RESEARCH FIRST

FEDERATED FARMERS

NOVEMBER 2018 BANKING SURVEY

FEDERATED FARMERS OF NEW ZEALAND

RESEARCH REPORT
NOVEMBER 2017

Contents

1 Summary

1.1 Context

This report shows the results from the November 2018 Federated Farmers' Banking survey. The November 2018 survey is the tenth 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.

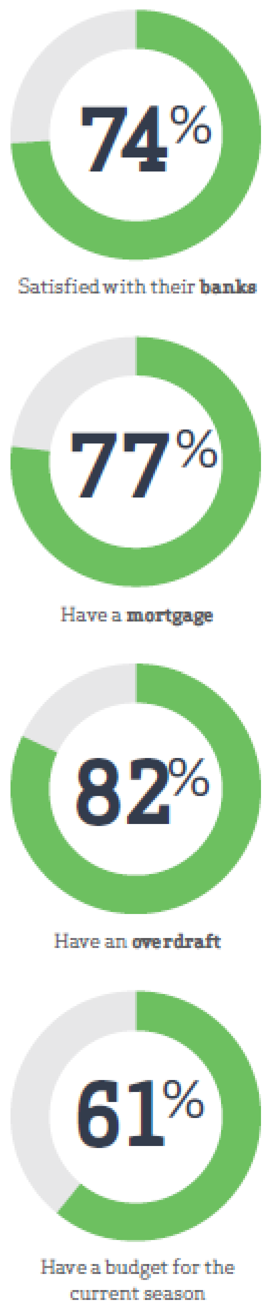
The Banking survey is designed to investigate the level of satisfaction and support the farming industry is receiving from their respective bank(s). Measures in this report include interest rates, finance rates, amount of undue pressure, and the quality of information received from their bank(s). Other 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

- Although farmers' overall satisfaction with their banks remains strong, satisfaction is the lowest since the survey began in August 2015. Satisfaction with banks has dropped over the past six months from 79% to 74%, with falls for all industry groups apart from sharemilkers.
- Most farms (77%) have a mortgage. Like previous surveys, dairy farms (86%) are more likely to have mortgages compared to non-dairy farms (69%).
- Over the past six months, the average farm mortgage has dropped modestly. Sharemilkers show the most change with smaller mortgages than six months ago. Dairy farms continue to have the largest mortgages and the most between $2 and $20 million.
- The current average mortgage rates have decreased slightly since May 2018 (by 0.1%). Sharemilkers had the largest change with their interest rates dropping to bring them closer to being on par with other farm types.
- Most farms (82%) continue to have on overdraft facility, with an average at $210,000. Non-dairy farms continue to have the largest overdraft facilities (average of $227,000) and sharemilkers the smallest (average of $94,000).
- Although overall satisfaction with banks has remained strong, there has been a decrease of 5 percentage points. Satisfaction is the lowest level since this survey began.

Across all sectors



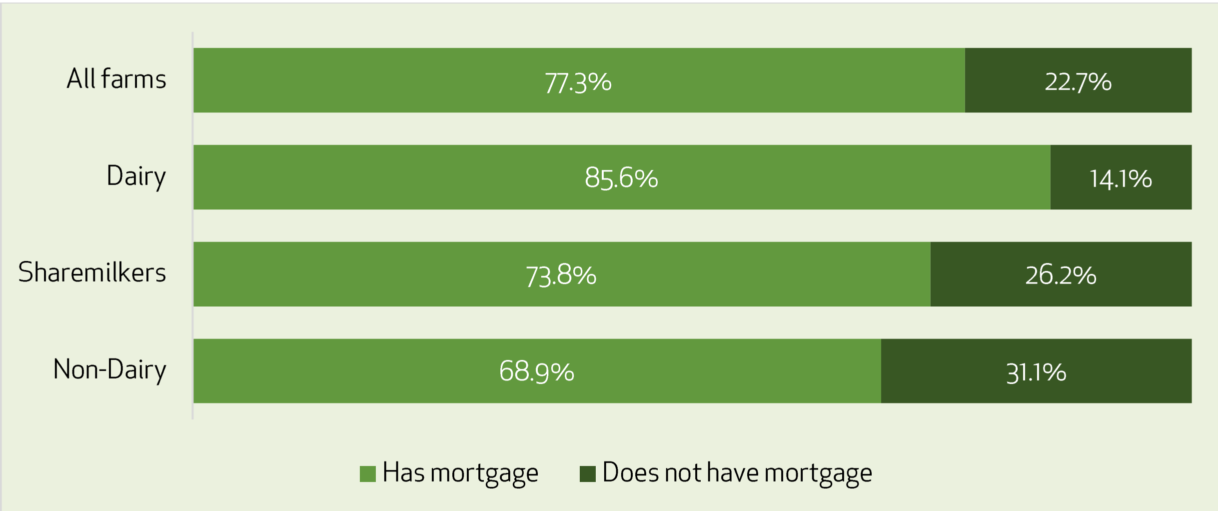
- There has been an increase in perceptions of bank pressure, with 11.6% of farmers perceiving they have come under undue pressure, up 2 percentage points on May 2018. Sharemilkers are feeing this particularly with nearly one in four feeling under pressure.
- One in ten farmers feel increased pressure from their banks compared to six months ago, although most farms feel the pressure has remained the same.
- Satisfaction with bank communication continues to be stable, although slowly declining since August 2017.
- Just under 20% of farms have an up-to-date budget for the future season, which may reflect the timing of the financial year.

