FEDERATED FARMERS

MID SEASON: JANUARY 2018
FARM CONFIDENCE SURVEY

RESEARCH REPORT
JANUARY 2018

Contents

Mid-Season January 2018 Farm Confidence Survey

Disclaimer

1

Summary

1.1 Introduction

This report summarises the results of the January 2018 Federated Farmers' Mid-Season Farm Confidence survey. The survey is undertaken twice a year (in January and July); this study is the 18th iteration. The survey was completed for Federated Farmers by Research First, New Zealand's leading agricultural market research company.

1.2 Key Messages

The January 2018 survey observed a fall in farmer confidence. For the first time in two years, farmer optimism has decreased, including negative perceptions of the economy; farm profitability; farm production; and farm spending. Farm debt levels have also increased and less farms are now debt-free.

- Whilst the proportion of farms that consider the current general economic conditions to be good has decreased over the past six months, the proportion that consider conditions to be bad remains under 10%. Looking forward, the most optimistic farm groups are 'Other' and Dairy farms. Most optimistic regions are Otago-Southland and West Coast (WC)-Tasman-Marlborough, although all regions perceive the general economic conditions to remain the same or worsen.
- Over half of all farms are currently making a profit (53.6%), which is slightly lower than six months ago (55.4%). The proportion of farms making a loss has stabilised over the past six months at 9.3%. However, optimism about future profitability has halved over the past six months and pessimistic perceptions have quadrupled.
- Optimism of future farm production has fallen for the first time since January 2016. Dairy farms are the most pessimistic group with just under one quarter expecting their production to reduce over the next 12 months. All regions expect farm production to decrease compared to six months ago, but particularly Taranaki-Manawatu and Otago-Southland, which are the two areas most affected by the dry conditions experienced since the last survey.
- Although one third of all farms expect their spending to increase, more farms expect to reduce their spending over the next 12 months leading to a net decrease in spending predictions.
- More farms have debt in January 2018 (91.1%) compared to July 2017 (87.7%). Dairy farms predict the largest increase in farm debt (and less expect their debt to reduce). Meat & Fibre farms continue to have the lowest proportion of debt, whilst Dairy farms have the highest. All regions expect their debt levels to increase.
- Taking all trends into consideration, the most confident farm industry is 'Other' farms, and the most confident region is East Coast North Island.
- Farmers are finding it increasingly more difficult to recruit skilled and motivated staff; a trend that has been evident since January 2010.

Most Profitable Region
(currently): East Coast North Island

Most Profitable Industry
(currently): Other

Most Profitable Region
(looking ahead):
East Coast North Island

Most Profitable Industry
(looking ahead): Other

Greatest Concern to Farmers:
Regulation & Compliance Costs

Highest Priority for Government:
Biosecurity

- Similar to the last survey in July 2017, the greatest concern for farmers is regulation and compliance costs. Dry weather has caused more farmers to become concerned about the weather, and the heightened possibility of livestock emissions being included in the Emissions Trading Scheme is drawing attention to climate change issues. Concerns with staffing have become increasingly more prevalent over the past three surveys. Biosecurity has also become an issue of concern.
- The highest government priority identified by farmers is biosecurity, which has eclipsed the economy & business environment, and regulation & compliance costs for the first time since the survey began in July 2009. This will mainly be due to concerns about the Mycoplasma bovis cattle disease. There was also a sharp increase for fiscal policy, which will reflect concern about forecast large increases in government spending.

2

General Economic Conditions

2.1 Overall

In January 2018, **just over one-third of farms perceive the general economic conditions to be good, and just over half have neutral perceptions** (Table 2.1). Whilst the proportion of farms that perceive good general economic conditions has fallen over the past six months (down from 56% in July 2017), the proportion of farms that consider the conditions to be bad remains under 10%. For the first time since July 2016, the net score[1] has decreased (from +53 in July 2017 down to +29 in January 2018), however all farms continue to be more positive than in July 2016 (when the net score was -27).

Table 2.1 Current perceptions of general economic conditions for all farms

	Good General Economic Conditions Currently	Neither Good nor Bad	Bad General Economic Conditions Currently	Don't Know	July 2017 Net Score	January2018 Net Score	Change
All farms	36.1%	56.2%	7.1%	0.7%	52.7	29.0	-23.7↓

Noticeably, when looking ahead over the next 12 months the survey finds the **lowest level of farm confidence** since July 2012 (Table 2.2). Whilst the change in net score of -50.4 in January 2018 is the largest drop in confidence seen since the surveys began, it follows from the largest increase in optimism that was seen in the July 2017 survey. The biggest change has been an increase in the level of pessimism (increased four-fold since July 2017), whilst optimism has reduced by the same factor. However, most farms expect the general economic conditions to stay the same. The fall in confidence looking ahead is consistent with the results of other business confidence surveys held since last year's election.

Table 2.2 Predictions of general economic conditions for all farms over the next 12 months

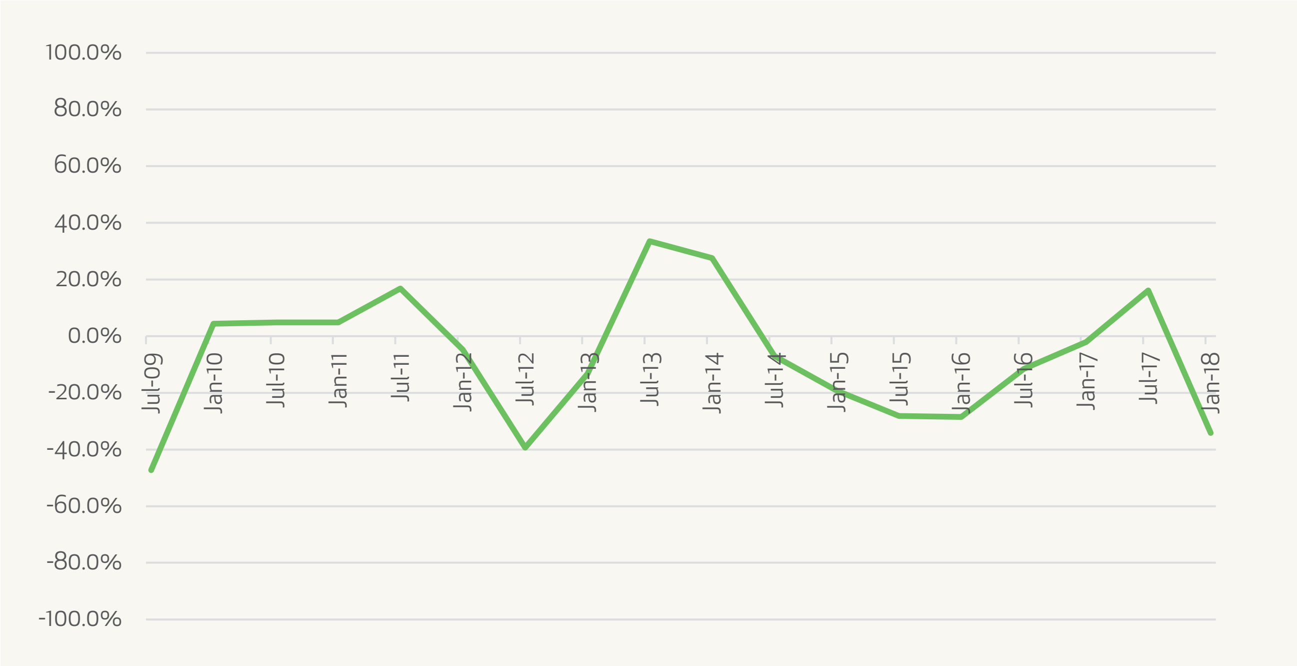
	Expect General Economic Conditions to Improve	Expect General Economic Conditions to Stay the Same	Expect General Economic Conditions to Worsen	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
All farms	5.9%	51.0%	40.1%	3.0%	16.2	-34.2	-50.4↓

Please refer to Section 11.2 for more information about Net Scores

1 Refer to the Appendix for information regarding net scores

Figure 2.1 shows the **net score for optimism for all farms has dropped over the last six months**, differing from the upward trend in optimism that was evident since January 2016. Note however that the net score perceptions have oscillated markedly overtime, and this is an indication of their volatile nature. Overall, there is close relationship between economic expectations of farm profitability (see Figure 3.1).

Figure 2.1 Net predictions of general economic conditions for all farms (July 2009-January 2018)



2.2 Industry Groups

Currently, **all industry groups perceive the current economic conditions to be neither good nor bad**. Compared to July 2017, there have been noticeable decreases in the net scores of Dairy farms (-38.8) and 'Other' farms (-31.4). The only farm type that has a positive perception of the current economic conditions is Arable farms (+14.7) compared to their net score of -2.8 six months ago.

Table 2.3 Current perceptions of general economic conditions by industry group

	Good General Economic Conditions Currently	Neither Good nor Bad	Bad General Economic Conditions Currently	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Dairy	25.8%	63.6%	10.0%	0.6%	54.6	15.8	-38.8↓
Meat & Fibre	53.4%	43.9%	2.1%	0.5%	55.5	51.3	-4.2↓
Arable	29.4%	60.8%	9.8%	0.0%	4.9	19.6	14.7↑
Other	45.0%	45.0%	5.0%	5.0%	71.4	40.0	-31.4↓

When looking ahead, **there is a marked decrease in optimism and a marked increase in pessimism in all industry groups** compared to the previous six months scores. This decrease in confidence is seen most marked in the Arable (-69.1) and Dairy (-61.1) farm groups. The least pessimistic industry group is the 'Other' group, although their numbers are low.

