Media Release
July 12, 2022

Surging farm input costs erode farmer confidence

Results at a Glance

- New Zealand farmer confidence dropped significantly in the last quarter and is now at its lowest level since the beginning of the Covid-19 pandemic.
- Rising farm input costs were the major driver of lower farmer sentiment, with nearly two-thirds of farmers with a negative outlook citing this as key reason for pessimism. Farmers were also concerned about government policy, rising interest rates and overseas markets.
- Farmers' expectations for their own farm business performance were down across all sector groups, with dairy farmers recording the largest drop in confidence.
- Investment intentions across the agricultural sectors were marginally lower, with horticultural growers now holding the strongest investment intent.

Spiralling costs for a host of key farm inputs — including fuel, fertiliser, feed and labour – have driven a sharp drop in sentiment among the nation's food producers, and farmer confidence is now at its lowest level since the start of the Covid-19 pandemic in early 2020, the latest Rabobank Rural Confidence Survey has found.

The survey — completed late last month — found net farmer confidence was significantly back from last quarter, with the net reading dropping to –35 per cent, from –3 per cent previously.

The survey found the number of farmers expecting conditions in the agricultural economy to improve in the coming 12 months had fallen to 13 per cent (down from 24 per cent last quarter) while the percentage expecting conditions to worsen rose to 48 per cent (up from 27 per cent). A total of 38 per cent were anticipating the agricultural economy to remain stable (down from 46 per cent previously).

Rabobank New Zealand CEO Todd Charteris said rising input costs were the major driver of the lower sentiment recorded in the latest survey, cited as a reason for concern by 63 per cent of farmers with a negative outlook. This is highest level of concern ever expressed about input costs in the history of the survey.

"Since our last survey in March, we've seen Russia 'weaponise' food and energy as part of their on-going conflict with Ukraine and its allies, and this has pushed prices for fertiliser, fuel and feed higher," he said.

"We've also seen the local labour market tighten further, lifting costs for on-farm labour. And these increased costs have squeezed farmer margins and sapped farmers' confidence in the outlook for the sector over the year ahead."

While farm input price rises were now the chief area of concern for farmers, Mr Charteris said they were certainly not their only source of anxiety.

“As it has across recent surveys, government policy remains a major worry for farmers, with this cited by more than half of those with a negative outlook. Rising interest rates and overseas markets – both cited by 15 per cent of pessimistic farmers – also emerged in the latest survey as additional concerns for primary producers,” he said.

“Interest rates are now a greater source of apprehension following two separate 50 basis point rate hikes from the RBNZ in April and May which have now flowed through to higher interest costs for farmers.

“The country’s farmers are also keeping a close eye on developments in overseas markets, as while prices for New Zealand’s key agricultural commodities remain elevated, so are geopolitical tensions across the globe, and this has the potential to cause significant price volatility over the months ahead.”

Mr Charteris said the latest survey concluded in late June and sector developments in early July were only likely to have further dampened the mood in the country’s agricultural sector.

“In the last week, we’ve seen a further fall in dairy commodity prices at the latest Global Dairy Trade auction, and we’ve also seen the Climate Change Commission (CCC) recommend changes to aspects of the He Waka Eke Noa (HWEN) plan for agricultural emissions pricing. The recommendations put forward by the CCC relate to how on-farm sequestration is accounted for within the plan, and the general direction of these proposed changes has disappointed many sector participants,” he said.

Among farmers with an optimistic outlook for the year ahead, the survey found the most frequently-cited reasons for their upbeat view were rising commodity prices (46 per cent), overseas markets (36 per cent) and demand (35 per cent).

Own farm business performance

As with confidence in the broader agri economy, the survey found farmers were also now markedly less confident about their own farm business performance in the year ahead. More than a third were now expecting their own farm business performance to worsen over the coming 12 months and the net reading on this measure fell to -20 per cent from +11 per cent previously.

“Farmers across the dairy, sheep and beef and horticultural sectors are all now more pessimistic about the prospects for their own businesses in the year ahead,’ Mr Charteris said.

