



RESEARCH FIRST



FEDERATED FARMERS

NOVEMBER 2017

BANKING SURVEY



**FEDERATED
FARMERS**
OF NEW ZEALAND

RESEARCH REPORT
NOVEMBER 2017

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November 2017 Banking Survey

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Disclaimer

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Summary

1.1 Context

This report shows the results from the November 2017 Federated Farmers' Banking survey. The November 2017 survey is the eighth iteration of the survey, which is conducted biannually typically in May and November of each year. The survey was conducted for Federated Farmers by Research First, New Zealand's leading agricultural market research company.

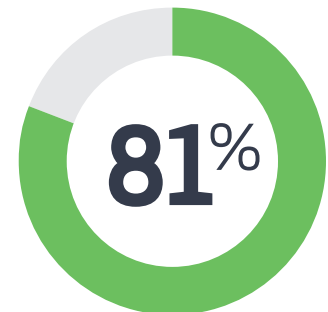
The Banking survey is designed to investigate the level of satisfaction and support the farming industry is receiving from their respective bank(s). Measures in this report include interest rates, finance rates, amount of undue pressure, and the quality of information received from their bank(s). Other topics explored include the robustness of farmers' approaches to aspects of financial management, such as budgeting now and in the future.

This survey is an important tool for understanding trends and opinions towards banking amongst Federated Farmers' members. By repeating surveys regularly, Federated Farmers has established an important tool that provides vital information to its shareholders about financial factors that may influence the industry.

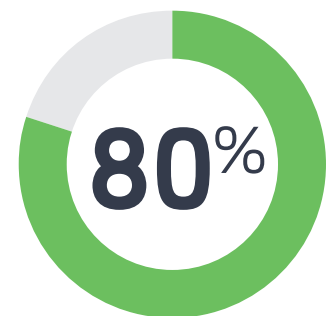
1.2 Key Summary

- Farmer's overall satisfaction with their banks remains strong and stable;
- Most farmers have a mortgage. Dairy farms are more likely to have mortgages, (including 97% of sharemilkers) compared to non-dairy farms (72%);
- The average farm mortgage has increased for dairy farms and sharemilkers over the last six months; but the average mortgage for non-dairy farms have remained relatively stable;
- Mortgage rates have remained stable over the last six months at 5.2%. Sharemilkers are subjected to the highest interest rates (average 5.6%);
- The majority of farms have an overdraft (average \$192,000). Non-dairy farms have the largest overdrafts (average \$209,000);
- Having an up-to-date budget is more prevalent amongst sharemilkers (90%) compared to other farm types (61%); and
- Three-quarters of farmers feel under the same pressure from their banks as six months ago. Only a small minority (8%) feel under more pressure.

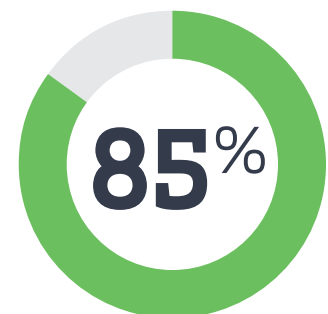
Across all sectors



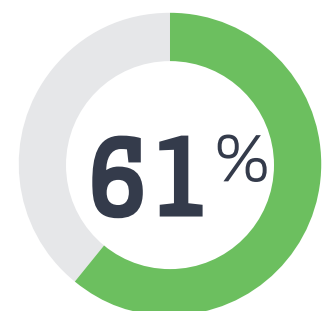
Satisfied with their **banks**



Have a **mortgage**



Have an **overdraft**



Have a budget for the current season

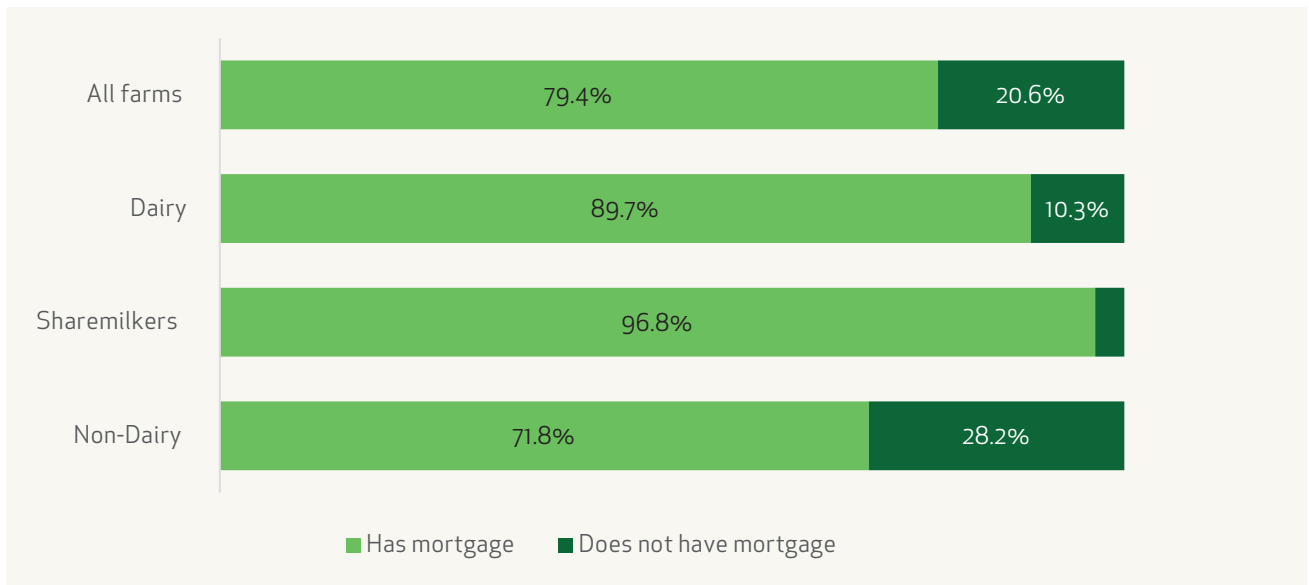
2

Mortgages

2.1 Value of Mortgages

Similar to May 2017, just under four of five respondents have a mortgage on their farm. Dairy farmers on average hold the largest mortgages, sharemilkers are more likely than other industry types to have a mortgage which reflects the fact sharemilkers are typically earlier in their career in the industry and developing their asset base. Non-dairy farms are less likely to have a mortgage on their farm and have often been on their land for a longer period of time.

Figure 2.1 Proportion of respondents with a mortgage by industry type*



* Excluding outliers¹

The average mortgage across all industries has increased slightly over the last six months from \$3.1million in May 2017 to \$3.2million in November 2017. Increased mortgage amounts are seen principally in dairy farms and sharemilkers (Figure 2.2). Within the dairy industry, dairy farms have much larger mortgages than sharemilkers by a factor of three. This relative mortgage size reflects that sharemilkers don't own the land they are farming, and their mortgages are on other assets, especially livestock.