Table 2.4 Predictions of general economic conditions by industry group

	Expect General Economic Conditions to Improve	Expect General Economic Conditions to Stay the Same	Expect General Economic Conditions to Worsen	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Dairy	7.4%	46.2%	43.2%	3.2%	25.3	-35.8	-61.1↓
Meat & Fibre	3.7%	59.3%	34.1%	2.9%	6.1	-30.4	-36.5↓
Arable	0.0%	52.9%	47.1%	0.0%	22.0	-47.1	-69.1↓
Other	15.0%	40.0%	40.0%	5.0%	0.0	-25.0	-25.0↓

2.3 Regions

Compared to the last survey, **all regions have indicated a decrease in their current perceptions of economic conditions** (Table 2.5). This decrease is particularly noticeable in Auckland-Northland (net score of -42.0), Taranaki-Manawatu (-38.6), and Waikato-Bay of Plenty (-33.1). However, all regions have more optimists compared to pessimists, but less than six months ago. Of all the regions, Canterbury has seen the smallest net score change compared to six months ago. Compared to all regions, the East Coast North Island has the largest proportion of farmers who perceive the current economic conditions to be good (60%), whereas Auckland has the most neutral perceptions (77%), and Taranaki-Manawatu has the most pessimists (12%).

Table 2.5 Current perceptions of general economic conditions by region

	Good General Economic Conditions Currently	Neither Good nor Bad	Bad General Economic Conditions Currently	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Auckland-Northland	20.3%	77.0%	2.7%	0.0%	59.6	17.6	-42.0↓
Waikato-Bay of Plenty	27.8%	60.4%	11.7%	0.0%	49.2	16.1	-33.1↓
East Coast North Island	60.3%	34.9%	2.4%	2.4%	69.4	57.9	-11.5↓
Taranaki-Manawatu	27.5%	60.5%	12.0%	0.0%	54.1	15.5	-38.6↓
West Coast (WC)-Tasman-Marlborough	38.5%	52.3%	6.2%	3.1%	56.0	32.3	-23.7↓
Canterbury	39.4%	57.8%	2.8%	0.0%	37.5	36.6	-0.9↓
Otago-Southland	41.6%	51.9%	5.4%	1.1%	55.7	36.2	-19.5↓

Looking forward **all regions perceive the general economic conditions to either remain the same or worsen**. East Coast North Island is the least pessimistic region, followed by WC-Tasman-Marlborough. Auckland-Northland and Taranaki-Manawatu are the regions with the most pessimistic outlook.

Table 2.6 Predictions of general economic conditions by region

	Expect General Economic Conditions to Improve	Expect General Economic Conditions to Stay the Same	Expect General Economic Conditions to Worsen	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Auckland-Northland	4.1%	43.2%	48.6%	4.1%	9.6	-44.5	-54.1↓
Waikato-BOP	5.9%	44.3%	45.8%	4.0%	19.2	-39.9	-59.1↓
East Coast North Island	4.8%	65.9%	27.8%	1.6%	13.3	-23.0	-36.3↓
Taranaki-Manawatu	3.6%	47.3%	43.7%	5.4%	23.9	-40.1	-64.0↓
WC-Tasman-Marlborough	7.7%	58.5%	30.8%	3.1%	4.0	-23.1	-27.1↓
Canterbury	6.7%	49.4%	43.9%	0.0%	14.0	-37.2	-51.2↓
Otago-Southland	8.1%	56.2%	33.0%	2.7%	15.0	-24.9	-39.9↓

3

Farm Profitability

3.1 Overall

As a sector, **just over half of all farms report being currently profitable**; a further third are breaking even, whereas less than 10% are making a loss (Table 3.1). This equates to a steady positive net score of 44.3, that is only slightly decreased from July 2017 by -1.5. The proportion of farms making a loss has stabilised over the past six months.

Table 3.1 Current perceptions of profitability: all farms

	Making a Profit	Breaking Even	Making a Loss	Rather not Say	Don't Know	July 2017 Net score	January 2018 Net Score	Change
All Farms	53.6%	35.2%	9.3%	1.4%	0.6%	45.8	44.3	-1.5↓

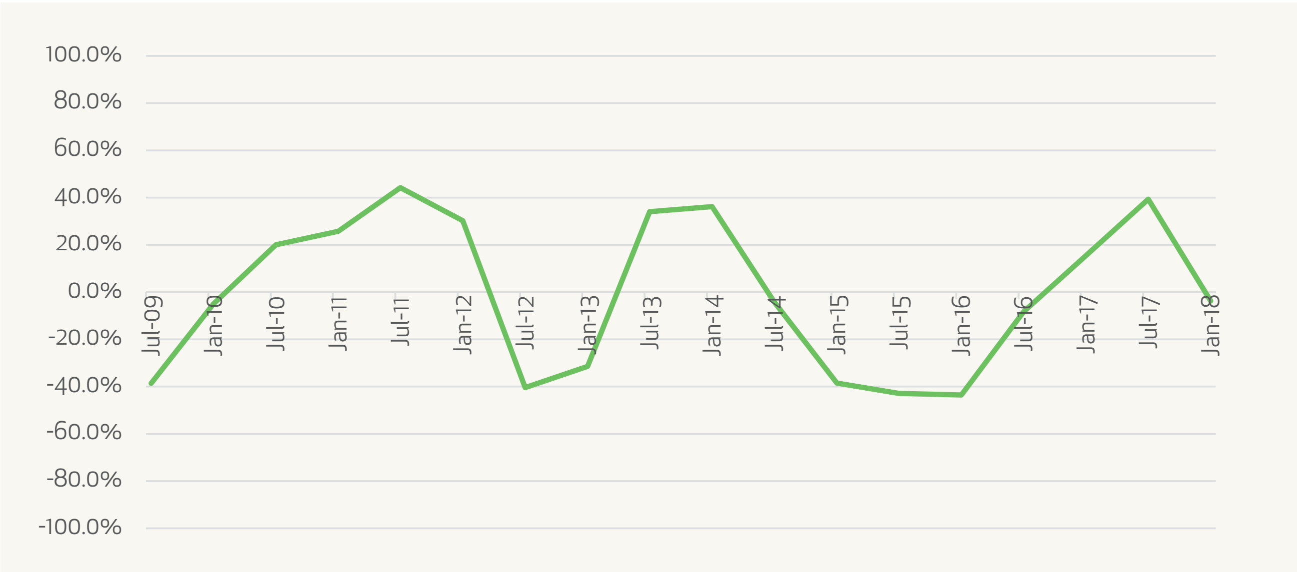
Looking ahead over the next 12 months, the proportion of farms that expect their profitability to improve has halved compared to the previous six months, and one quarter expect their profitability to worsen. However, **the majority of farms expect their profitability to stay the same as currently**.

Table 3.2 Predictions of farm profitability over the next 12 months: all farms

	Expect Farm Profitability to Improve	Expect Farm Profitability to Stay the Same	Expect Farm Profitability to Worsen	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
All Farms	21.6%	51.6%	25.3%	1.5%	39.4	-3.7	-43.1↓

Figure 3.1 illustrates the net predictions of all farm profitability since July 2009, which, similar to economic predictions (Figure 2.1), has oscillated markedly over time. There is a clear relationship between the movements in predictions of farm profitability and perceptions about the general economy. However, for this survey although both dropped sharply, the farm profitability net score looking ahead is only slightly negative (-3.7) compared to being deeply negative for that of general economic conditions (-34.2). This difference in perception of own activity versus the general economy is consistent with the results of other business confidence surveys.

Figure 3.1 Net predictions of all farm profitability (July 2009–January 2018)



3.2 Industry Groups

All industry groups have more farms making a profit than breaking even (Table 3.3). Farms making a loss are in the minority, although there have been some changes over the past six months. Compared to July 2017, more Dairy farms report making a loss (11.4% up from 7.4%). However, the proportion of dairy farms making losses are still proportionally much less than in July 2016 when 60% reported losses. Meat & Fibre farms continue their upward trend with the proportion of farms making a profit the highest over the past two years. Arable farms are remaining stable with just over half making a profit, and less report making losses (down from 19.5% and the lowest score since July 2016 when this question was first asked). Currently, 'Other' farms appear to be the most profitable, although their numbers in this survey are low.

Table 3.3 Current farm profitability by industry group

	Making a Profit	Breaking Even	Making a Loss	Rather not Say	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Dairy	48.6%	38.2%	11.4%	1.0%	0.8%	53.8	37.2	-16.6↓
Meat & Fibre	61.1%	31.5%	5.6%	1.9%	0.0%	39.9	55.5	15.6↑
Arable	51.0%	33.3%	13.7%	2.0%	0.0%	17.1	37.3	20.2↑
Other	70.0%	20.0%	0.0%	5.0%	5.0%	57.1	70.0	12.9↑

Looking ahead over the next 12 months, the industry groups that expect profitability to improve has decreased markedly compared to six months ago, particularly in the Dairy (net score of -67.2) and Arable (-58.3) industries. Meat & Fibre industry groups have remained fairly stable since July 2016 although the proportion of farms expecting profitability to be less has increased twofold over the past six months. Of all industry types, **'Other' farms are the most positive about farm profitability going forward**.

