Rabobank

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New Zealand farmer confidence inches up, but remains deep in the mire

Results at a Glance

- Farmer confidence in the broader agri economy has increased marginally, but remains deep in negative territory overall.
- For the two-thirds of farmers expecting agri industry conditions to worsen, the major concerns cited were rising input costs (53 per cent), government policy (40 per cent), falling commodity prices (36 per cent) and rising interest rates (29 per cent).
- Overseas markets (47 per cent) and strong demand (28 per cent) were the major sources of optimism for those farmers expecting agri economy conditions to improve.
- Farmers' confidence in their own farm business performance rose from last quarter, largely off the back of improved sentiment among growers. Dairy farmers and sheep and beef farmers were also marginally more optimistic about the prospects for their own operations.
- Farmers' self-assessment of their own farm business viability decreased, while investment intentions were slightly higher.

New Zealand rural sentiment has inched marginally higher, however it remains deep in negative territory overall due to a wide-ranging mix of farmer concerns, the latest Rabobank Rural Confidence survey has found.

The latest survey — completed late last month — found farmer confidence in the broader agricultural economy was up marginally on the previous quarter (March 2023), with the net confidence reading rising to -57 per cent, from -58 per cent previously.

Farmers were also more positive about the prospects for their own farm business performance, with the net confidence reading for this measure rising to -35 per cent, from -45 per cent previously.

Rabobank New Zealand CEO Todd Charteris said primary producers' confidence in the broader agri economy, as well as their own farm business performance, had now risen for two consecutive quarters after both measures fell to historic lows in the final quarter of 2022.

"While it is pleasing to see confidence continuing to climb – albeit incrementally – it's important to note that it's coming from an extremely low base and that farmer sentiment across all key agricultural sectors remains incredibly fragile," he said.

Mr Charteris said farmers' gloomy outlook for the year ahead was being driven by four key concerns.

"As with the last several quarters, the survey found the two most pressing issues were rising input costs and government policy," he said.

"But we did see fewer farmers citing these factors as a concern than was the case in March, with the percentage of farmers mentioning input costs as a reason for pessimism dropping to 57 per cent (from 65 per cent previously) and the percentage mentioning government policy falling to 40 per cent (from 53 per cent) – the lowest reading we've seen for government policy as a source of concern since mid-2020.

"Easing farmer concern over input costs is likely to have been driven by the lower fertiliser prices that we've seen over recent months, while diminished concern over government policy may well be tied to some of the recent agri policy announcements made by the major political parties as they look to attract the rural vote in the lead up to October's general election."

While encouraging to see concern about these factors abating, Mr Charteris said, reduced anxiety in these areas was being countered by rising apprehension about falling commodity prices (cited as a concern by 36 per cent of farmers from 30 per cent previously) and rising interest rates (29 per cent from 27 per cent).

"Prices for New Zealand's sheep, beef and horticultural products have remained relatively consistent since our last survey, but over this period we have seen Fonterra twice lower the milk price for the 22/23 season, as well as announce an opening milk price forecast range for the new dairy season which carries a relatively modest mid-point of $8.00kg/MS. And these announcements have further heightened farmer trepidation around the outlook for dairy commodity prices over the coming 12 months," he said.

"In this time, we've also seen the Reserve Bank bump up the OCR from 4.75 per cent to 5.50 per cent, and this has, in turn, led to further lifts in farmers' interest costs."

Among the small number of farmers expecting conditions to improve, Mr Charteris said, the major reasons for this view were overseas markets (47 per cent) and strong demand (28 per cent).

"Demand for New Zealand's food products across a host of international markets remains strong and there are plenty of reasons to be positive about the long-term future of the industry," he said. "But right now, all the different sources of worry are taking the wind out of farmers' sails, and pessimism remains the dominant sentiment being felt across the sector as we move into the second half of 2023."

Own farm business performance

Mr Charteris said the lift in the net farm business performance score had largely come off the back of a sizeable jump in grower confidence.

"Smaller harvests for a number of New Zealand's key fruit and vegetable products have resulted in lower export volumes over the last year, but overseas demand and prices for these products remains strong. And with labour now easier to source and production volumes expected to increase, growers continue to be the most optimistic of all the sector groups about the 12 months ahead," he said.

"Pastoral farmers were also marginally more optimistic about the prospects for their own farming businesses, but across both the dairy and sheep and beef sectors, around half of farmers are still expecting the performance of their own operation to worsen in the next 12 months, and only one in 10 are expecting it to improve."

