



## **Caution creeps into Australian farm sector as rising production costs and impacts of war take gloss off high prices**

### **Results at a glance:**

- *Rural confidence levels decline for third consecutive quarter*
- *Sentiment now at 'cautiously optimistic' levels, with more than half the nation's farmers expecting current positive conditions in the agricultural sector to continue, while the number expecting an improvement has fallen*
- *50 per cent of farmers are forecasting a negative impact on their business from the Russia/Ukraine conflict*
- *Farmer income projections remain stable, but the number of producers planning to increase investment in their businesses has declined*

**The 'rise and rise' of input costs and fallout from the war in Ukraine are weighing on sentiment in Australia's agricultural sector, with farmer confidence declining in the latest quarter.**

**Results of the quarter two Rabobank Rural Confidence Survey, released today, reveal optimism about high agricultural commodity prices and the prospect of a third consecutive bumper grains harvest has been reined in by the increasing cost of vital farm inputs such as fertiliser, fuel, freight and machinery and broader inflationary pressures in the Australian economy.**

**In addition, the latest survey reveals 50 per cent of Australian farmers believe the ongoing conflict between Russia and Ukraine will have a negative impact on farm businesses, while 25 per cent expect the effect could be positive.**

**While farm income projections for the 12 months ahead remain stable, the number of farmers looking to increase investment has declined slightly this quarter.**

The latest survey, completed last month, found 28 per cent of Australia's farmers now expect business conditions to improve in the coming 12 months (down slightly from 31 per cent with that view in the previous quarter), while 16 per cent are anticipating a deterioration (from 14 per cent previously). More than half (53 per cent) expect business conditions to remain stable in the year ahead.

This marks three consecutive quarterly declines in net rural confidence and brings farmer sentiment back to levels last seen in June 2020, after the first pandemic lockdown.

Confidence is highest in the cotton and grain sectors, while also very strong among dairy producers, with high prices combined with excellent seasonal conditions providing the perfect setting for those three industries.



**Rabobank**

**Media release**

**June 14, 2022**

Livestock sector confidence has eased, but strong commodity prices are helping stabilise sentiment.

Rabobank Australia CEO Peter Knoblanche said farmers had been enjoying high agricultural commodity prices and generally-excellent seasonal conditions in many parts of the country for more than two years, but many in the sector were now facing considerable margin pressure with input costs rising on all fronts.

He said the healthy returns of the past two years had put farmers in a strong financial position and many have invested in new technology, machinery and equipment.

“The benefits of those investments are certainly helping farmers create some efficiencies, but the cost pressure is not easing and producers definitely need those higher commodity prices in order to meet rising input costs,” he said.

The latest survey found the expectation of rising commodity prices remains the main driver of optimism among farmers with a positive outlook, while 62 per cent of those expecting conditions to deteriorate cited rising input costs as a key cause for concern, ahead of falling commodity prices (27 per cent), overseas markets (15 per cent) and labour shortages (nine per cent).

### **Ukraine conflict impact**

Mr Knoblanche said the Russia-Ukraine war was also hanging over the sector, with its impacts on key inputs of fuel and fertiliser sending prices for both skyrocketing, cutting farmer margins in a range of sectors.

“It is undoubtedly exacerbating many of the cost and supply issues which were already in play last year,” he said. “But for some sectors, especially grains, we are seeing the conflict impact global supply and push prices higher, and also deliver higher local prices with strong demand for Australian grain as the world turns to our producers to help meet critical food needs.

“But as the next round of EU sanctions come into force, there is a lot of caution among farmers about what this will mean for the longer term, which is flowing through to lower levels of optimism.”

This quarter, farmers were specifically asked their views about the impacts of the war in Ukraine on agribusiness. Of the 50 per cent believing it would have a negative or very negative effect on their farm business, the main concerns were in relation to higher fuel prices (cited by 49 per cent) and increased costs for inputs including fertiliser and freight (cited by 61 per cent).

The 25 per cent who believed it would have positive market impacts said this would be primarily in maintaining high commodity prices and affecting supply/demand. This view was strongest in the grain sector.

### **States**

Sentiment levels have eased or remained relatively stable in all states, except Western Australia, where farmer confidence recorded a significant bounce back. Confidence levels edged up slightly in Victoria and South Australia.



**Western Australian** rural confidence is back in positive territory this quarter – with more of the state’s farmers optimistic than pessimistic about the 12 months ahead – as producers expect agribusiness conditions to improve due to rising commodity prices and international market opportunities.

A dry start to the year had little impact on **South Australian** farmer confidence in the second quarter, while recent step-ups in milk contracts and the ongoing strength in the beef cattle trade have helped soften the blow of rising input costs in **Victoria’s** farm sector.

Producers’ investment intentions remain at near-record levels in **Queensland**, despite overall confidence levels slipping. Beef producers continue to be the most optimistic sector in the state.

For **New South Wales**, while farmer confidence remains the highest in the nation, expectations of any further improvement in current conditions are waning. The state’s grain and cotton producers are the most optimistic sectors, although wet conditions have been challenging for farmers trying to harvest crops or needing to replant due to excessively wet weather.

Mr Knoblanche said producers in flood-affected regions of south-east Queensland and the NSW north coast and Northern Rivers were in a rebuilding phase replacing stock and infrastructure lost during the second major flooding event to hit the area in less than 12 months.

Close to two-thirds of **Tasmanian** farmers are forecasting a continuation of the high commodity prices and excellent seasonal conditions which have benefited the state’s agricultural sector for more than two years, although those expecting business conditions to further improve had declined.