Table 3.4 Predictions of expected farm profitability by industry group

	Expect Farm Profitability to Improve	Expect Farm Profitability to Stay the Same	Expect Farm Profitability to Worsen	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Dairy	18.5%	51.4%	28.2%	1.9%	57.5	-9.7	-67.2↓
Meat & Fibre	27.5%	54.0%	17.5%	1.1%	23.4	10.0	-13.4↓
Arable	7.8%	43.1%	49.0%	0.0%	17.1	-41.2	-58.3↓
Other	40.0%	35.0%	25.0%	0.0%	7.1	15.0	7.9↑

3.3 Regions

Currently, the **most profitable regions are East Coast North Island** and Auckland-Northland. Compared to the past six months, Taranaki-Manawatu has seen the largest decrease in current farm profitability probably due to drought conditions in that region; other regions that have also seen their profitability decrease during that period were Otago-Southland and Auckland-Northland. Taranaki-Manawatū and West Coast-Tasman-Marlborough are the least profitable regions, although for the latter region, this equates to an improvement over the six months (net score of 13.6) and an increase of 31.4% over the past year of farms making a profit. Canterbury reported the largest net score increase in profit (net score of 21.2) compared to July 2017.

Table 3.5 Current farm profitability by region

	Making a Profit	Breaking Even	Making a Loss	Rather not Say	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Auckland-Northland	63.5%	32.4%	4.1%	0.0%	0.0%	63.5	59.4	-4.1↓
Waikato-Bay of Plenty	53.5%	34.1%	11.4%	0.7%	0.4%	40.9	42.1	1.2↑
East Coast North Island	64.3%	31.0%	2.4%	1.6%	0.8%	50.0	61.9	11.9↑
Taranaki-Manawatu	38.3%	43.7%	15.0%	1.8%	1.2%	47.7	23.3	-24.4↓
WC-Tasman-Marlborough	38.5%	41.5%	16.9%	1.5%	1.5%	8.0	21.6	13.6↑
Canterbury	58.9%	32.8%	6.1%	2.2%	0.0%	31.6	52.8	21.2↑
Otago-Southland	56.2%	33.5%	8.1%	1.6%	0.5%	59.3	48.1	-11.2↓

Looking ahead **all seven regions are less positive than six months ago** regarding expected improvements to farm profitability. The regions that have more pessimists than optimists are Auckland-Northland, Waikato-BOP, Taranaki-Manawatu, and WC-Tasman-Marlborough, although the majority of farms in those regions still expect their profitability to remain at the same current level. The **most optimistic region is East Coast North Island**, although it doesn't appear to have had an increase in its net score – rather it had an 11.1 decline, albeit small compared to the other regions.

Table 3.6 Predictions of expected farm profitability by region

	Expect Farm Profitability to Improve	Expect Farm Profitability to Stay the Same	Expect Farm Profitability to Worsen	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Auckland-Northland	12.2%	58.1%	29.7%	0.0%	17.3	-17.5	-34.8↓
Waikato-BOP	17.6%	52.7%	28.2%	1.5%	46.6	-10.6	-57.2↓
East Coast North Island	36.5%	50.8%	11.9%	0.8%	35.7	24.6	-11.1↓
Taranaki-Manawatu	18.0%	50.3%	28.7%	3.0%	43.1	-10.7	-53.8↓
WC-Tasman-Marlborough	18.5%	55.4%	23.1%	3.1%	48.0	-4.6	-52.6↓
Canterbury	25.0%	49.4%	25.6%	0.0%	39.0	-0.6	-39.6↓
Otago-Southland	22.2%	49.7%	25.9%	2.2%	36.5	-3.7	-40.2↓

4

Farm Production

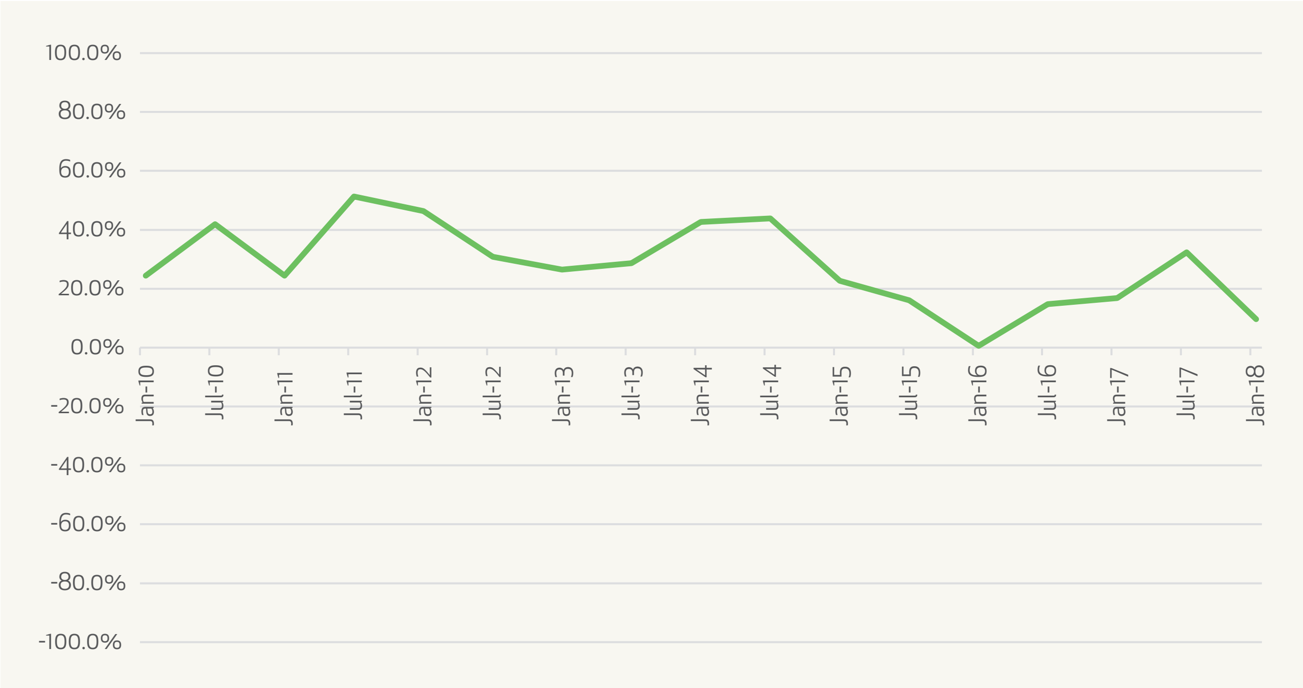
4.1 Overall

The January 2018 survey shows farmers **optimism of future farm production has decreased** for the first time in two years (Figure 4.1). While most farms still expect their farm production to stay the same (Table 4.1), the proportion of optimists has decreased over the last six months (and the proportion of pessimists has increased correspondingly).

Table 4.1 Predictions of farm production over the next 12 months: all farms

	Expect Farm Production to Increase	Expect Farm Production to Stay the Same	Expect Farm Production to Reduce	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
All Farms	27.2%	54.1%	17.5%	1.2%	32.3	9.7	-22.6↓

Figure 4.1 Net predictions of farm production: all farms (January 2010–January 2018)



4.2 Industry Groups and Regions

Apart from the Arable industry group, all other industries are less positive about increased future farm production (Table 4.2). The **least optimistic industry group is the Dairy group** because a larger proportion expect their production to reduce in the future when compared to the previous survey (22.2% in January 2018 versus 5.3% in July 2017). Much of the Dairy group's large decline in net score will be due to the effects of a wet and cold early spring followed by very dry conditions in many dairy areas. Fonterra has reduced its forecast milk supply for the current season.

Table 4.2 Predictions of future farm production by industry group

	Expect Farm Production to Increase	Expect Farm Production to Stay the Same	Expect Farm Production to Reduce	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Dairy	25.4%	50.2%	22.2%	2.1%	34.6	3.2	-31.4↓
Meat & Fibre	28.6%	60.3%	11.1%	0.0%	30.9	17.5	-13.4↓
Arable	29.4%	58.8%	11.8%	0.0%	17.1	17.6	0.5↑
Other	50.0%	45.0%	5.0%	0.0%	50.0	45.0	-5.0↓

In January 2018, all regions are less optimistic than six months ago regarding predictions of future farm production (Table 4.3). The areas with the most dramatic change of perceptions were Taranaki-Manawatu and Otago-Southland, which are the two areas most affected by the dry conditions since the last survey. The region with the **most confidence about future farm production is East Coast North Island**.