Table 2.1 Average current mortgage² by industry type*

All farms	\$3,248,000
Dairy	\$4,629,000
Sharemilkers [#]	\$1,685,000
Non-Dairy	\$2,235,000

* Excluding outliers

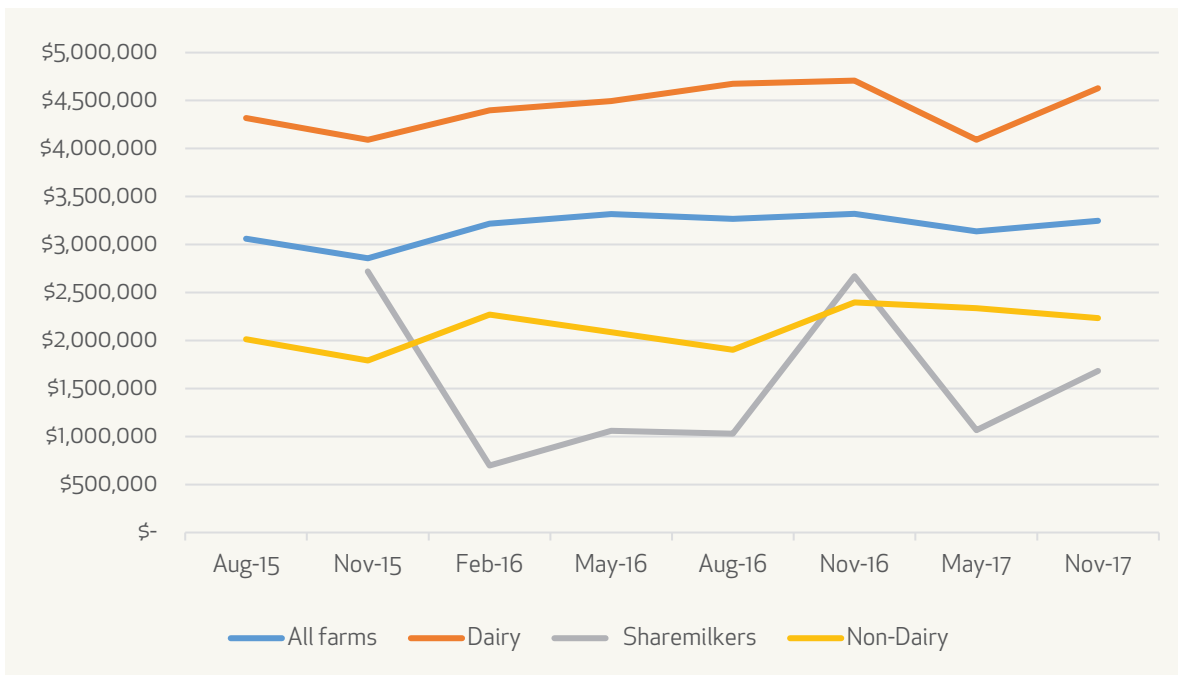
[#] Sharemilkers are a sub-group of dairy farmers, hence results are indented when shown in tables

¹ Outliers (those with mortgages over \$50 million) have been excluded from the average/median calculations

² Rounded to the nearest \$1,000

The average farm mortgage has increased for dairy farms and sharemilkers over the last six months; but the average mortgage for non-dairy farms have remained relatively stable

Figure 2.2 Average current mortgage* by industry type over time³

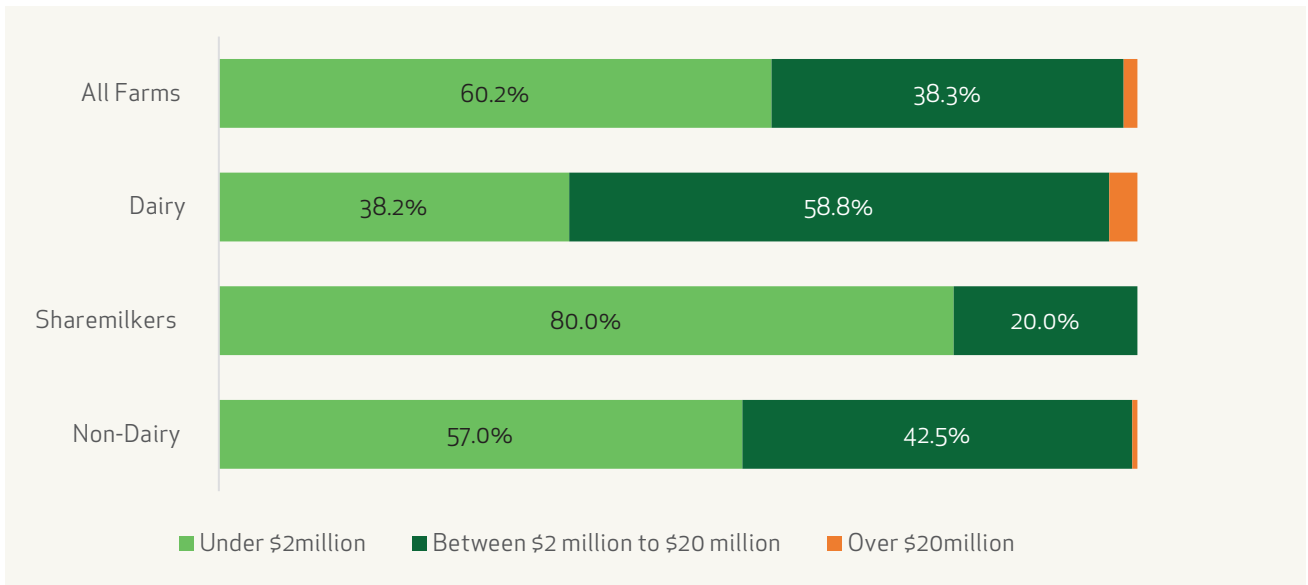


* Excluding outliers

³ Due to small base number of sharemilkers (n=31 of 480), greater volatility across time is expected

Dairy farms continue to have the largest proportion of mortgages in excess of \$2million. They also more likely to hold a mortgage over \$20million (3.1% of dairy farms). These results are similar to May 2017. This reflects the significant borrowings many dairy farmers have incurred through the expansion of the dairy industry in the past decade and the investment in infrastructure and additional land required by this. Non-dairy farmers on average have lower debt than dairy farmers as their capital investment needs are generally less than that required by dairy farms.

