Rabobank

Media Release
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FMD concerns and continued rise in input costs weigh on NSW farm sector confidence

Results at a glance:

- *Rising input costs and FMD concerns temper optimism*
- *Little expectation of conditions improving beyond current situation, while significant jump in those expecting conditions to deteriorate over the year ahead*
- *Investment levels still strong, signifying strength in sector and positive long-term outlook*

Foot and mouth disease concerns and the continued rise of input costs are weighing on New South Wales farm sector optimism, according to the latest Rabobank Rural Confidence Survey results.

While the survey reveals close to half of all NSW farmers expect the currently good business conditions – underpinned by two years of high rainfall and strong commodity prices – to continue over the year ahead, overall confidence has moved into 'negative' territory for the first time since December 2019, with more farmers pessimistic than optimistic about the year ahead.

The latest survey, completed last month, shows very little expectation of any further improvement in farm business conditions beyond current levels, with a jump in the number of NSW farmers now expecting conditions to worsen over the year ahead.

However, the results do point to a positive longer-term outlook, with close to 90 per cent of farmers surveyed indicating their intention to either maintain or increase investment in their business in the next 12 months.

Rabobank regional manager for central and northern NSW, Toby Mendl, said rural industry sentiment was generally quite good however ongoing wet conditions in the state had presented significant challenges to farmers in both the cropping and livestock sectors.

Overlay this, he said, with the ongoing rise in input costs, a softening in commodity prices, and anxiousness about the increased risk of foot and mouth disease incursion, and there was certainly a view that conditions were more likely to deteriorate, rather than improve, over the next 12 months.

"I would describe the current sentiment as two-speed," Mr Mendl said. "On the surface, many of the long-term fundamentals are good – farmers are in a strong financial position following the past two years, and current returns are still very good.

"But underneath all of that are some major challenges from the ongoing wet weather, especially for cropping and sheep producers, and livestock producers are certainly anxious about foot and mouth disease on our doorstep and the impact on our industry should there be an incursion.

“Sentiment has come down from brilliant, but it is certainly okay for now.”

This quarter, farmers were specifically asked about their level of concern in relation to foot and mouth disease (FMD) and in NSW, 96 per cent said they were ‘extremely’ or ‘very’ concerned.

Across the state, this quarter’s survey found 13 per cent of farmers questioned expect conditions to improve over the year ahead, compared with 28 per cent with that view in June, while 43 per cent expect conditions to keep tracking at current heights; 38 per cent now believe rural conditions will worsen in the coming year (a jump from 13 per cent last quarter).

Good seasonal conditions and high commodity prices are, once again, the drivers of positive sentiment this quarter.

Dairy, cotton and sugar producers were the most optimistic sectors, where high commodity prices across all three industries, and excellent water availability for dairy and cotton, was driving the positive outlook.

Mr Mendl said prices in most sectors had eased a little from historically-high levels but were still well above the five-year average and margins remain strong.

For those farmers surveyed with a pessimistic view on the coming 12 months, 45 per cent attribute worsening conditions to FMD (and 58 per cent of beef producers), while falling commodity prices and rising input costs were also underpinning the negative sentiment.

More than half the grain growers surveyed expect conditions will deteriorate over the year ahead, overwhelmingly due to rising input costs.

Mr Mendl said farmers were very worried about the financial consequences of an FMD outbreak, however the conversation and heightened fear about an incursion had lessened in recent weeks.

He said operations had returned to normal for most businesses affected by flooding in northern NSW earlier this year, but financial recovery was still underway and, for many, the mentally-challenging proposition of how to position their businesses for the future was very much dominating their outlook.

Elsewhere in NSW, storage dams were full, which bodes well for irrigated production this year and next.

Mr Mendl said prospects for the coming winter grains harvest varied across regions, with very wet conditions preventing as much as 50 per cent of the usual area from being planted in some parts of central and north-west NSW. He said many farmers will pivot into summer cropping instead this year – some for the first time – to compensate for the reduced winter crop and utilise the full soil moisture profile.

Further south and across the Riverina, most of the winter crop did get planted with just minor wet-weather damage reported. North of Temora is still very wet, which is impacting crops, but south is better and yields were again looking positive in these areas.

Mr Mendl said stronger wool prices for finer microns had been helping sentiment at a time when producers faced very challenging animal health conditions because of the particularly wet autumn and winter. Although prices for finer microns had declined in recent days.

But while optimism about conditions improving beyond what they are now has declined considerably, income projections were still very positive among NSW farmers, according to the survey.

More than two thirds of those surveyed expect their gross farm incomes to increase or remain the same as the past year (26 per cent forecasting farm incomes to be greater over the year ahead), while 32 per cent of farmers expect their income to decrease.

Mr Mendl said continued profitability on the back of above-average rainfall and strong commodity markets had enabled farmers to invest in their business to boost productivity and resilience into the future.

The survey found 78 per cent of the state's farmers plan to increase or maintain the current level of investment in their farm business.

Most of the additional spending is set to be directed on-farm, with more than 80 per cent of increased investment flagged for infrastructure projects such as new yards, sheds, and fencing improvements, while new plant and machinery was identified by half of those intending to lift investment levels.

There is still a strong desire to purchase additional rural property among farmers in the state, Mr Mendl said, and this is supported by the data – 25 per cent of those intending to increase their investment wish to expand their operation with more property.

Mr Mendl said farmers were closely watching the impact of interest rate movements in the rural sector but there was currently little to suggest this was deterring those looking to buy more property.

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.

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The most robust study of its type in Australia, the Rabobank Rural Confidence Survey has been conducted since 2000 by an independent research organisation. The next results are scheduled for release in December 2022

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