Table 4.3 Predications of future farm production by region

	Expect Farm Production to Increase	Expect Farm Production to Stay the Same	Expect Farm Production to Reduce	Don't Know	July 2017 Net	January 2018 Net	Change
Auckland-Northland	33.8%	55.4%	10.8%	0.0%	23.1	23.0	-0.1↓
Waikato-BOP	27.8%	52.4%	18.7%	1.1%	26.4	9.1	-17.3↓
East Coast North Island	34.9%	57.9%	6.3%	0.8%	41.8	28.6	-13.2↓
Taranaki-Manawatu	20.4%	45.5%	32.9%	1.2%	28.4	-12.5	-40.9↓
WC-Tasman-Marlborough	24.6%	52.3%	18.5%	4.6%	16.0	6.1	-9.9↓
Canterbury	31.1%	61.1%	6.7%	1.1%	39.0	24.4	-14.6↓
Otago-Southland	21.6%	55.1%	22.2%	1.1%	35.9	-0.6	-36.5↓

5

Farm Spending

5.1 Overall

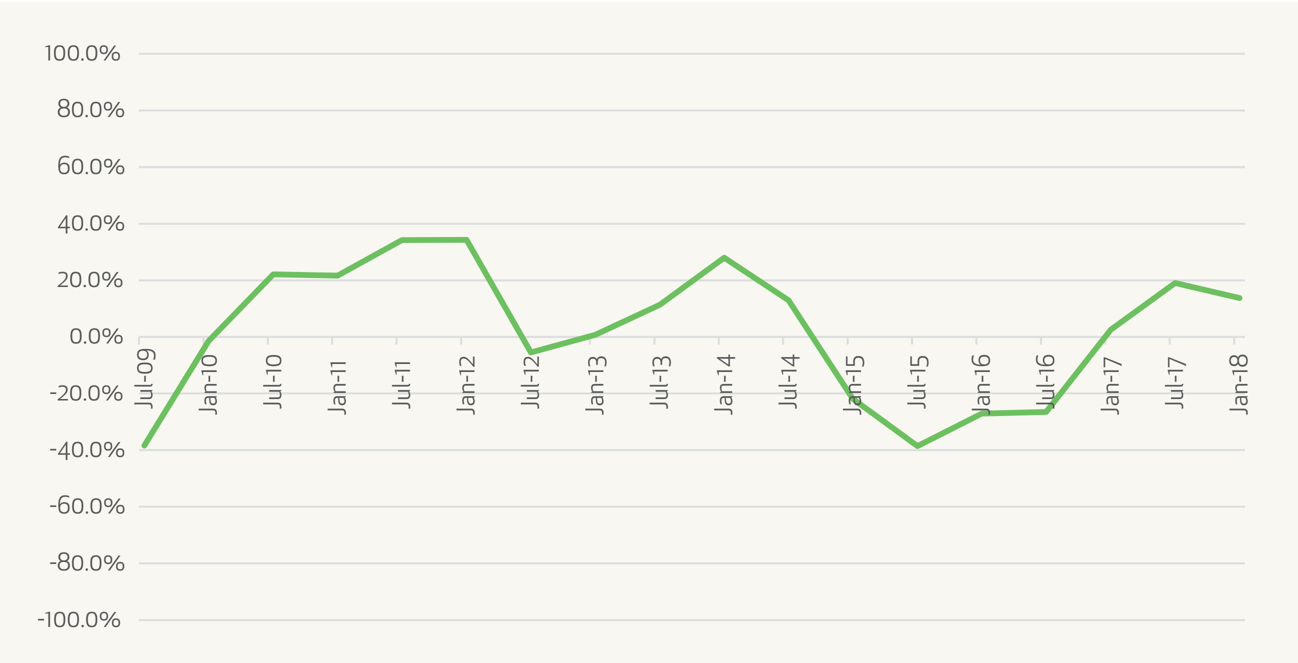
For the fist time since July 2015, **the growth in spending might ease off over the next six months.** (Figure 5.1), although just under one-third still expect their spending to increase (Table 5.1). The proportion of farms that expect their spending to increase is roughly double those that expect spending to reduce. Similar to previous survey iterations, nearly half of all farms do not expect their spending to change.

Table 5.1 Predictions of expected farm spending over the next 12 months: all farms

	Expect Farm Spending to Increase	Expect Farm Spending to Stay the Same	Expect Farm Spending to Reduce	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
All Farms	32.3%	48.3%	18.6%	0.7%	19.1	13.7	-5.4↓

The overall decrease in net predictions of expected farm spending mirrors the decrease in expected farm production and profitability, and general economic conditions going forward, illustrated in the previous sections of this report. Considering the sharp declines in confidence about the general economy and expectations of farm profitability, the 5 point decline in the spending net score is relatively modest. Farmers as a group do not appear to be planning to dramatically slash their spending.

Figure 5.1 Net predictions of expected farm spending (July 2009-January 2018)



5.2 Industry Groups and Regions

Similar to July 2017, the industry group expecting their spending to increase the most over the next 12 months are the 'Other' farms (Table 5.2). This group of farms also expect their production and profitability to increase and they have the most optimistic outlook regarding economic conditions over the next year. Arable and Meat & Fibre groups also expect their farm spend to increase, but to a lesser degree. Compared to the previous survey, Dairy farms expect to spend less and the proportion expecting to reduce spending has doubled from 10.0% to 21.3%. Overall, more farms from all industry groups expect their farm spending to increase rather than reduce.

Table 5.2 Predictions of expected farm spending by industry group

	Expect Farm Spending to Increase	Expect Farm Spending to Stay the Same	Expect Farm Spending to Reduce	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Dairy	32.2%	45.7%	21.3%	0.8%	25.6	10.9	-14.7↓
Meat & Fibre	31.2%	53.7%	14.3%	0.8%	13.0	16.9	3.9↑
Arable	33.3%	47.1%	19.6%	0.0%	7.3	13.7	6.4↑
Other	55.0%	30.0%	15.0%	0.0%	28.6	40.0	11.4↑

Compared to July 2017, **less regions expect to increase their farm spending going forward** (those expecting an increase are: East Coast North Island and Otago-Southland); however, most regions expect their farm spend to be less than it was six months ago (i.e. Auckland-Northland, Waikato-BOP, WC-Tasman-Marlborough and Canterbury). Overall, all regions apart from Taranaki-Manawatu have more respondents expecting to increase spending than reduce spending. The drop in its net score was also by far the largest. This will reflect the drought in that region

Table 5.3 Predictions of expected farm spending by region

	Expect Farm Spending to Increase	Expect Farm Spending to Stay the Same	Expect Farm Spending to Reduce	Don't Know	July 2017 Net Score	January 2018 Net Score	Change
Auckland-Northland	44.6%	43.2%	12.2%	0.0%	32.7	32.4	-0.3↓
Waikato-Bay of Plenty	37.0%	46.5%	16.1%	0.4%	24.9	20.9	-4.0↓
East Coast North Island	32.5%	53.2%	11.9%	2.4%	11.2	20.6	9.4↑
Taranaki-Manawatu	26.9%	43.7%	28.7%	0.6%	23.9	-1.8	-25.7↓
WC-Tasman-Marlborough	23.1%	55.4%	20.0%	1.5%	8.0	3.1	-4.9↓
Canterbury	32.2%	48.9%	18.9%	0.0%	22.1	13.3	-8.8↓
Otago-Southland	28.6%	50.8%	19.5%	1.1%	9.0	9.1	0.1↑

6

Farm Debt

6.1 Overall

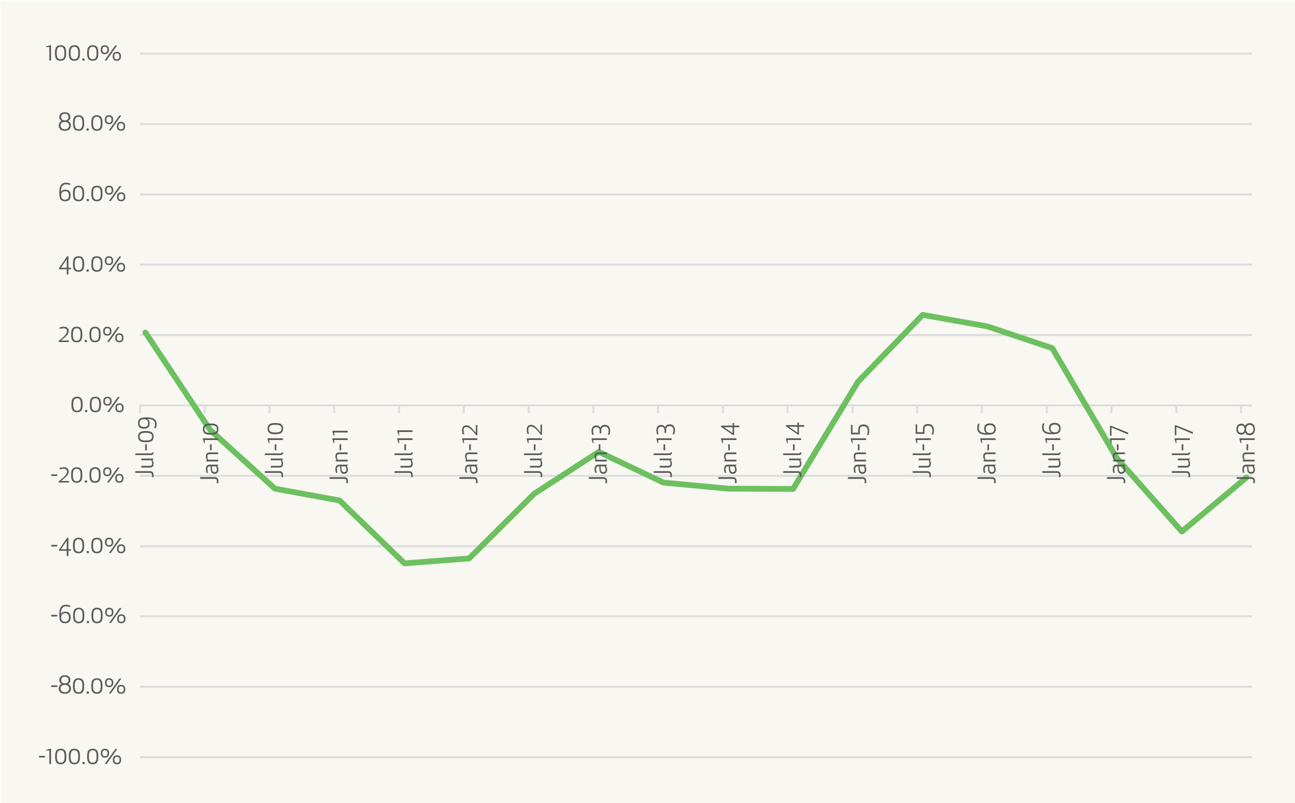
More farms have debt in January 2018 (91.1%) compared to July 2017 (87.7%), but similar to July 2015 (91%). Amongst the farms with debt, less than 40% expect their debt to reduce (Table 6.1), compared to over 50% six months ago; the proportion of farms expecting their debt to increase has risen from 9.6% to 14.6% over the same time period.

