



*Media Release
December 21, 2009*

Increasing dairy prices boosts rural confidence levels

Results at a Glance

- Farmer confidence has increased for the second consecutive quarter
- The dairy sector is the most optimistic with 49% of dairy farmers expecting an improvement in the agricultural economy
- Confidence levels are varied with sheep, beef and horticulture all much more pessimistic about the economy
- For those farmers expecting conditions to worsen the New Zealand dollar is the biggest contributing factor

New Zealand rural confidence has improved for the second consecutive quarter with the dairy sector providing the major positive influence. Other agricultural sectors are not as confident with many feeling the impact of the rising dollar and continuing volatility in commodity prices, according to the latest quarterly Rabobank Rural Confidence Survey.

The survey – conducted across New Zealand last month – shows 32 per cent of the country's farmers expect the rural economy to improve in the next 12 months, a further increase from the 22 per cent who had that expectation in the previous quarter.

The percentage of farmers expecting conditions to worsen has remained relatively static with 26 per cent of farmers expecting conditions to deteriorate, slightly up from the 25 per cent with that view in the previous survey.

Rabobank general manager New Zealand Ben Russell said that while this continuing rise in overall confidence was good to see, it was being boosted by the increase in confidence in the dairy sector and was in stark contrast to some of the other commodities.

“This survey has shown some striking differences in the confidence levels between dairy and other farmers,” he said.

“The 30 per cent increase in forecast payout since the last survey will have been the major influence in the positive nature of the responses seen in the dairy sector. For many dairy farmers at the moment, improving dairy returns will be outweighing the impact of the rising NZD, having a marked impact on their confidence levels.”

Of those dairy farmers surveyed, 49 per cent expected the agricultural economy to improve while only 10 per cent expected it to get worse. When asked about their own farm business dairy farmers were even more confident with 63 per cent expecting an improvement and just three per cent expecting a decline in their situation.

In contrast the results for sheep and beef farmers are not as positive, with only 12 per cent expecting an improvement in their own farm businesses and 21 per cent expecting the overall



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agricultural economy to improve. Horticulture is also experiencing a negative confidence level with 39 per cent expecting a worsening agricultural outlook and 24 per cent expecting conditions to improve.

The contrasting views between dairy farmers and other commodities are further defined in the reasons why they expect the agricultural economy to worsen. 74 per cent of sheep and beef farmers see the high New Zealand dollar as the most significant influence to the agricultural economy, followed by commodity prices (18 per cent) and overseas economies (16 per cent). Dairy farmers do not feel as impacted by the dollar, believing that any worsening in the economy will be influenced evenly by the rising dollar (31 per cent), commodity prices (31 per cent) and overseas markets and economies (31 per cent).

Of those farmers surveyed who expected conditions to worsen, the rising New Zealand dollar was the biggest concern (cited by 57 per cent), while uncertainty over commodity prices was nominated by 30 per cent and overseas markets/economies by 29 per cent.

Mr Russell said commodity pricing was playing a large part in confidence levels this quarter with the majority of those expecting conditions to improve citing pricing as the main reason.

“Overall, 62 per cent of farmers surveyed cited rising commodity prices as having the biggest influence on an improvement in the agricultural economy. 71 per cent of dairy farmers and 80 per cent of horticulturalists said that commodity prices would be the most significant influence while only 48 per cent of sheep and beef producers agreed,” he said.

“The view that commodity pricing is a significant influence in an improving economy has risen sharply from the average of the last three quarters where only 40 per cent of farmers viewed it as a major influence. This is indicative of the huge influence that the increasing global and local dairy prices has had on the survey.”