## **Sectors**

Confidence has rebounded in the **grains** sector this quarter, with more than 40 per cent of growers expecting business conditions to improve over the year ahead, which is driving up investment intentions.

Rabobank’s recently-released 2022/23 Winter Crop Outlook identifies the potential of a third consecutive bumper grains harvest this year, with the estimated area planted forecast to reach a record 23.83 million hectares – up nearly one per cent on last year’s record planting.

Half of all grain growers surveyed this quarter expect the Russia/Ukraine conflict will have some positive impact on their business, mainly due to upward pressure in commodity prices, while 40 per cent believe it will have a negative impact due to increased input, fuel and freight costs.

**Cotton** sector confidence was also shown to be very high in the survey.

Mr Knoblanche said cotton prices had been the “silver lining” during the cotton harvest, which had been challenged due to wet conditions. Excellent water availability was also helping underpin long-term optimism, he said.



**Dairy** sector confidence also stood out this survey, with more than three quarters of dairy farmers expecting current good conditions to continue or further improve.

The survey found gross farm income expectations among dairy producers are at their highest level in two years with 59 per cent expecting an increase in income in the coming year.

However, 67 per cent of Australian dairy farmers believe the war in Ukraine will impact their business negatively, because of input costs and dearer fuel.

Confidence among **sheep** producers dipped slightly from last quarter. Investment intentions and farm income projections have also dampened.

**Beef** producer confidence also declined, again due to concerns about rising input costs and falling commodity prices. The survey found 56 per cent of beef producers believe the conflict between Russia/Ukraine would impact their business negatively.

Sentiment was mixed in the **sugar** sector, with an almost equal proportion of growers thinking conditions will improve, stay the same or worsen. That said, 90 per cent of cane growers were found to be intending to maintain or increase investment in their farm businesses.

### **Farm business performance and investment**

While fewer farmers this survey were looking forward to higher incomes in the year ahead, 43 per cent were forecasting their gross farm incomes would stay at current strong levels.

Farm investment will largely be maintained at current levels, according to the survey, with 61 per cent of Australian farmers saying their investment levels would stay the same, while 33 per cent intended to increase spending on their business over the year ahead.

On-farm infrastructure continues to be the main focus for those increasing investment in their business (nominated by 77 per cent), however 23 per cent of those lifting spending signalled their intention to purchase property to expand their enterprise.

Mr Knoblanche said Australian farm balance sheets were strong, enabling investment in long-term productivity and resilience measures.

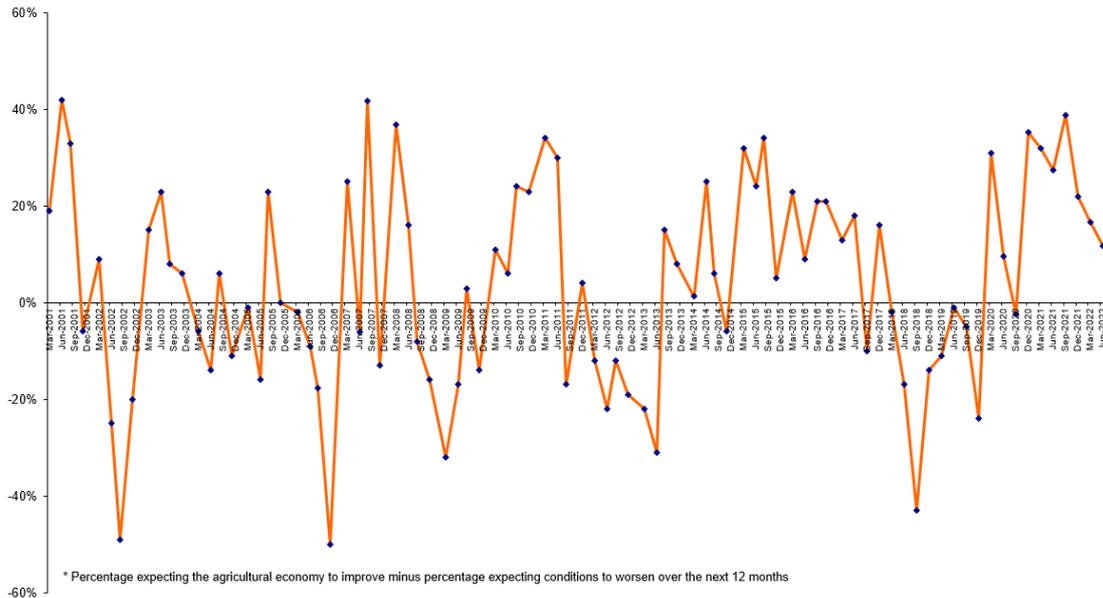
“Despite some of the caution that is being felt in the sector right now, Australian farmers are in a good place,” he said. “Production levels are strong, prices are high and the seasonal turnaround has been incredible.”

“Our farmers have not rested on their laurels. They understand market and climatic challenges are always just around the corner, and there has been a lot of work taking place modernising and equipping our farms in order to boost productivity and profitability and better deal with these pressures.”



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A comprehensive monitor of outlook and sentiment in Australian rural industries, the Rabobank Rural Confidence Survey questions an average of 1000 primary producers across a wide range of commodities and geographical areas throughout Australia on a quarterly basis. The most robust study of its type in Australia, the survey has been conducted by an independent research organisation interviewing farmers throughout the country each quarter since 2000. The next results are scheduled for release in September 2022.

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