Table 6.1 Predictions of future farm debt over the next 12 months: all farms

	Expect Farm Debt to Increase	Expect Farm Debt to Stay the Same	Expect Farm Debt to Reduce	Don't Know	No Debt	July 2017 Net Score	January 2018 Net Score	Change
All Farms	13.3%	42.3%	33.8%	1.7%	8.9%	-35.9	-20.5	15.4↑
All Farms with Debt	14.6%	46.4%	37.1%	1.9%		-40.9	-22.5	18.4↑

Examining net predictions for future farm debt (Figure 6.1), the trend of slowing down of agriculture debt has reversed for the first time since July 2015. According to Reserve Bank sector lending statistics agricultural debt has been growing relatively slowly at around 2.5% year-on-year. This survey suggests growth in debt may accelerate over the coming year.

Figure 6.1 Net predictions of future farm debt: all farms (July 2009 to January 2018)



6.2 Industry Groups and Regions

The proportion of industry groups that expect their farm debt to increase over the next 12 months has increased for all types except 'Other' farms, when compared to six months ago. But all industry groups continue to have more farmers expecting to reduce debt compared to increase debt. Compared to other industry groups, **Dairy farms have predicted the largest increase in farm debt** (from 9.2% in July 2017 up to 15.6% now); the proportion of Dairy farms expecting debt to reduce has also decreased during the same time period (from 54.4% down to 33.7%). Arable farms have also predicted much lower farm debt reduction (41.5% in July 2017 down to 13.7% now). Meat & Fibre farms continue to have the highest proportion without debt, whilst Dairy farms continue to have the highest proportion of debt.

Table 6.2 Predictions of farm debt by industry group

	Expect Farm Debt to Increase	Expect Farm Debt to Stay the Same	Expect Farm Debt to Reduce	Don't Know	No Debt	July 2017 Net Score	January 2018 Net Score	Change
Dairy	15.6%	44.1%	33.7%	1.8%	4.8%	-45.1	-18.1	27.0↑
Meat & Fibre	9.3%	37.3%	36.5%	1.3%	15.6%	-26.6	-27.2	-0.6↓
Arable	11.8%	60.8%	13.7%	3.9%	9.8%	-34.1	-1.9	32.2↑
Other	20.0%	35.0%	40.0%	0.0%	5.0%	-21.4	-20.0	1.4↑

Without exception, farms in all regions had increases in their net scores although all still have more farmers expecting to reduce their debt rather than increase their debt. This is in direct contrast to six months ago, when all regions expected their debt to decrease. Farms in Auckland-Northland, Waikato BOP, and Canterbury expect the largest increases in debt, compared to July 2017. East Coast North Island and Otago-Southland are predicting the least change in debt.

Table 6.3 Predictions of farm debt by region

	Expect Farm Debt to Increase	Expect Farm Debt to Stay the Same	Expect Farm Debt to Reduce	Don't Know	No Debt	July 2017 Net Score	January 2018 Net Score	Change
Auckland-Northland	8.1%	43.2%	33.8%	1.4%	13.5%	-46.2	-25.7	20.5↑
Waikato-Bay of Plenty	15.8%	48.0%	29.3%	0.4%	6.6%	-32.6	-13.5	19.1↑
East Coast North Island	12.7%	33.3%	38.9%	2.4%	12.7%	-33.7	-26.2	7.5↑
Taranaki-Manawatu	12.0%	42.5%	32.9%	4.2%	8.4%	-33.9	-20.9	13.0↑
WC-Tasman-Marlborough	12.3%	46.2%	21.5%	3.1%	16.9%	-20.0	-9.2	10.8↑
Canterbury	13.9%	48.3%	31.7%	0.0%	6.1%	-39.7	-17.8	21.9↑
Otago-Southland	13.0%	32.4%	44.3%	2.2%	8.1%	-38.3	-31.3	7.0↑

7

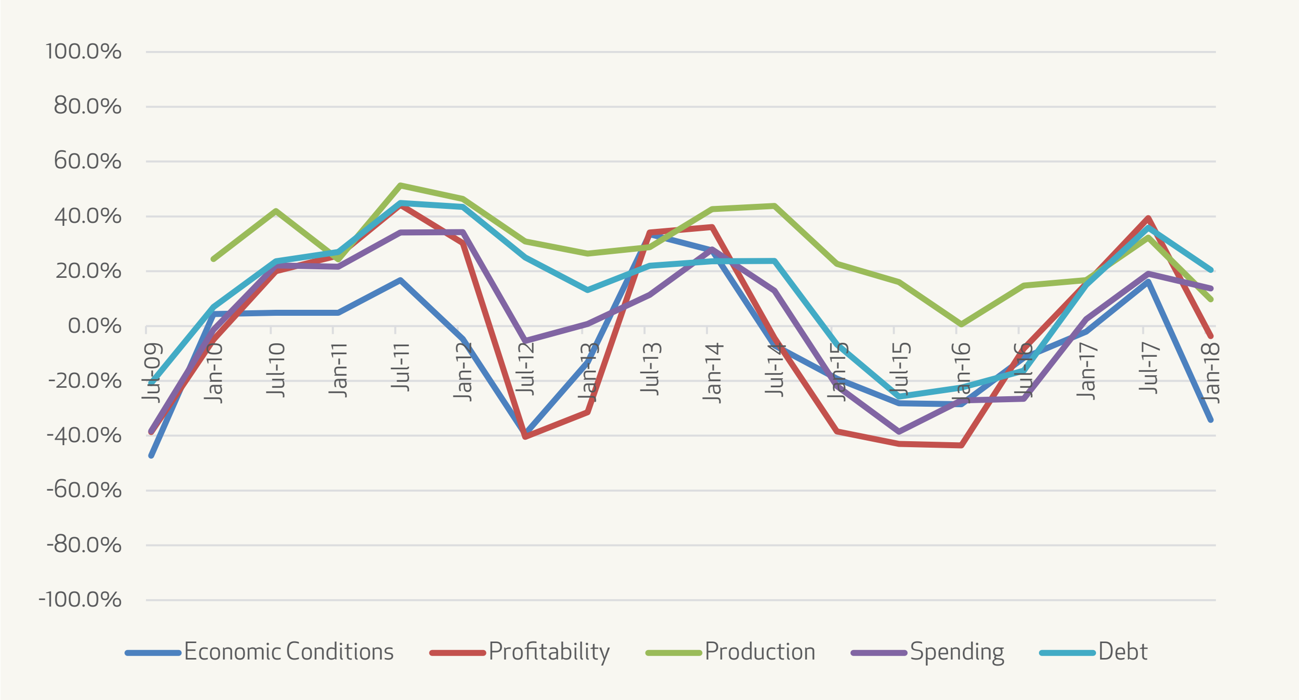
Trends in Farmer Confidence

Figure 7.1 provides an overview of farmer confidence and how it varies over time. The figure illustrates trends in farmer confidence (net scores) for five key predictors of farm performance, as follow:

1. Economic conditions;
2. Profitability;
3. Production;
4. Spending; and.
5. Farm debt[2].

Net scores for all indicators have fluctuated over time since the survey began in July 2009[3], particularly farm profitability. In direct contrast to July 2017, all five indicators demonstrate a change in optimism within the farming sector. This downward change in perceptions of farm confidence has followed an extended period of increased confidence seen since January 2015.

Figure 7.1 Net perceptions of five key indicators of overall farmer confidence: all farms (July 2009-January 2018)



2 Note that debt has been inverted to correct for polarity inconsistency, that is: an increase in debt in a negative indication.
3 Production varies less than all other indicators of confidence, but still tracks the economic conditions, profitability, spending and farm debt indicators.