2 Mortgages

2.1 Value of Mortgages

Compared to six months ago there was little change in the percentage of respondents who have a mortgage on their farm (Figure 2.1). Sharemilkers show the most change; the percentage of sharemilkers with mortgages decreased a further 7% although this volatility is likely to be explained by the small sample size (65 out of 749 farms). Combined, dairy and sharemilkers have the largest mortgages in dollar value. They are also more likely to have been on their land for a shorter period of time compared to non-dairy farms.

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



*Excluding outliers[1]

The average 'all farm' mortgage decreased modestly over the past 6 months from $3.9 million in May 2018 down to $3.8 million in November 2018. This was driven by dairy farms, whose average mortgage decreased by $300.000 (Table 2.1). As a trend, dairy farms continue to hold the largest mortgages by a factor of 2 compared to non-dairy farms, and a factor of 4 compared to sharemilkers.

Although the survey results show average debt for respondents reducing slightly, Reserve Bank statistics show that in aggregate terms agricultural sector debt has increased to $62.3 billion in October, up 2.5% over the preceding six months.

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

*Table 2.1 Average current mortgage by industry type**

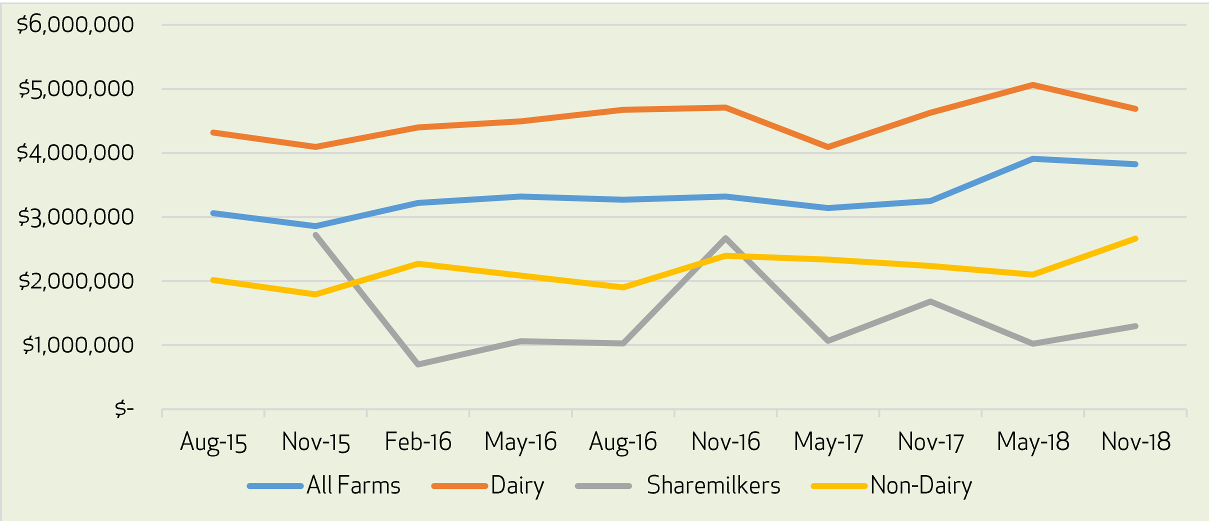
	November 2018	May 2018
All farms	$3,825,000	$3,909,000
Dairy	$4,686,000	$ 5,062,000
Sharemilkers#	$1,299,000	$ 1,022,000
Non-Dairy	$2,663,000	$ 2,099,000