Figure 2.3 Size of current mortgage by industry type



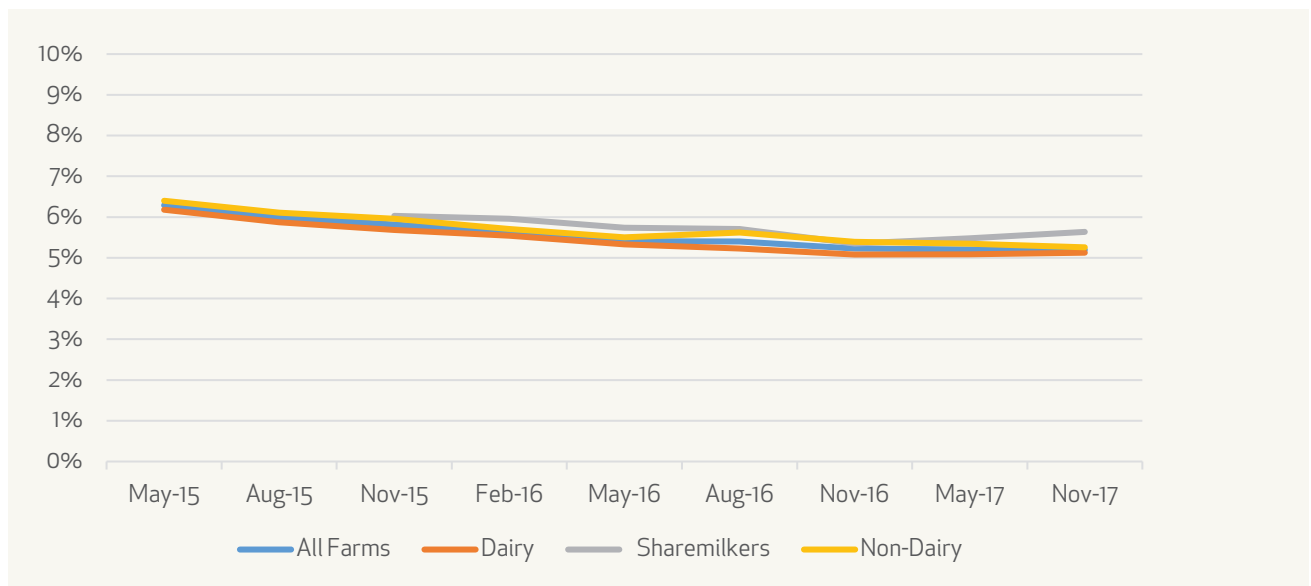
2.2 Mortgage Interest Rates

The current mortgage interest rates have remained stable over the past six months. Figure 2.4 shows a small increase in interest rates for sharemilkers by 0.1%. No respondents in this survey are paying over 10% mortgage interest, which is the first time since the survey began in May 2015 (not shown).

Table 2.2 Farmers' mortgage interest rates by industry type

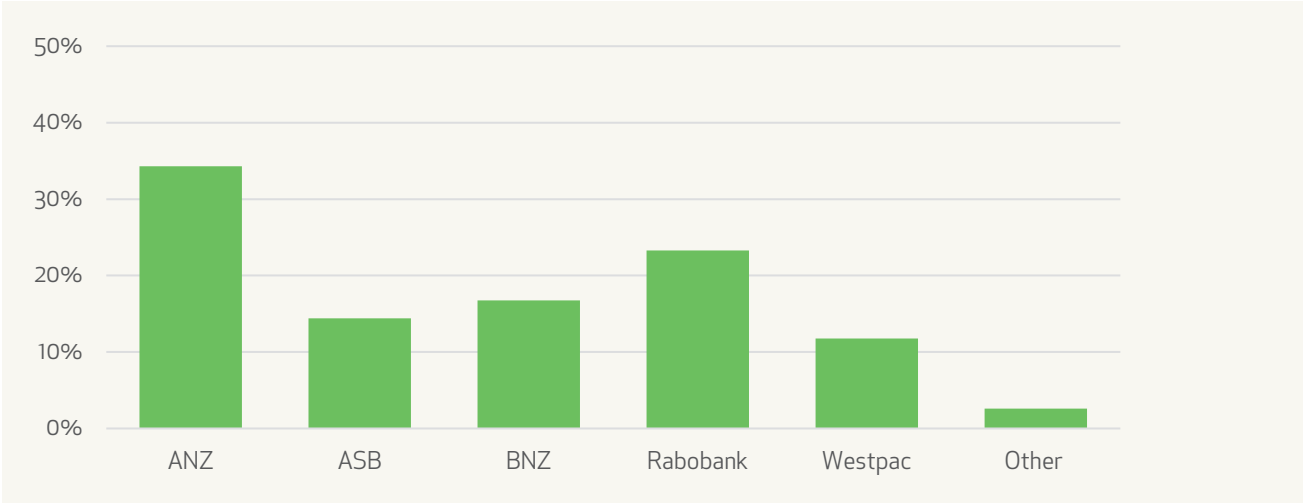
All Farms	5.2%
Dairy	5.1%
Sharemilkers	5.6%
Non-Dairy	5.3%

Figure 2.4 Average mortgage interest rate by industry type over time



Similar to previous survey iterations, ANZ remains the most common bank that farmers' have their mortgage with. Rabobank is the only bank to see a proportional increase in farm mortgages (from 19% in May 2017 to 23% in November 2017).

Figure 2.5 Identification of the banks farmers' have their mortgage(s) with



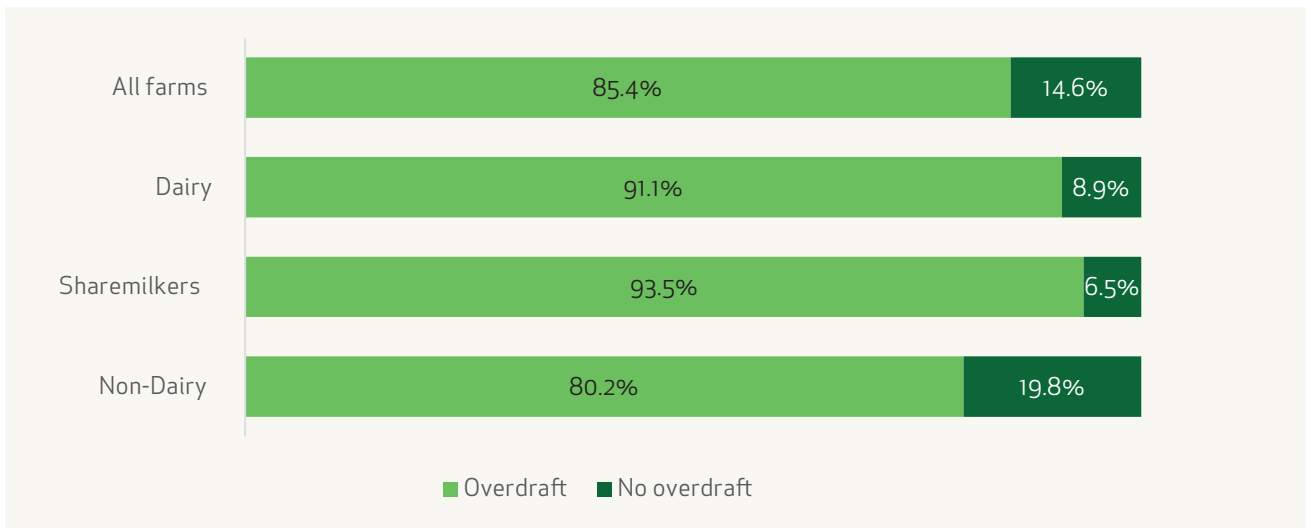
3

Overdrafts

3.1 Farms with an Overdraft

Farming is a very seasonal business with revenue often volatile and not comfortably matching expenditure flows. Availability to overdrafts and seasonal financing facilities are therefore critical for managing farmers' cash flow. The majority of farms have an overdraft (average \$192,000). Non-dairy farms have the largest overdrafts (average \$209,000) (Table 3.1). The proportion of dairy farms and sharemilkers having an overdraft has increased over the past six months by 5% and 9% respectively (Figure 3.1).