8

Ability to Recruit

8.1 Overall

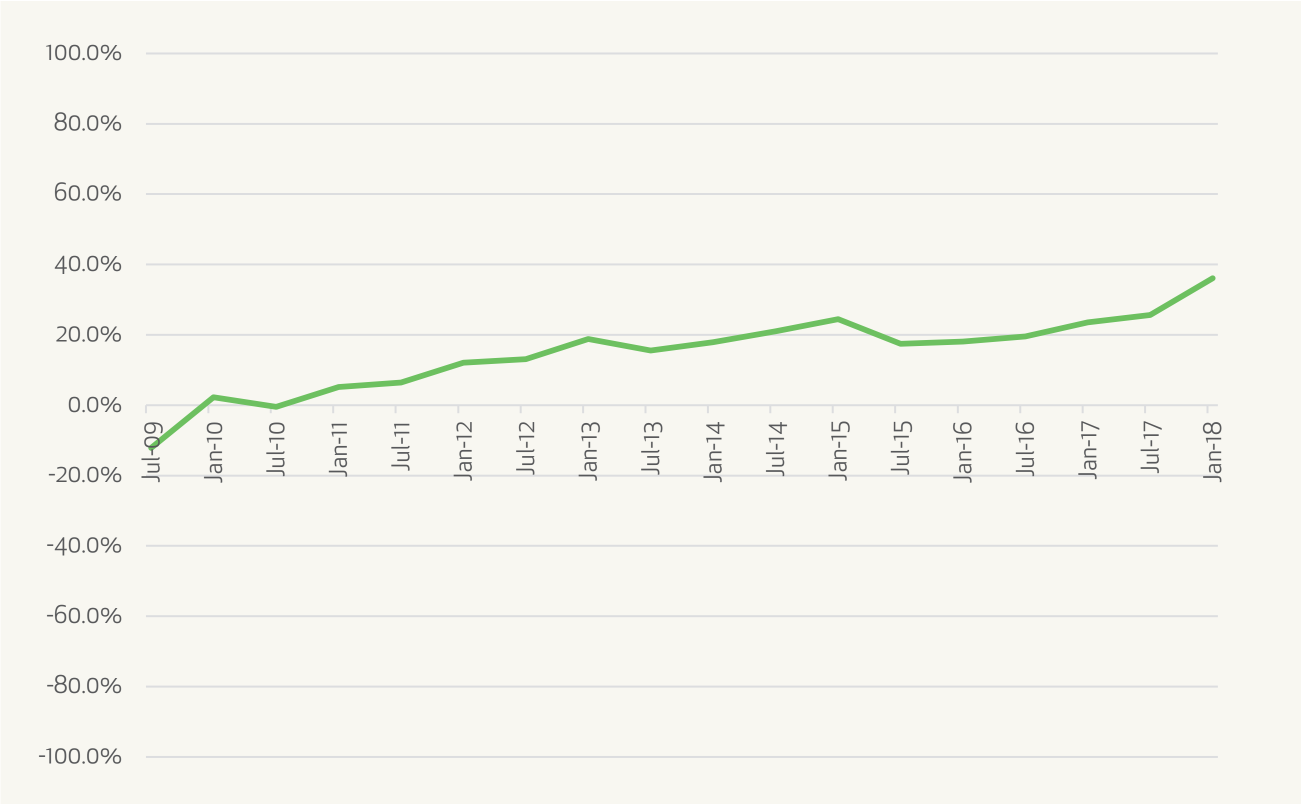
Figure 8.1 demonstrates that **farms continue to have more difficulty recruiting skilled and motivated staff**, and the latest six months has been particularly difficult when compared to other surveys. Indeed, only a very small minority of farms (1.7%) found it easier to find appropriately skilled staff (Table 8.1). The percentage of farms that employ staff have increased from 73% six months ago to 78.4% currently.

Table 8.1 Ability to recruit skilled and motivated staff in the previous 6 months: all farms

	Have Found Recruiting Harder	No Change in Ability to Recruit	Have Found Recruiting Easier	Don't Know	Don't Employ Staff	July 2017 Net Score	January 2018 Net Score	Change
All Farms	37.8%	34.3%	1.7%	4.7%	21.6%	25.6	36.1	10.5↑

Overall, it is evident that farmers are increasingly finding it more difficult to attract suitable staff over time. The labour market is tight with low unemployment and high labour force participation, and recent restrictions to immigration policy appear to be exacerbating the problem.

Figure 8.1 Net ability to recruit skilled and motivated staff: all farms (July 2009-January 2018)



8.2 Industry Groups and Regions

Arable farms have experienced the most difficulty in their ability to recruit suitably experienced and motivated staff over the last survey period. Dairy farms continue to find recruiting staff difficult as demonstrated by their lower net score change. Meat & Fibre farms continue to have the lowest employment rate of staff.

Table 8.2 Difficulty to recruit skilled and motivated staff by industry group

	Have Found Recruiting Harder	No Change in Ability to Recruit	Have Found Recruiting Easier	Don't Know	Don't Employ Staff	July 2017 Net Score	January 2018 Net Score	Change
Dairy	44.6%	34.6%	1.3%	4.7%	14.8%	36.7	43.3	6.6↑
Meat & Fibre	25.9%	34.4%	2.4%	4.2%	33.1%	13.6	23.5	9.9↑
Arable	47.1%	27.5%	0.0%	7.8%	17.6%	24.4	47.1	22.7↑
Other	25.0%	40.0%	5.0%	5.0%	25.0%	28.6	20.0	-8.6↓

When examining recruitment by regions, **all regions have experienced more difficulty recruiting staff compared to six months ago**. The regions with the highest difficulty are Waikato-BOP and Canterbury. Auckland-Northland is the region that had found recruiting staff the easiest.

Table 8.3 Difficulty to recruit skilled and motivated staff by region

	Have Found Recruiting Harder	No Change in Ability to Recruit	Have Found Recruiting Easier	Don't Know	Don't Employ Staff	July 2017 Net Score	January 2018 Net Score	Change
Auckland-Northland	31.1%	32.4%	4.1%	5.4%	27.0%	23.1	27.0	3.9↑
Waikato-Bay of Plenty	43.2%	33.0%	2.2%	4.0%	17.6%	26.4	41.0	14.6↑
East Coast North Island	34.1%	42.1%	2.4%	4.8%	16.7%	19.4	31.7	12.3↑
Taranaki-Manawatu	32.9%	40.1%	0.0%	6.6%	20.4%	24.8	32.9	8.1↑
WC-Tasman-Marlborough	29.2%	21.5%	1.5%	6.2%	42.0%	16.0	27.7	11.7↑
Canterbury	45.0%	28.9%	0.6%	5.0%	20.6%	30.9	44.4	13.5↑
Otago-Southland	35.1%	36.2%	2.2%	2.7%	23.8%	26.9	32.9	6.0↑

9

Greatest Concerns for Farmers

9.1 Overall

In the January 2018 survey, the single greatest concern across all farms is **regulation & compliance costs,** followed by **the weather**, and **farmgate & commodity prices**. Although regulation & compliance costs remain the aspect of most concern, it has become less important than six months ago (when it was the at the highest level of concern since the survey began in July 2009). The previous survey (July 2017) saw the emergence of factors related to **environmental aspects of farming**, which appear to be have become more focused in this survey iteration on:

1. The weather thanks to very dry weather in many parts of the country, and
2. Climate change with the heightened likelihood of livestock emissions being included in the Emissions Trading Scheme.

Concerns with **staffing** have become more relevant over the past three surveys as farms are experiencing more difficulty with their ability to recruit. Following the general election, concerns with the **political situation** were more prevalent.

Compared to previous years, concerns with **biosecurity (pests & diseases)** has become more evident and is at the highest level ever seen in these surveys. The cattle disease Mycoplasma bovis is the likely culprit. Farmgate & commodity prices continue to be less of a concern, a trend that has been evident since January 2015.

Figure 9.1 Top twelve greatest concerns for farmers: all farms (July 2017 versus January 2018)