*Excluding outliers

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

Contrary to dairy farms, sharemilkers and non-dairy farms both reported increases in their average current mortgage (Figure 2.2). It is important to note that volatility in mortgage rates between survey iterations could be reflective of the profile of those who chose to participate in the survey and it should not necessarily be taken to mean that there has been a significant change in average indebtedness for farming as a whole.

Figure 2.2 Average current mortgage by industry type over time[2]*

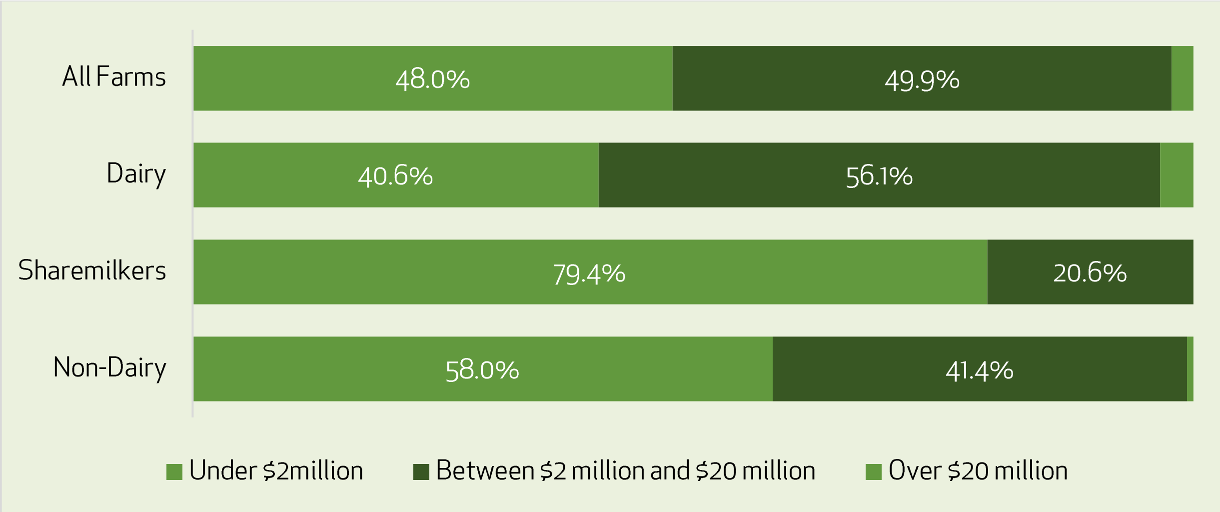


*Excluding outliers

Dairy farms continue to be more likely than other farms to have a mortgage over $2 million (Figure 2.3). Six out of ten dairy farms have a mortgage over $2 million, compared to four in ten non-dairy farms. The expansion of the dairy industry in the past decade means dairy farms have borrowed significantly to invest in infrastructure and additional land. Compared to six months ago, more non-dairy farms have mortgages over $2million (41.4% compared to 32.1% in May 2018), which explains their increased average current mortgage rate reported over the past six months (see above).