Figure 3.1 Proportion of farmers with an overdraft by industry type



Non-dairy farms have the largest overdraft, which reflects the cash flow differences in the industry (dairy farms produce and sell milk daily for the bulk of the year and therefore have more steady cash flow while non-dairy farms spend the year or season growing their product to harvest and sell once resulting in a much lumpier cash flow).

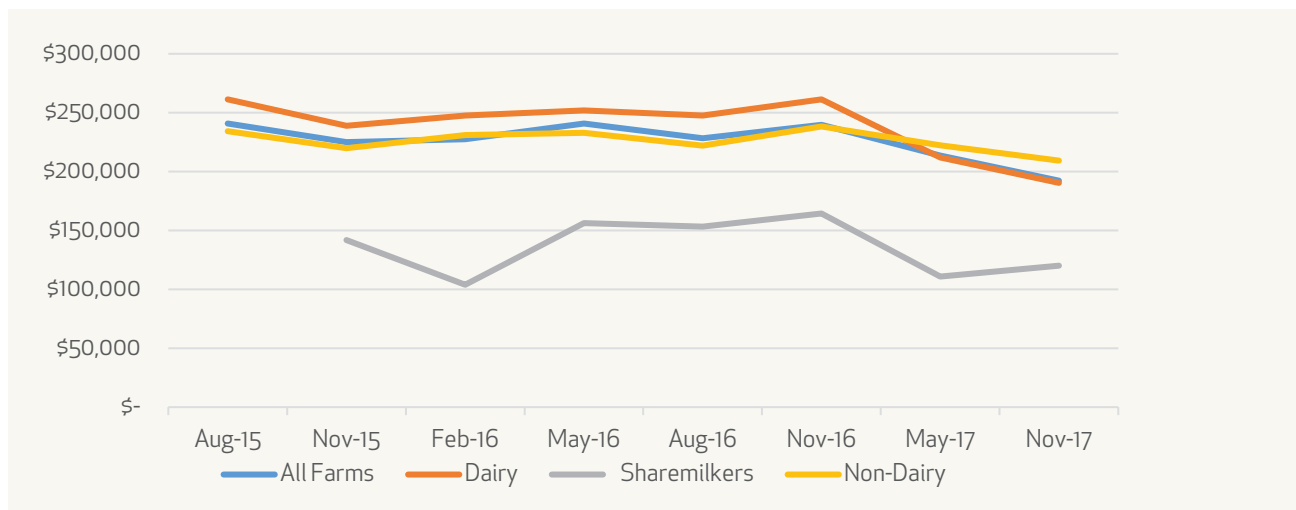
Table 3.1 Average overdraft limit by industry type⁴

All farms	\$ 192,000.00
Dairy	\$ 190,000.00
Sharemilkers	\$ 120,000.00
Non-Dairy	\$ 209,000.00

⁴ Rounded to the nearest \$1,000

However, the average overdraft limit has reduced slightly for all industries apart from sharemilkers (Figure 3.2).

Figure 3.2 Average overdraft limit by industry over time



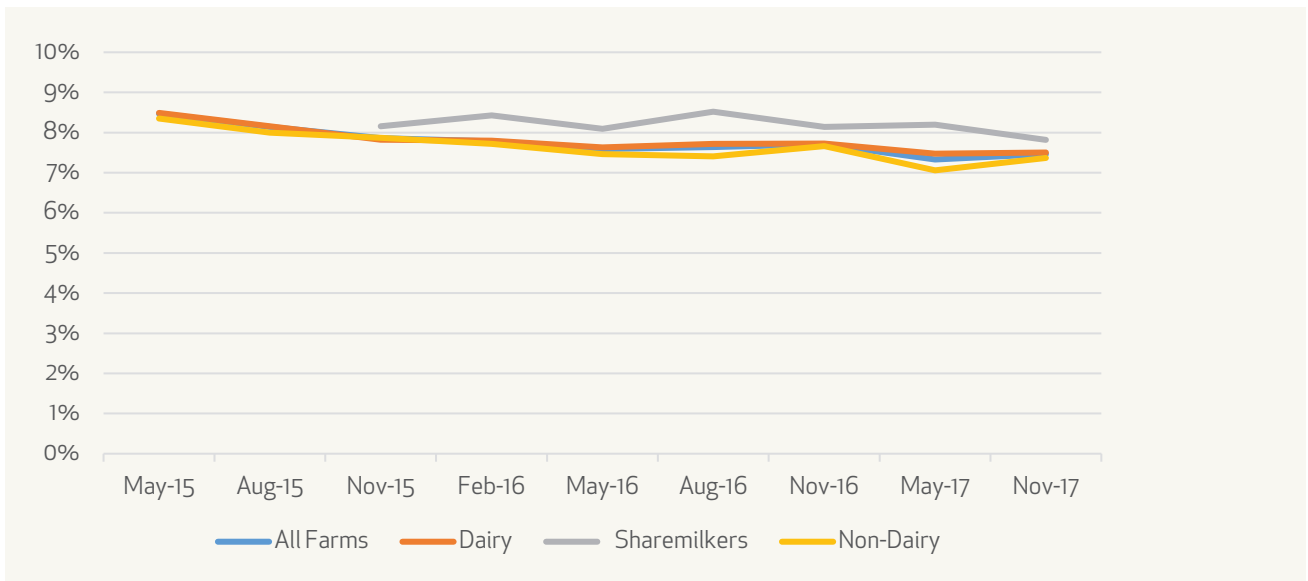
Overdraft interest rates are higher than mortgage interest rates by an average of 2%. Again, sharemilkers are experiencing the highest interest rate of all industry groups.