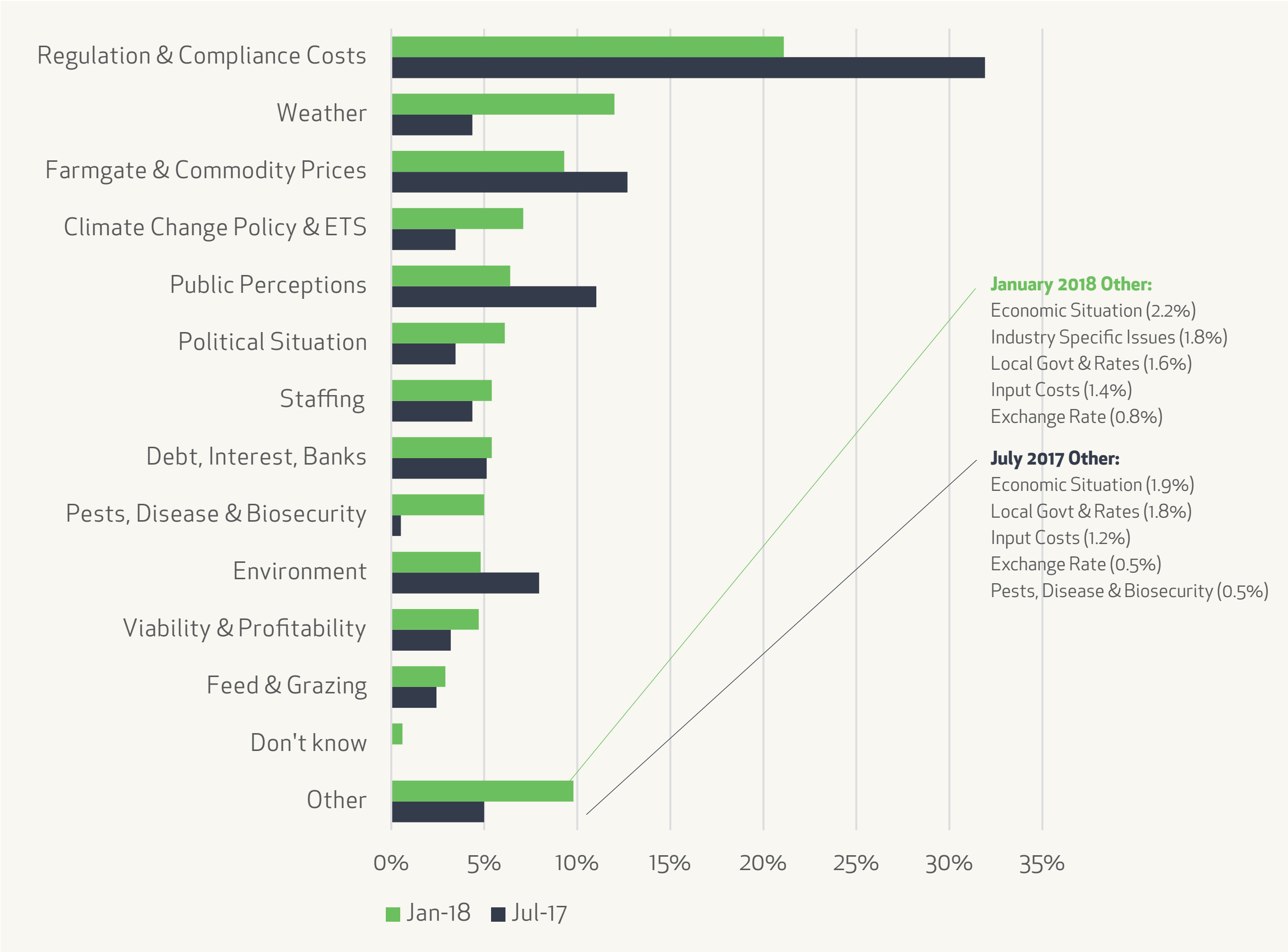


Table 9.1 shows the top twelve greatest concern for all farm types over the last three surveys. Comparatively, viability & profitability have become less of a concern as a trend over the past year possibly reflecting the strong recovery seen in commodity prices and farm incomes evident in recent surveys. In contrast, the weather has become much more of a concern recently, with warmer than normal temperatures that have occurred this summer and droughts declared in the lower North and South Islands.

Table 9.1 Top twelve greatest concerns over the 3 most recent surveys (January 2017-January 2018)

Jan-17		**Jul-17**		**Jan-18**	
Farmgate & commodity prices	**27.8%**	Regulation & compliance costs	**31.9%**	Regulation & Compliance Costs	**21.1%**
Regulation & compliance costs	**17.2%**	Farmgate & commodity prices	**12.7%**	Weather	**12.0%**
Viability & profitability	**7.1%**	Public perceptions of farming	**11.0%**	Farmgate & Commodity Prices	**9.3%**
Debt, interest rates & banks	**6.9%**	Environment	**7.9%**	Climate Change Policy & ETS	**7.1%**
Public perceptions of farming	**6.4%**	Debt, Interest, Banks	**5.1%**	Public Perceptions	**6.4%**
Weather	**5.6%**	Weather	**4.4%**	Political Situation	**6.1%**
Environmental sustainability	**5.4%**	Staffing	**4.4%**	Staffing	**5.4%**
Economic situation	**4.5%**	Climate Change Policy & ETS	**3.5%**	Debt, Interest, Banks	**5.4%**
Input costs	**3.0%**	Political Situation	**3.5%**	Pests, Disease & Biosecurity	**5.0%**
Climate change policy & ETS	**2.5%**	Viability & profitability	**3.2%**	Environment	**4.8%**
Exchange rate	**2.4%**	Industry specific issues	**2.7%**	Viability & Profitability	**4.7%**
Industry specific issues	**2.2%**	Feed and grazing	**2.4%**	Feed & Grazing	**2.9%**

Please refer to Appendix for more detail

9.2 Industry Groups and Regions

- As a trend, the **weather** has become substantially more of concern for Dairy (11%) and most particularly Meat & Fibre (14%) industry groups and has eclipsed farmgate & commodity prices for the first time January 2015. The weather was a particular concern for farms in Taranaki-Manawatu (21%) and Otago-Southland (25%) regions, reflecting the more extreme drought conditions in those regions.
- **Regulation & compliance costs** are the most important concern for all industry types, except for 'Other' farms (that are most concerned about the current **political situation;** 20% compared to 6.9% average all farms). Regulation & compliance costs are also the most substantial area of concern for all regions except for those that were experiencing drought conditions (see above).
- **Farmgate & commodity prices** were more of a concern to Arable farms compared to all other industry groups, and to Auckland-Northland and Canterbury, compared to all other regions.
- **Climate change policy and ETS** were a secondary concern for Waikato-Bay of Plenty and the East Coast North Island.
- **Pests & biosecurity** (all farms:5.0%, increased from 0.5% six months ago) have noticeably become an aspect of concern for Dairy and Arable industry groups, and in the East Coast North Island, WC Tasman-Marlborough, and Canterbury regions. However, the region with the most concern was Otago-Southland (9.2%).

10

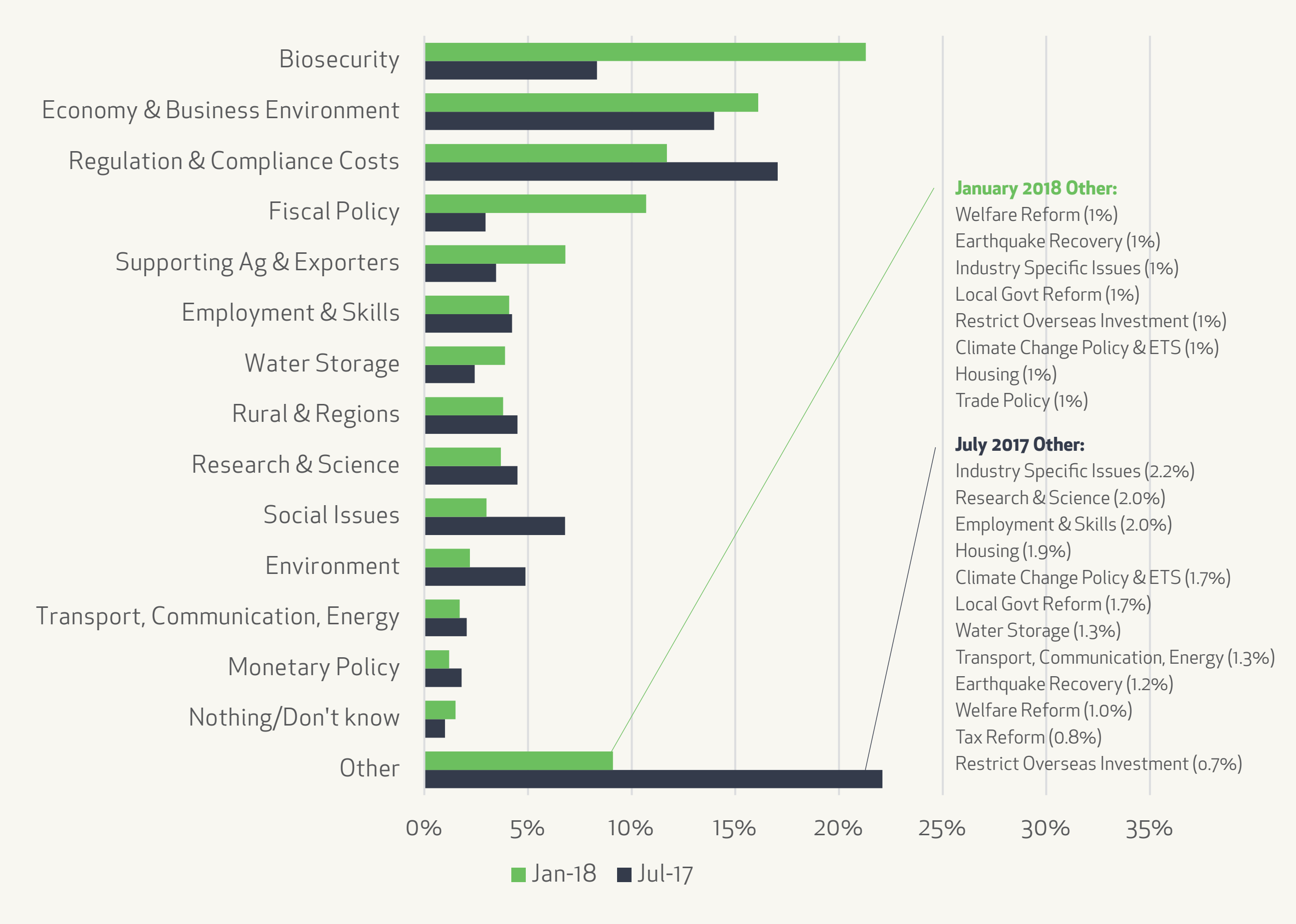
Highest Priority for Government

10.1 Overall

The most important government priority identified by all farms (Figure 10.1) in January 2018 is **biosecurity**, which has nearly trebled in importance over the past six months (from 8% in July 2017 to 21% in January 2018). The increased priority is likely to be associated with the finding of *Mycoplasma bovis* in dairy farms in July 2017. The disease is a risk to both dairy and beef cattle farms, spread through nose to nose contact.

The second most important government priority is the **economy & business environment**, which has remained fairly steady at 15 to 16% over the past year. **Fiscal policy, supporting agriculture & exporters,** and **water storage** have become more important priorities over the past six months; social issues, and the environment have become less important priorities.

Figure 10.1 Top twelve perceived highest Government priorities for all farms (July 2017 versus January 2018)



In January 2018, when asked to consider the top twelve perceived highest government priorities, the farmers who took part in this survey answered (Table 10.1):

- **Regulation & compliance costs** have become a less important priority over the past year, whereas **economy & business environment** remains a stable second government priority.
- **Fiscal policy** has become more important over the past six months, as has **water storage, employment & skills**, and **supporting agriculture & exporters**.
- **Biosecurity** has become a significant priority.