Farm viability

Despite the lift in farm business performance confidence, Mr Charteris said, there was now a higher percentage of farmers with significant concerns about the viability of their operations.

"The recent margin pressure on farmers has resulted in more now assessing their own operation as unviable, with this rising to eight per cent from five per cent previously," he said.

"This was most pronounced for those in the sheep and beef sector, with 16 per cent of farmers in this sector now holding concerns about their operation's viability.

"These figures are a bit higher than we'd have expected on the basis of the conversations our staff are having with our farming clients across the country, and we'll be working hard to understand why some farmers may be feeling this way and, if necessary, providing them with additional support."

With margins expected to be tight for the foreseeable future, Mr Charteris urged all farmers to keep a close eye on how they were tracking against budget over the year ahead.

"It will be essential that farmers regularly monitor and update their budgets over the course of the new season, and that they keep their team of farm advisers across any modifications," he said.

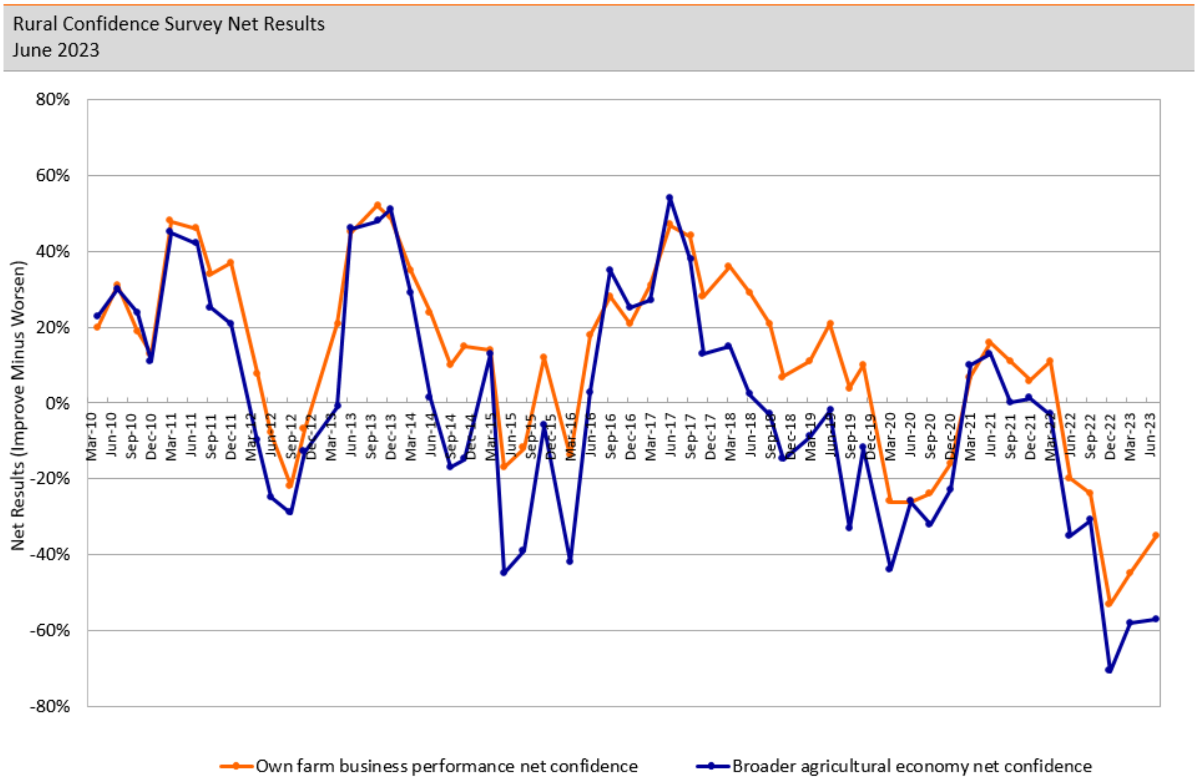
Farm investment

The survey found farmers' investment intentions were up slightly from last quarter with 12 per cent expecting to increase investment in their farm business and 29 per cent expecting their investment level to fall.

"Farmers' investment intentions remain weak, but were slightly stronger than last quarter," Mr Charteris said.

"This was largely down to stronger investment intent from horticulturalists who recorded a positive net score on this reading for the first time since mid-last year."

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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