Table 3.2 Average overdraft interest rate by industry type

All farms	7.5%
Dairy	7.5%
Sharemilkers	7.8%
Non-dairy	7.4%

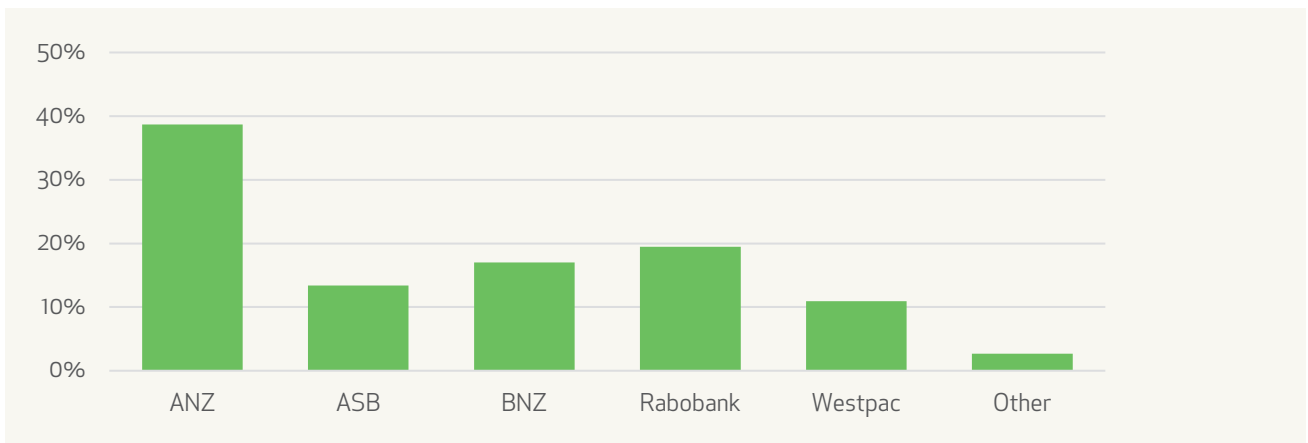
Overtime, overdraft interest rates are declining slowly and the proportion of farmers paying over 10% overdraft rates has decreased from 14.8% in May 2015 down to 3.7% in November 2017 (not shown).

Figure 3.3 Average overdraft interest rate by industry type over time



ANZ is the most common bank to have an overdraft with. Rabobank has seen a proportional increase that mirrors the increase of farms that have their mortgage with Rabobank.

Figure 3.4 Banks that farmers have an overdraft with



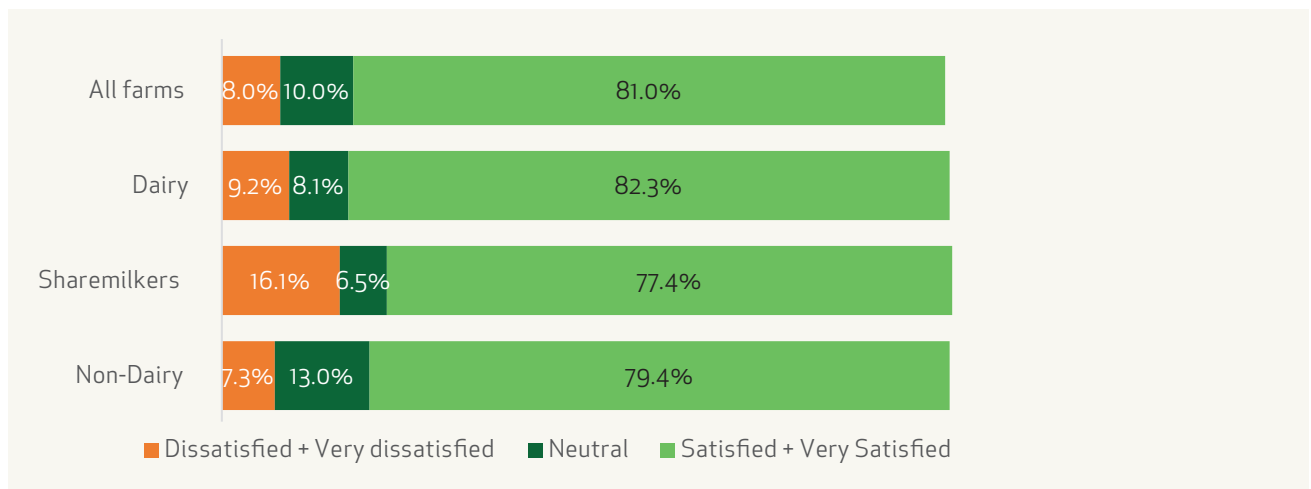
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Satisfaction with Banks

4.1 Satisfaction

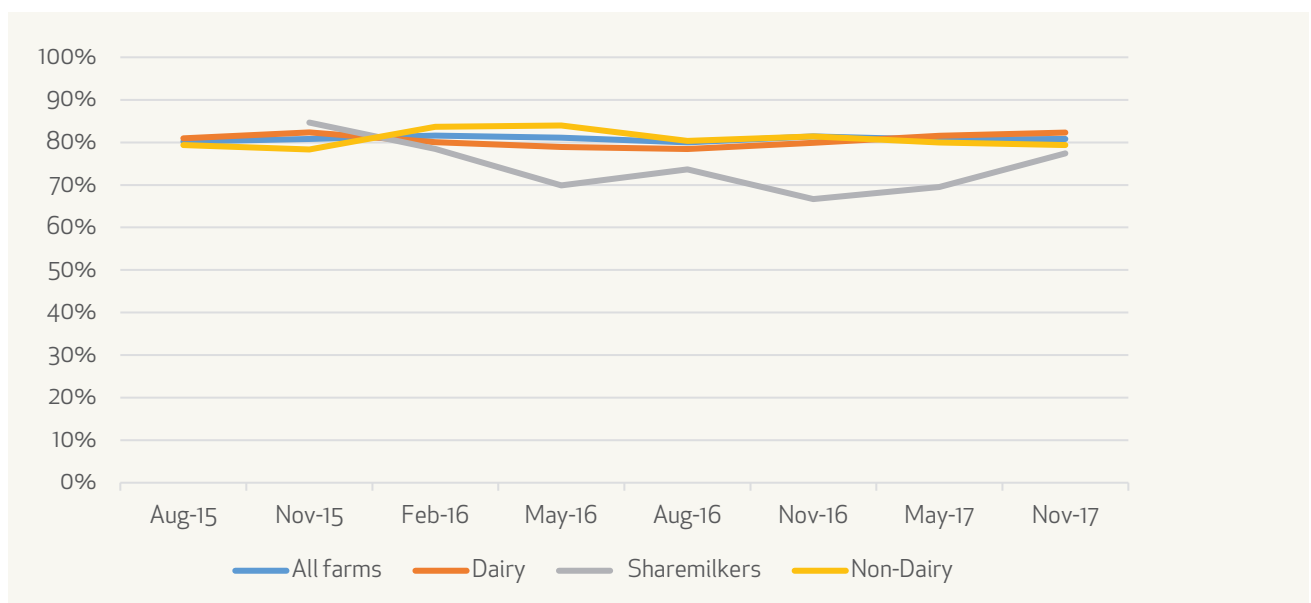
Satisfaction with banks continues to be high within all industries, and four of five farmers report they more than satisfied. Dairy farms are slightly more satisfied compared to sharemilkers and other non-dairy farms.