Table 10.1 Top twelve perceived highest Government priorities for all farms over the 3 most recent surveys (January 2017-January 2018)

Jan-17		Jul-17		Jan-18	
Regulation & compliance costs	16.0%	Regulation &compliance costs	17.1%	Biosecurity	21.3%
Economy & business environment	15.2%	Economy & business environment	14.0%	Economy & Business Environment	16.1%
Biosecurity	9.4%	Re-Election	8.5%	Regulation & Compliance Costs	11.7%
Social issues	6.1%	Biosecurity	8.3%	Fiscal Policy	10.7%
Fiscal policy	5.4%	Social issues	6.8%	Supporting Ag & Exporters	6.8%
Supporting agriculture and/or exporters	5.1%	Environment	4.9%	Employment & Skills	4.1%
Rural & regions	4.5%	Rural & regional development	4.5%	Water Storage	3.9%
Re-election	4.4%	Research & Science	4.5%	Rural & Regions	3.8%
Monetary policy	3.9%	Employment & Skills	4.2%	Research & Science	3.7%
Trade policy	3.5%	Supporting agriculture and/or exporters	3.5%	Social Issues	3.0%
Environment	3.4%	Fiscal Policy	2.9%	Environment	2.2%
Reduce Immigration	3.2%	Water storage	2.4%	Transport, Communication, Energy	1.7%

Please refer to Appendix for more detail

10.2 Industry Groups and Regions

- **Biosecurity** is the greatest priority for Dairy (21%) and Meat & Fibre (22%) farms in particular, and to a lesser extent arable farms (18%). It was also the greatest priority in the following regions: Auckland-Northland (28%), Canterbury and Otago-Southland (25% both respectively), WC-Tasman-Marlborough (20%) and Waikato-Bay of Plenty (19%).
- **Fiscal policy** (20%) and **economy & business environment** (20%) are the greatest priority to 'Other' farms.
- **Water storage** is a more important priority in Otago-Southland and the East-Coast North Island but not to any particular industry type.
- **Reducing immigration** was prioritised only by farms in Auckland-Northland regions (13.5%) compared to everywhere else (0.3%).

11

About this Survey

11.1 Research Design

Federated Farmers have been conducting biannual Farm Confidence Surveys since July 2009. These surveys aim to measure farmer confidence over eight key issues faced in the farming profession and community. Members of Federated Farmers are invited to complete these surveys, which run in January and July each year.

The January 2018 survey was completed for Federated Farmers by Research First, New Zealand's leading agricultural market research company. The online survey received 1070 responses from farmers in four industry groups over 24 provinces (condensed into 7 regions) across New Zealand (Table 11.1).

Table 11.1 Completed surveys by region compared to a recommended weighting

	Number of Respondents	January 2018	Weighting %
Auckland-Northland	**74**	6.9%	6.1%
Waikato-Bay of Plenty	**273**	25.5%	23.8%
East Coast NI	**126**	11.8%	11.0%
Taranaki-Manawatu	**167**	15.6%	15.3%
WC-Tasman-Marlborough	**65**	6.1%	5.5%
Canterbury	**180**	16.8%	19.0%
Otago-Southland	**185**	17.3%	19.4%
Total	**1070**	**100%**	**100%**

Similar for all Federated Farmers' Farm Confidence Surveys, results must be treated with some caution. Although the sample reported here is a large one, it is a self-selected sample. Also, smaller numbers of Arable and 'Other' types of farmers mean that results for these industry groups may vary more from survey to survey than for Dairy and Meat & Fibre farms.

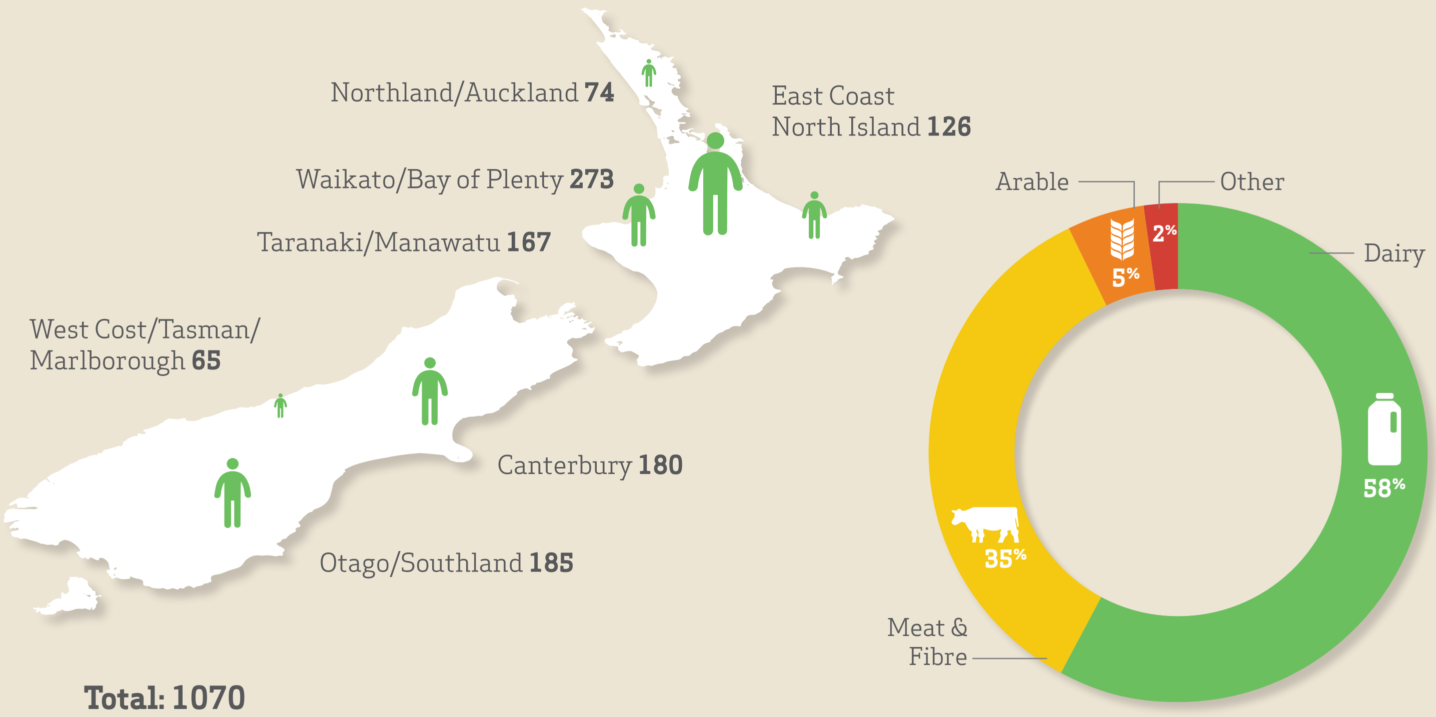
11.2 About Net Scores

A net score is an index ranging from -100 to +100 that measures the skew of all responses towards one of two possible 'extreme' responses to a question. Typically, and in the case of this survey, the net score is calculated by subtracting the proportion of 'negative' responses (e.g. decrease, worsen etc.) from the proportion of 'positive' responses (e.g. increase, improve etc.). A score of -100 describes a scenario where all responses were negative, 0 reflects that an equal proportion of people responded positively as did negatively, and +100 would mean that all responses were positive.

12

Appendix

12.1 January 2018 Respondents by Industry Group and Location



12.2 Further Survey Detail

'Other' farmers include: Bees, Goats, High Country and Rural Butchers.

12.2.1 The seven regions relate to Federated Farmers' provinces:

- **Auckland/Northland**: Northland and Auckland provinces
- **Waikato/Bay of Plenty:** Hauraki-Coromandel, Waikato, Bay of Plenty, and Rotorua-Taupo provinces
- **East Coast North Island:** Gisborne-Wairoa, Hawkes Bay, Tararua, and Wairarapa provinces
- **Taranaki/Wanganui/Manawatu:** Taranaki, Ruapehu, Wanganui, and Manawatu-Rangitikei provinces
- **West Coast/Tasman/Marlborough:** Golden Bay, Nelson, Marlborough and West Coast provinces
- **Canterbury:** North Canterbury, Mid Canterbury, and South Canterbury provinces
- **Otago/Southland:** North Otago, Otago, and Southland provinces

12.2.2 Concerns for Farmers: Full List and Detail

- Climate Change Policy & ETS
- Debt, Interest, Banks
- Don't know
- Economic Situation
- Environment
- Exchange Rate
- Farmgate & Commodity Prices
- Feed & Grazing
- Industry Specific Issues
- Input Costs
- Local Govt & Rates
- Other
- Pests, Disease & Biosecurity
- Political Situation
- Public Perceptions
- Regulation & Compliance Costs
- Staffing
- Viability & Profitability
- Weather

12.2.3 Priorities for Government: Full List and Detail

- Biosecurity
- Climate Change Policy & ETS
- Earthquake Recovery
- Economy & Business Environment
- Employment & Skills
- Environment
- Fiscal Policy
- Housing
- Industry Specific Issues
- Local Govt Reform
- Monetary Policy
- Nothing/Don't know
- Other
- Reduce Immigration
- Re-Election
- Regulation & Compliance Costs
- Research & Science
- Restrict Overseas Investment
- Rural & Regions
- Social Issues
- Supporting Ag & Exporters
- Tax Reform
- Trade Policy
- Transport, Communication, Energy
- Water Storage
- Welfare Reform

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