



*Media Release
December 11, 2008*

Global market worries see farmer confidence slump

Results at a Glance

- Farmer confidence has declined due to concerns about commodity prices and global market issues.
- Dairy farmers have recorded the largest drops in confidence.
- Sentiment also down across all other sectors.
- Farmers' business investment intentions remain robust.

New Zealand farmer confidence has slumped as concerns about global financial markets and flagging commodity prices take hold, according to the latest quarterly Rabobank/Nielsen Rural Confidence Survey.

The latest figures show New Zealand rural confidence has moved into negative territory, with more farmers now expecting conditions to worsen than to improve.

The survey – conducted across New Zealand last month – showed the number of farmers expecting the agricultural economy to worsen in the next 12 months had leapt to 29 per cent, from seven per cent in the previous quarter. The number expecting conditions to improve fell to 26 per cent, down from 59 per cent in the previous survey, released in September.

Rabobank general manager Rural New Zealand Ben Russell said the survey results reflected farmers' concerns about declining international agricultural commodity prices, particularly dairy, as well as the impact of the financial market crisis on the global economy.

"Farmers are well aware that the pressure on consumer spending will impact demand for agricultural products in our export markets and that the effects of this will only be partially offset by the lower New Zealand dollar exchange rate," he said.

Mr Russell said the survey showed that while confidence had fallen across all agricultural sectors, the biggest decline was among dairy farmers.

The number of dairy farmers with a pessimistic outlook increased to 39 per cent this survey, compared to just four per cent in the previous quarter. Only 13 per cent of dairy producers expected conditions to improve, compared to 49 per cent previously.

International dairy commodity prices had fallen 25 to 35 per cent since the last survey, Mr Russell said. "While the weaker New Zealand dollar limited the price falls to between five to 15 per cent in local currency terms, dairy farmers have recognised that the impact would flow through to the dairy payout," he said.



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Although more optimistic than the dairy sector, sheep and beef farmers also had a more sombre outlook than in the previous survey, Mr Russell said. Of those sheep and beef producers surveyed, a total of 30 per cent now expect conditions to worsen, compared to just five per cent in the last quarter. Those with an optimistic outlook declined to 33 per cent, from 67 per cent previously.

Mr Russell said while sheep and beef farmers were experiencing higher farm gate prices for their livestock this season, the benefits of tight supply availability would be tempered by tough economic conditions in key export markets.

“Added to this, many sheep and beef producing businesses have close links with the dairy industry so their confidence is also likely being impacted by the lower dairy payout expectations for the coming season,” he said.

The latest Rabobank/Nielsen Rural Confidence Survey showed New Zealand farmers were almost evenly split on whether they expected their incomes to increase or decrease in 2009.

Of those surveyed, 35 per cent expected higher incomes, 32 per cent expected lower incomes and 32 per cent expected their incomes to stay the same (with the remaining one per cent unsure).

The biggest shift in income expectations again came among dairy farmers, with 47 per cent expecting their incomes to decline (compared to just 11 per cent in the previous survey) and only 25 per cent expecting to increase their earnings (compared to 62 per cent previously).

This reflected the lowering of Fonterra’s forecast payout to \$6.60 per kilogram of milk solids (kgMS) from \$7.00/kgMS, Mr Russell said. A further reduction to \$6.00/kgMS has also been announced since the survey was completed.

Despite the drop in confidence levels, farmers’ investment intentions remain relatively robust, the survey showed.

More than half of farmers surveyed (54 per cent) indicated they intended to maintain the existing level of investment in their farm businesses, 26 per cent expected to increase investment and 19 per cent to invest less.

The survey also showed, overall, farmers were anticipating interest rates to continue to ease.

“Although the survey was taken before this month’s Reserve Bank of New Zealand cut in the official cash rate of 1.5 per cent, farmers have in the main been expecting the trend in easing of interest rates to continue,” Mr Russell said. “More than half of those surveyed (58 per cent) had been anticipating further rate cuts.”