Figure 4.1 Bank satisfaction by industry type



Over time, the level of satisfaction with banks has remained steady at around 80%. Sharemilkers appear to have become more satisfied with their bank(s) over time (a decline in 2015/16 began to improve later in 2016 and into 2017). The improved satisfaction in their banks may correspond to the improving incomes for sharemilkers with the recovery in dairy prices.

Figure 4.2 Proportion of farmers 'satisfied + very satisfied' with their bank by industry type over time



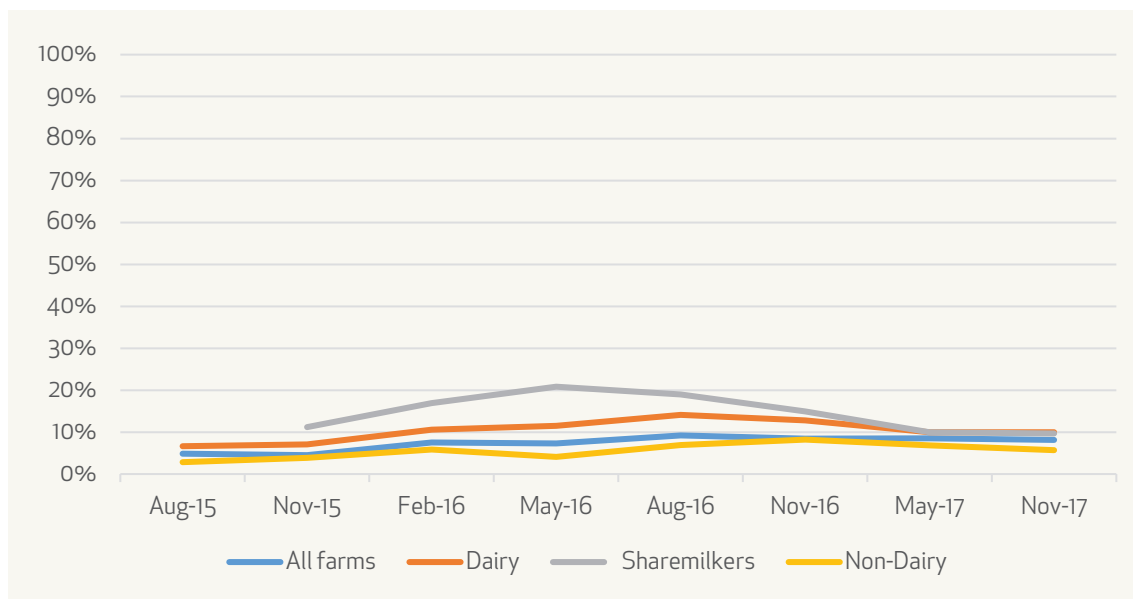
4.2 Pressure

The proportion of farmers who report feeling undue pressure from their bank(s) has decreased slightly over the past six months (down from 8.5% in May 2017). Dairy and sharemilkers appear to feel under more pressure compared to non-dairy farms. However, sharemilkers report feeling less pressurised than during 2016, which could be related to banks easing their conditions. Figure 4.3 illustrates the proportion of farmers who have been reporting undue pressure over time.

Table 4.1 Proportion of farmers feeling undue pressure from banks by industry type (average of overdraft and mortgage pressures)

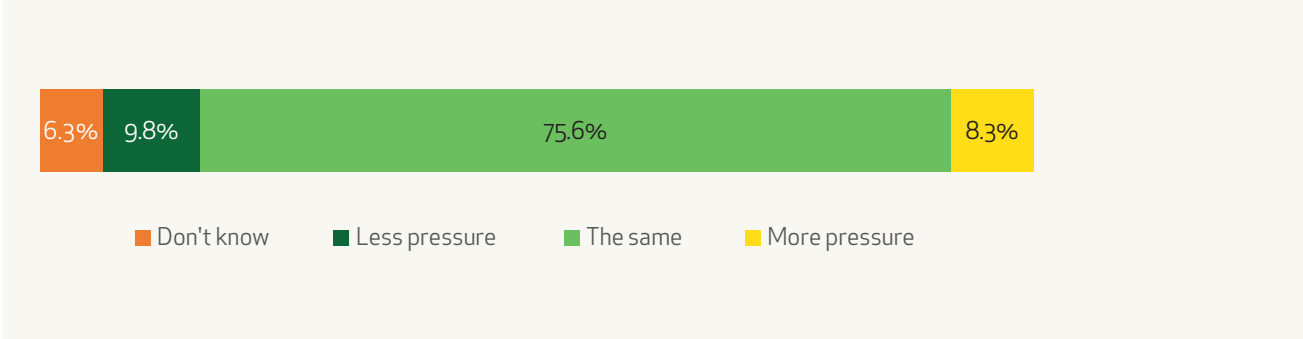
All farms	8.0%
Dairy	10.0%
Sharemilkers	9.7%
Non-dairy	7.6%

Figure 4.3 Proportion of farmers feeling undue pressure from banks by industry type over time (average of overdraft and mortgage pressures)



Compared to six months ago, only a small percent of farmers feels under more pressure from their banks. Overall, most farmers did not report any change, and less than 10% have feel less pressurised.