“By a slim margin, dairy farmers remain the most optimistic of all the sector groups about their own businesses, however they also recorded the biggest fall on this measure dropping to a net score of -17 per cent from +26 per in March.

The survey found sheep and beef farmers were the most pessimistic about the performance of their own farm businesses, falling to a net reading of -25 per cent (- two per cent previously), while growers dropped to a net reading of -19 per cent (from -1 per cent last quarter).

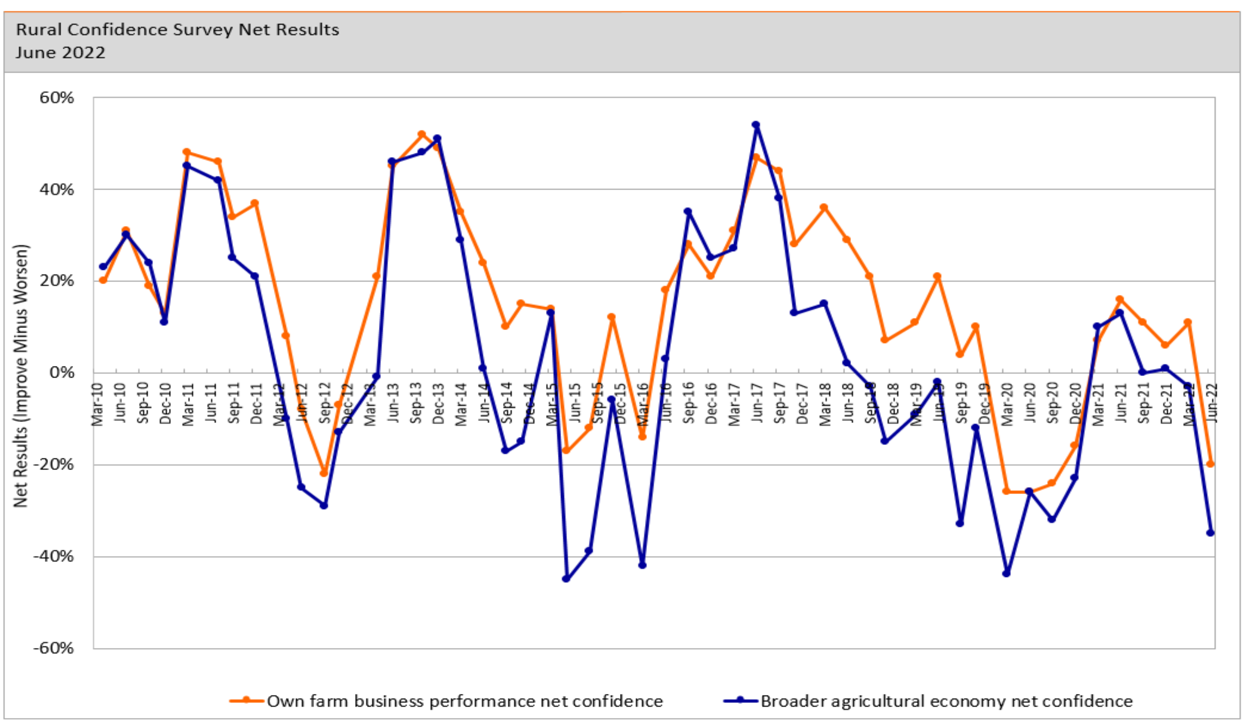
Farm Investment

The survey found farm business investment intentions were also lower than last quarter but remain at net positive levels overall. Twenty-two per cent of farmers said they were now expecting to increase investment over the next 12 months with 21 per cent planning to decrease investment. The remainder said investment levels would stay the same.

“Despite overall confidence dipping, it’s good to see investment intentions holding up fairly well and that farmers remain committed to investing in the further improvement of their business operations,” Mr Charteris said.

The survey found investment intentions were largely similar across the sectors with horticulturalists now holding the strongest investment intentions and sheep and beef farmers the weakest.

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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