[2] Due small base number of sharemilkers (n=65 of 749 who responded to the question)

Figure 2.3 Size of current mortgage by industry type



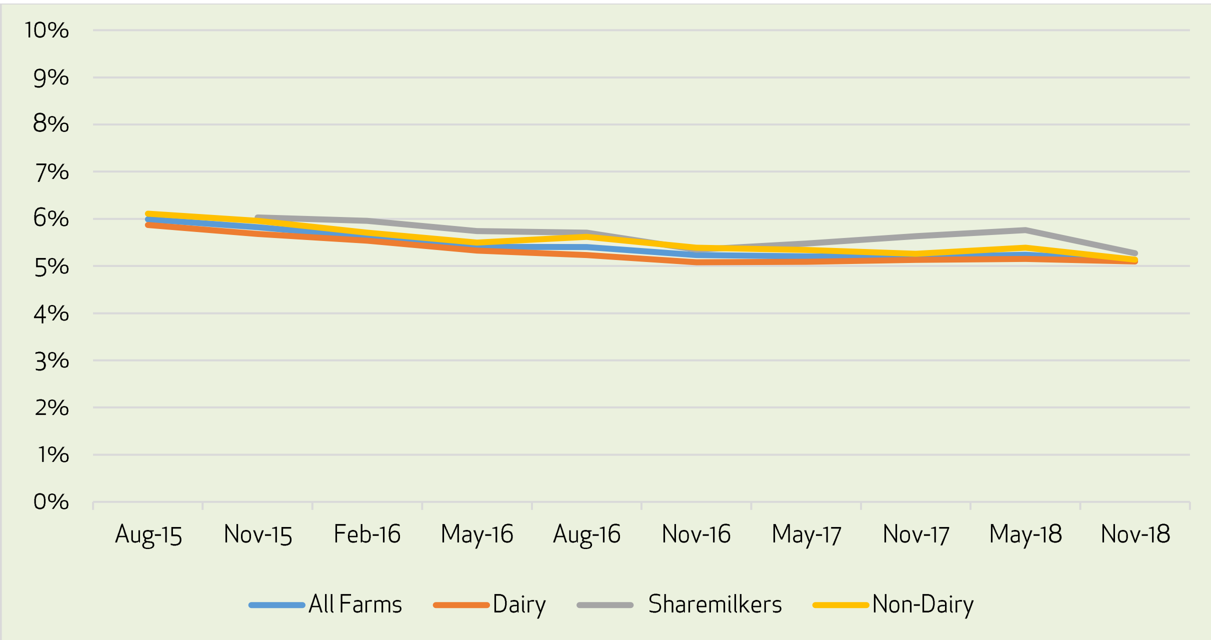
2.2 Mortgage Interest Rates

The current average mortgage rates decreased slightly from 5.2% in May 2018 to 5.1% in November 2018. Sharemilkers reported the largest change with their interest rates decreasing from 5.8% to 5.3% (Table 2.2). In previous surveys sharemilkers interest rates were above the average for all other farms, and this change brings them closer to being on par with other farm types (Figure 2.4). Non-dairy farms have also seen a 0.3% decrease in average interest rates (see above).

Table 2.2 Farmers' mortgage interest rates by industry type

	November 2018	May 2018
All farms	5.1%	5.2%
Dairy	5.1%	5.2%
Sharemilkers	5.3%	5.8%
Non-Dairy	5.1%	5.4%

Figure 2.4 Average mortgage interest rate by industry type over time



ANZ continues to be the most common bank used by farmers, with over one third of farmers choosing to bank with ANZ (Figure 2.5). BNZ was the only bank which showed an increase (3%) in the number of farmers that have their mortgage with them (Figure 2.6). Nearly one-quarter of farms have no mortgage, which is slightly more than six months ago.