Figure 4.4 Current bank pressure compared to six months ago



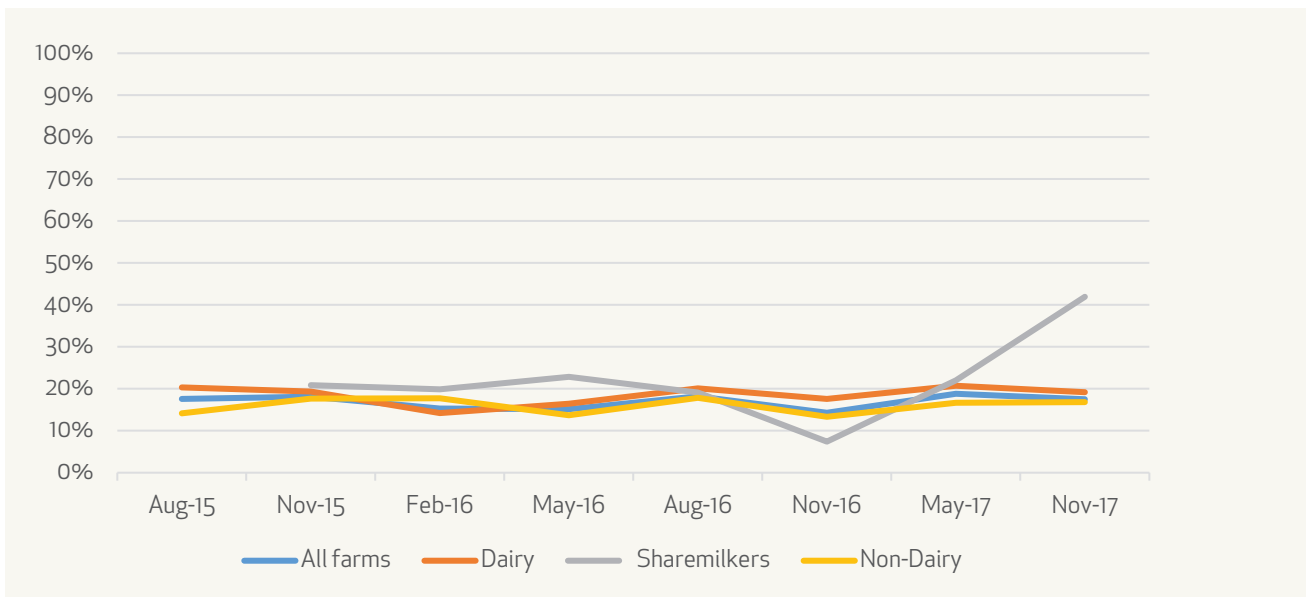
4.3 Changed Conditions

Figure 4.5 demonstrates that sharemilkers have experienced the most dramatic changed conditions over the past year, compared to all other industry groups. Examples of changed conditions include: interest rates; margins; shifting from fixed to floating interest rates (or vice-versa); more information; or security required.

Table 4.2 Proportion of farmers reporting changed conditions over the past six months by industry type

All farms	17.5%
Dairy	19.2%
Sharemilkers	41.9%
Non-dairy	16.8%

Figure 4.5 Proportion of farmers reporting changed conditions over the past six months by industry type over time



5

Bank Communication

5.1 Satisfaction with Bank Communication

Satisfaction with bank communication continues to be high. Just under three-quarters of farmers rate their bank's communication as more than good. Although sharemilkers still report the lowest level of satisfaction, Figure 5.2 shows the first increase in satisfaction levels in this industry group since a demonstrated decline that had been evident since November 2015.

Figure 5.1 Quality of bank communication by industry type

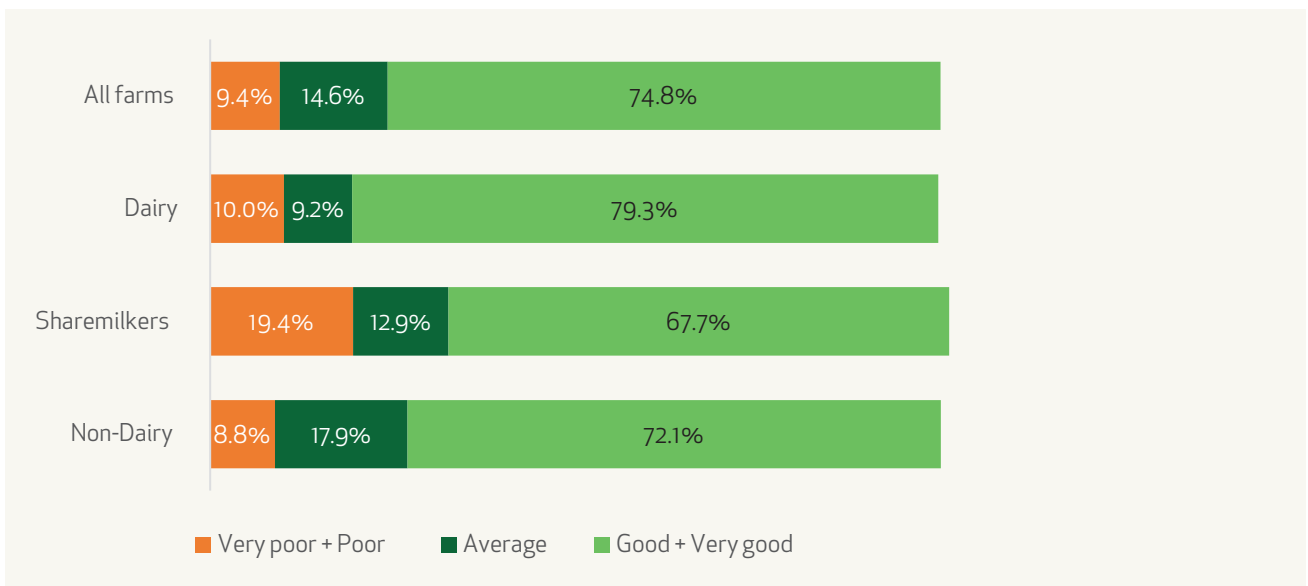
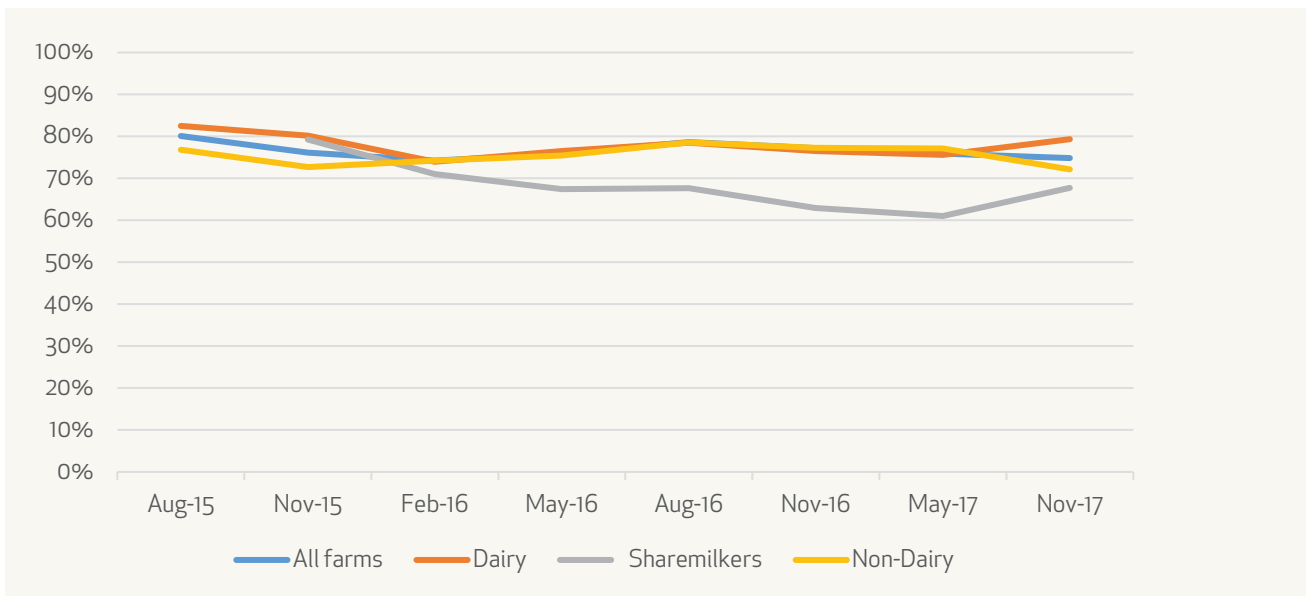


Figure 5.2 Satisfaction with bank communication (very good + good) by industry type over time