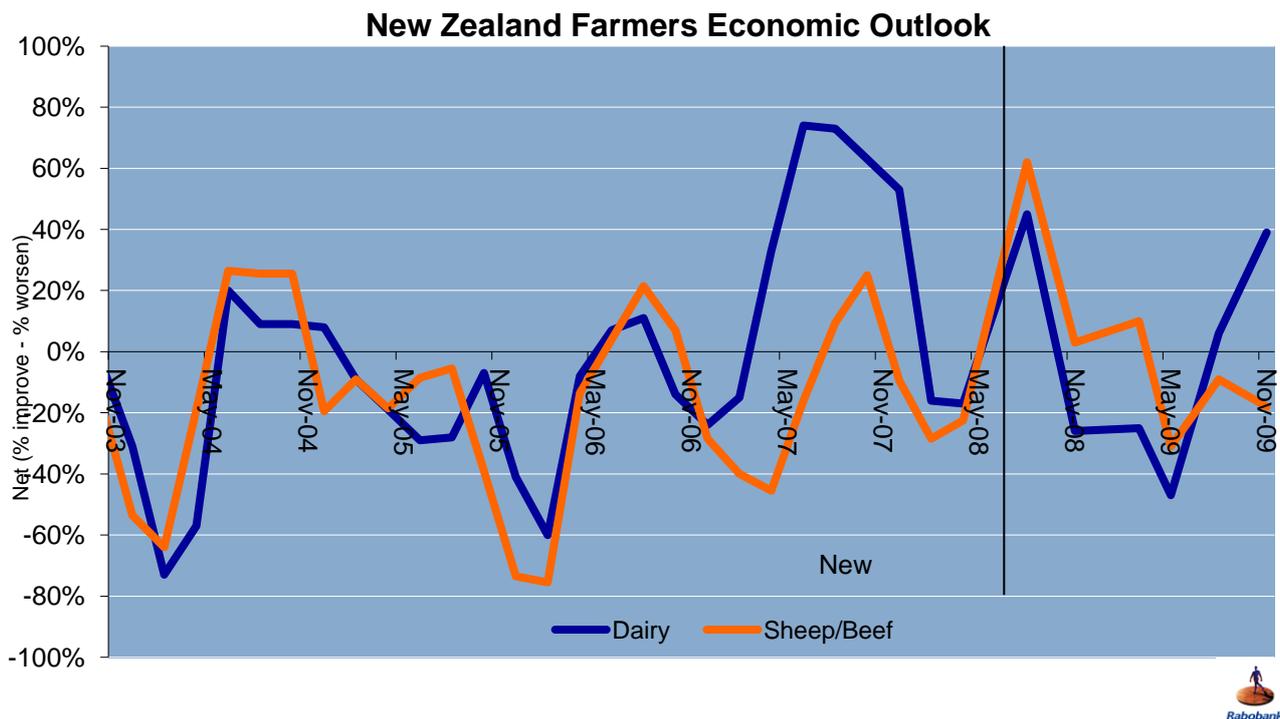
The latest Rabobank Rural Confidence Survey showed New Zealand farmers' investment intentions have also become stronger with 87 per cent now expecting to maintain or increase their farm business investment, up from 80 per cent in the previous quarter.

Mr Russell said that due to the good payout forecast dairy farmers now had the strongest investment intentions with 93 per cent intending to maintain or increase their investments. Investment intentions for sheep and beef farmers have fallen from last quarter but remain strong with 80 per cent anticipating that they will maintain or increase their total investment over the next 12 months.

Questioned on the topic of land values, 52 per cent of farmers expected the value of their land to stay the same in the coming 12 months with 22 per cent expecting an increase and 23 per cent a decrease.

“If the world economy continues to recover at its current rate we would expect the positive indicators shown by dairy in this survey to begin to show in the other commodities in the new year. We would expect even a small drop in the New Zealand dollar to have a big impact on confidence levels across all commodities but particularly for sheep and beef,” Mr Russell said.

Conducted since 2003, the Rabobank Rural Confidence Survey is the only study of its type in New Zealand. The survey is administered by independent research agency TNS Conversa, interviewing a panel of approximately 450 farmers each quarter.



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