

25 August 2023

**NEW ZEALAND AGRICULTURE - YES, WE ARE ALREADY IN A ROUGH FINANCIAL PATCH AND IT IS NOT  
CLEAR HOW LONG IT WILL LAST - A FEW THOUGHTS AND COMMENTS FROM SOMEONE  
WHO HAS BEEN THROUGH SEVEN OF THESE PATCHES SINCE 1972**

1. What are the New Zealand agriculture bank debts as at 30 June 2023:

Term Debt: Interest Only	\$32.088 billion	(51.50%)
Term Debt: Revolving Credit	\$18.902 billion	(30.34%)
Term Debt: Interest and Principal	\$10.950 billion	(17.58%)
Term Debt: Other	\$0.361 billion	(0.58%)
	\$62.301 billion	(100.00%)
	=====	=====

2. The increase in the New Zealand Reserve Bank (OCR) official cash rate is now 5.5% - after 12 consecutive hikes since October 2021 (22 months) - a net increase of 5.25%.

3. Split of New Zealand bank loans as at 30 June 2023:

Dairy	\$37.235 billion	(59.77%)
Sheep and Beef	\$15.318 billion	(24.59%)
Horticulture	\$7.535 billion	(12.09%)
Other Agriculture	\$2.213 billion	(3.55%)
	\$62.301 billion	(100.00%)
	=====	=====

4. New Zealand agriculture exports (food and fibre) for the year ended 30 June 2023: \$56.2 billion.

5. How many New Zealand financial downcycles in New Zealand since 1948: 11 - about one on average every 6.8 years.

6. Historically the world's financial upcycle periods have lasted longer than the downcycle periods.

7. Without tourism and agriculture, New Zealand would slip into a third world group fairly quickly.

8. The New Zealand banking scene as at 30 June 2023 has lent \$344.508 billion to New Zealand house owners - just on 5.5 times the total loans to New Zealand agriculture.

9. What are the issues when New Zealand agriculture is looking down the barrel of a very difficult financial year:

- (a) Don't blame the banks - they have shareholders, and the New Zealand Reserve Bank is, to some degree, forcing them to increase their interest rates - we need our banks to be strong, profitable, well financed and competitive - if they cover these key issues and are still soundly profitable then that is what we need - weak banks with insufficient funding is the last thing we want in a downcycle.

- (b) Don't blame our capitalistic system - capitalism is always disruptive and in many instances this disruption leads to innovation and growth. At present the world has not developed anything better to replace what we have.
- (c) Don't blame China - they have enormous internal problems at the moment and over the last 15 years or so the sales/purchases relationship has worked well for us both, and with a little luck this relationship may resume. Admittedly, the 32% portion of our exports going to China makes us a little too dependent on them but at the time this is where the best market was and maybe in time still is.
- (d) New Zealand farming couples are amazingly resilient in coping with downcycles and move heaven and earth to balance their cash flow – many have had some practice in these downcycles.
- (e) It is the second year of a downturn that causes the problem - that is when real support from banks, suppliers, family, locals, government is required.
- (f) A downcycle is no time to be making bank loan principal repayments.
- (g) The Farm Income Equalisation Scheme was designed in part for downturns. Every New Zealand farming couple, particularly on the east side of both islands, should always have 50% of one years' profits sitting in the scheme.
- (h) This is not a time to be helping family financially - let them take up student loans if they see fit - defer house deposit loans - concentrate on your own revenue and expenses - push capital issues forward.
- (i) There is no substitute for access to a top class farm advisor in a downcycle - there is no halfway house though.
- (j) A couple must stay on the same page in a down period - save the differences for the upcycles.
- (k) Communication with key people is not desirable, it is essential - men naturally become cave-like in a major downturn - family and friends and advisors need to get into the cave and communicate regularly.
- (l) After breathing comes cash flow - don't turn the light out just because the cash flow does not balance - limiting the loss is an absolutely key issue for a second downcycle year.
- (m) Sell anything that is surplus - plant, boats, trucks, cars, stock.
- (n) Yes, some farming situations will not survive - the key in those situations is to then control the sale process over time.
- (o) Government will talk comforting words but they will be little or no use to you - they don't have the ability or the money or the understanding about farming and money management - at present they are running the biggest business in the country, but they are not running it very well.
- (p) Look very, very carefully at development that involves capital cash - you need to preserve what you have at the moment - think and work week to week and month to month - defer the five year plan for the moment.
- (q) Will things turn - yes, they always do - but you won't know when - the good patches in New Zealand farming always last longer than the bad patches - if you are only going to learn one thing out of all this, it is to plan much better for the next downturn.
- (r) Don't back off stock management, crop management, seed, fertiliser, groceries and the children's Saturday sport games - pay yourself and family first.
- (s) Keep things in perspective - a \$50,000-\$100,000 cash deficit is something you will overcome when things improve - don't lose that fire in your belly though while you are waiting.
- (t) Never forget that while you are making cash losses, your balance sheet may still be sound and solid - it is your balance sheet that will help you drive out of working capital problems in time and will determine your future.
- (u) Your bank manager will not be enjoying all this either - communicate with them early on - they hate surprises later - if they need more security you may have to run with it in some way - the key is to stay with it.

- (v) You may be surprised just how financially strong some parents are - talk to them, borrow from them - you can make all this up to them later.
- (w) Is there a life after farming - yes, there definitely is - if that is what it comes to then grasp the nettle - you must lead from the front for your partner and your family - your bank will do their own leading.
- (x) Sometimes a sale of a block of farmland can be justified if it works for the remainder of the property - sometimes you have to forego your ideals for what is commonsense for yourself, spouse and family.
- (y) A downturn is a very good antidote for iron disease, which around 20% of New Zealand farm men have.
- (z) Lastly, never forget that New Zealand produces high quality milk, meat, horticulture, fish and wool products that many countries around the world want - our trade arrangements will reset in time - but over that time many New Zealand farming couples will need to dig in hard - but they will resurface and when they do they will reset themselves for the next downturn, just that much better and on top of that will pay little or no Income Tax for perhaps two years and the farming losses will carry forward - there could be a three-four year period of very low Income Tax payments in many cases.
- (aa) The writer spent three years intensive farm trouble shooting many years ago and if some of this pain shows up on these (a) to (aa) points, I am sorry.



**Pita Alexander**  
PS Alexander & Associates Limited  
DDI: 03 364 9330  
M: 021 465 426  
E: pita@alexanders.net.nz



**Alister Stevenson**  
PS Alexander & Associates Limited  
DDI: 03 364 9332  
M: 021 843 820  
E: alister@alexanders.net.nz



**Karen Prue**  
PS Alexander & Associates Limited  
DDI: 03 364 9344  
M: 027 535 3191  
E: karen@alexanders.net.nz