6

Budgeting

6.1 Farms with Up-to-Date Budgets

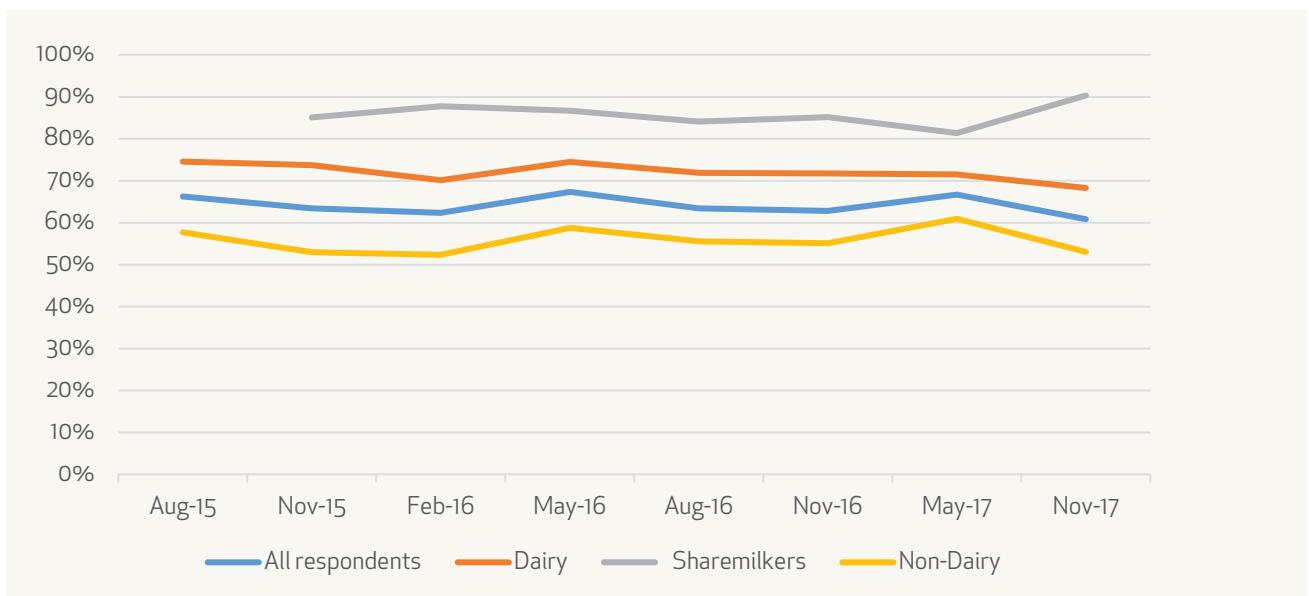
Having an up-to-date budget is most prevalent amongst sharemilkers (9 of 10) compared to all other industry groups (6 of 10). Nearly one in five farmers have an up-to-date budget for the future season, which is stable amongst all industry groups. Proportionally less farmers have prepared a budget for the next season compared to May 2017, which may reflect the timing of the financial year. Figure 6.1 shows the trend in budgeting over time.

Table 6.1 Budget for current and future seasons by industry type

	Have an up-to-date detailed budget for current season (2017/2018)	Have an up-to-date detailed budget for current and future season (2018/2019)*
All farms	60.8%	19.6%
Dairy	68.3%	21.8%
Sharemilkers	90.3%	19.4%
Non-Dairy	53.1%	17.2%

*Percentages shown equal the proportion of all respondents

Figure 6.1 Budget for current season by industry type over time



7

Appendix

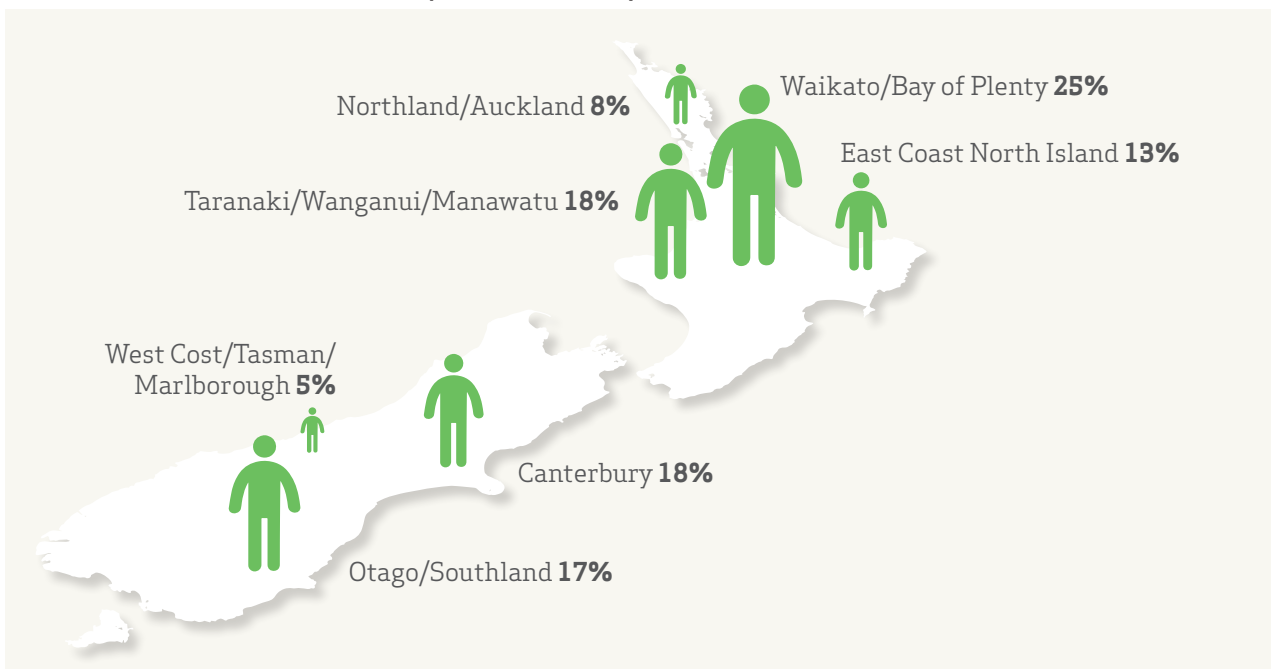
7.1 November 2017 Respondents by Industry Group

Industry Group	Percent	Number of Respondents
Meat & Fibre	51%	244
Dairy	56%	271
Arable	9%	42
Other Industry	6%	30
Non-Dairy	55%	262
TOTAL	100%	480

Industry Group	Percent	Number of Respondents
All Farms	100%	480
Dairy	56%	271
Sharemilkers	11%	31
Non-Dairy	55%	262

Note: Percentages will exceed 100% because farmers could select multiple industries and regions

7.2 November 2017 Respondents by Location



7.3 About This Survey

- **'Non-Dairy' farmers include: meat & fibre, arable, bees, goats, high country, and rural butchers.**

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



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