Despite an easing in global fertiliser and oil prices, New Zealand agricultural producers do not appear to be expecting to feel the benefits anytime soon. The majority surveyed (75 per cent) expected input costs to increase over the coming year, with only six per cent expecting costs to decrease.

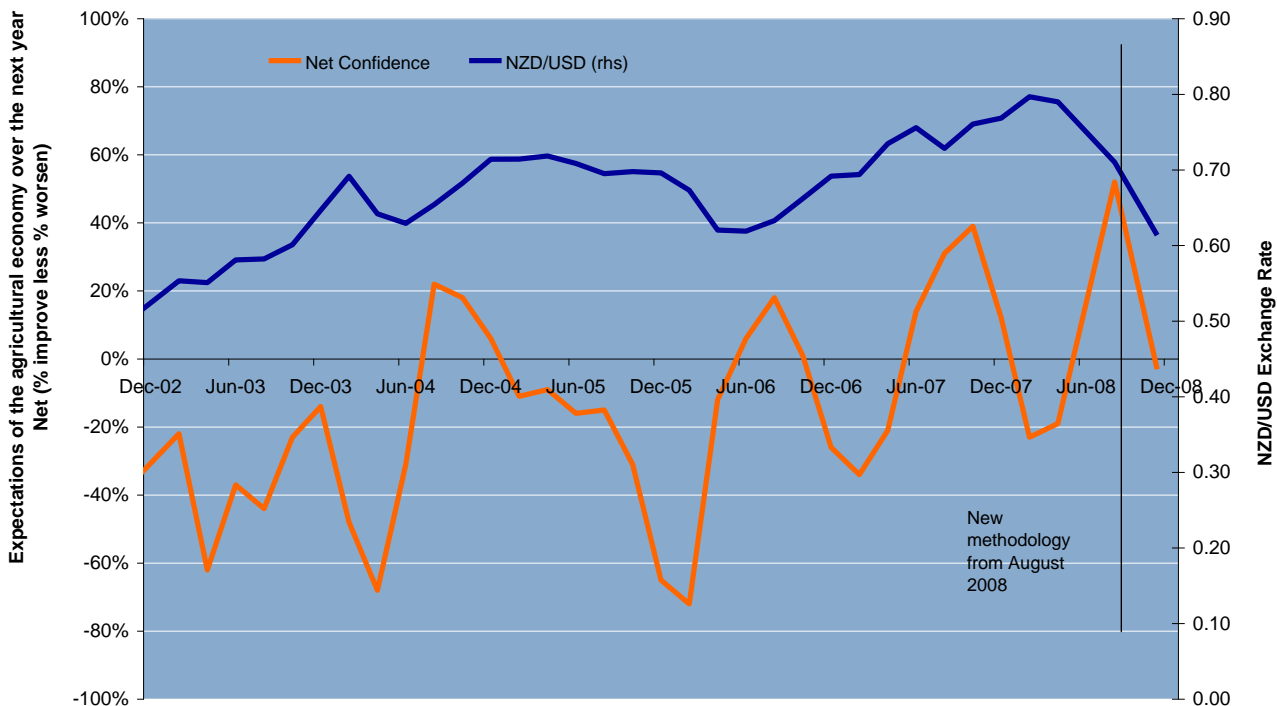
Questioned on the topic of the global financial crisis, 68 per cent of farmers now expected their businesses would be impacted. A total of 27 per cent did not expect any impact or had not seen any impact yet, while five per cent were unsure.



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Of those impacted, 26 per cent expected a decrease in revenue/profits or commodity prices as a result of the global financial crisis, while 21 per cent expected an increase in input prices and 13 per cent anticipated reduced spending.

New Zealand Rural Confidence and the NZD/USD Exchange Rate, 2002 - 2008



The Rabobank/Nielsen Rural Confidence Survey is the only study of its type in New Zealand. An online panel of 358 farmers* across New Zealand participated in the last survey.

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* Results have been post weighted to represent New Zealand farming on a region by farm type basis using the 2007 Agricultural Statistics. The respondents were drawn randomly from a total online panel of approximately 1500 farmers and farm managers. A comparative study in 2007 showed that the online panel gave comparable results to the previous telephone methodology.

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