improve in the next 12 months was down to 13 per cent (from 16 per cent last quarter), while the number expecting the rural economy to deteriorate rose to 45 per cent (up from 42 per cent). A total of 40 per cent were expecting similar conditions (up from 39 per cent).

The chief contributor to the lower net reading was markedly-lower sheep and beef farmer sentiment, negating higher confidence levels reported among both dairy farmers and horticulturalists.

Rabobank New Zealand CEO Todd Charteris said net confidence among sheep and beef farmers dropped to -51 per cent (-18 per cent previously), driven by lingering concerns over government policy and the on-going impacts of Covid-19.

“More than half of all sheep and beef farmers with a pessimistic outlook cited government policy as a key reason for concern, with many likely to be worried about the potential for



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freshwater regulations announced in late May to negatively impact their operations,” Mr Charteris said.

“Given the continued impact of Covid-19 on the global food service sector — and the importance of this sales channel for red meat products — it’s not surprising to see the virus also cited as a key source for concern. We’re currently seeing the beginnings of a recovery in the food service sector, however, a return to pre-Covid 19 consumption levels is still a long way off, and there is potential for a prolonged recovery to impact export revenues for New Zealand beef and lamb – particularly for higher-value cuts such as lamb racks and prime steaks.”

While sheep and beef farmers were more pessimistic, the survey found dairy farmers and horticulturalists more upbeat about the fortunes of the agricultural economy. Dairy farmer net confidence rose to -29 per cent (-33 per cent previously), while net confidence among horticulturalists was up to -three per cent (from -20 per cent).

Improving demand was the key reason for optimism among both dairy farmers and growers – cited by 45 per cent of dairy farmers and 92 per cent of horticulturalists who had a positive outlook on the year ahead.

“We’ve seen global demand for dairy hold up really well during the course of Covid-19 with many consumers opting for simple, familiar, stable food products such as dairy during the pandemic. Since the last survey, we’ve also seen Fonterra lift the lower bound of its farmgate milk price pay-out range for the 20/21 season, and these factors will have lifted spirits among dairy sector participants,” Mr Charteris said.

“Growers have also been buoyed by recent positive news with the NZ Institute for Economic Research announcing in July that export revenues for horticultural products rose strongly in the year to June in spite of Covid-19 disruption. And with the value of our horticultural exports into China having doubled since 2010 and further growth anticipated, all signs point to another year of robust demand for New Zealand fresh produce.

“While falling outside the latest survey period, growers will also have welcomed this week’s government announcement on immigration changes that will help to address labour shortages within the industry.”

Although confidence in the broader economy lifted among dairy farmers and growers, Mr Charteris said there were still more farmers in both those sectors adopting a pessimistic stance over an optimistic one.

“As with their sheep and beef counterparts, pessimistic dairy farmers cited government policy and Covid-19 as the most two most pressing concerns for the ag economy, while horticulturalists identified overseas markets as their major source of apprehension,” he said.

Farm business performance

The survey found farmers’ expectations for their own farm business performance in the year ahead was marginally higher than in the last quarter. While there were less farmers



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expecting their own farm business to perform better (13 per cent from 16 per cent previously), there was a more significant drop in those expecting farm business performance to deteriorate (37 per cent from 42 previously) and this resulted in the net reading climbing to -24 per cent from -26 percent previously.

In line with their outlook for the broader agricultural economy, expectations for farm business were down among sheep and beef farmers and up among dairy farmers and growers.

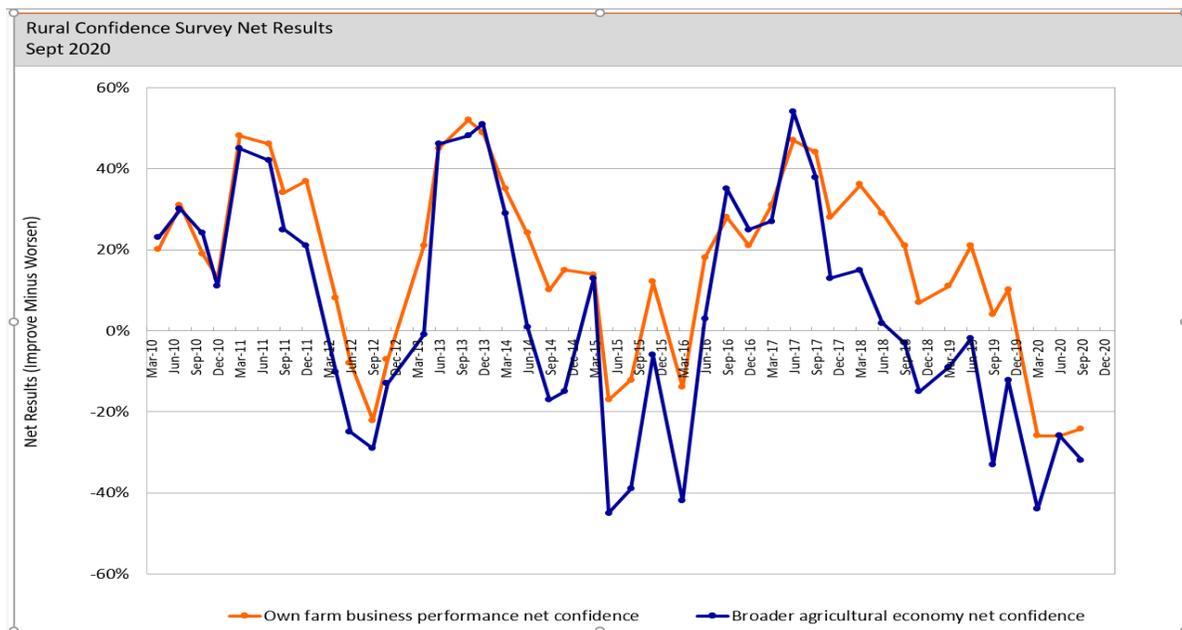
“Horticulturalists recorded the most significant jump moving into net positive territory overall with 27 per cent of growers now expecting their own business to perform better in the next 12 months and only 17 per cent expecting it to worsen,” Mr Charteris said.

Investment intentions

Farmers’ investment intentions remain relatively unchanged from the previous survey. A total of 16 per cent were expecting to increase farm investment in the coming 12 months (17 per cent previously), with 21 per cent intending to decrease investment (unchanged) and the remainder expecting to invest the same.

“Investment intentions were stable among farmers across all sector groups with horticulturalists’ investment plans remaining significantly stronger than those of farmers in the dairy and sheep and beef sectors,” Mr Charteris said.

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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Media contacts:

David Johnston
Marketing & Media Relations Manager
Rabobank New Zealand
Phone: 04 819 2711 or
027 477 8153
Email: david.johnston@rabobank.com

Denise Shaw
Head of Media Relations
Rabobank Australia & New Zealand
Phone: +61 2 8115 2744 or
+61 439 603 525
Email: denise.shaw@rabobank.com