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

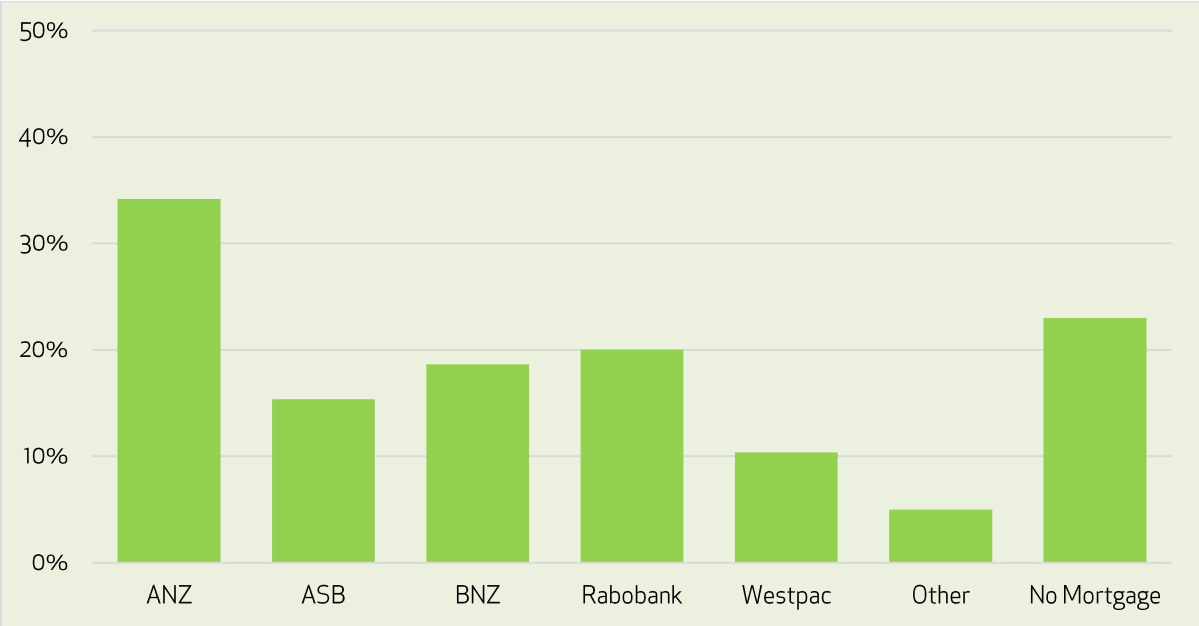
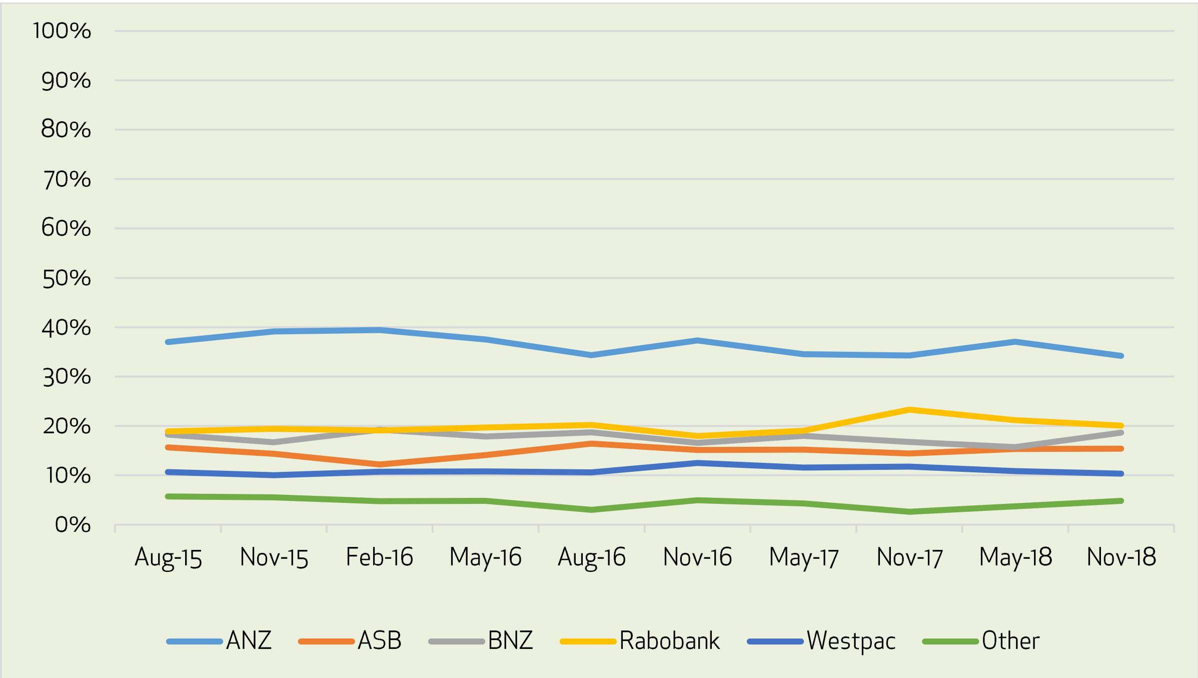


Figure 2.6 Identification of the banks farmers' have their mortgage(s) with over time

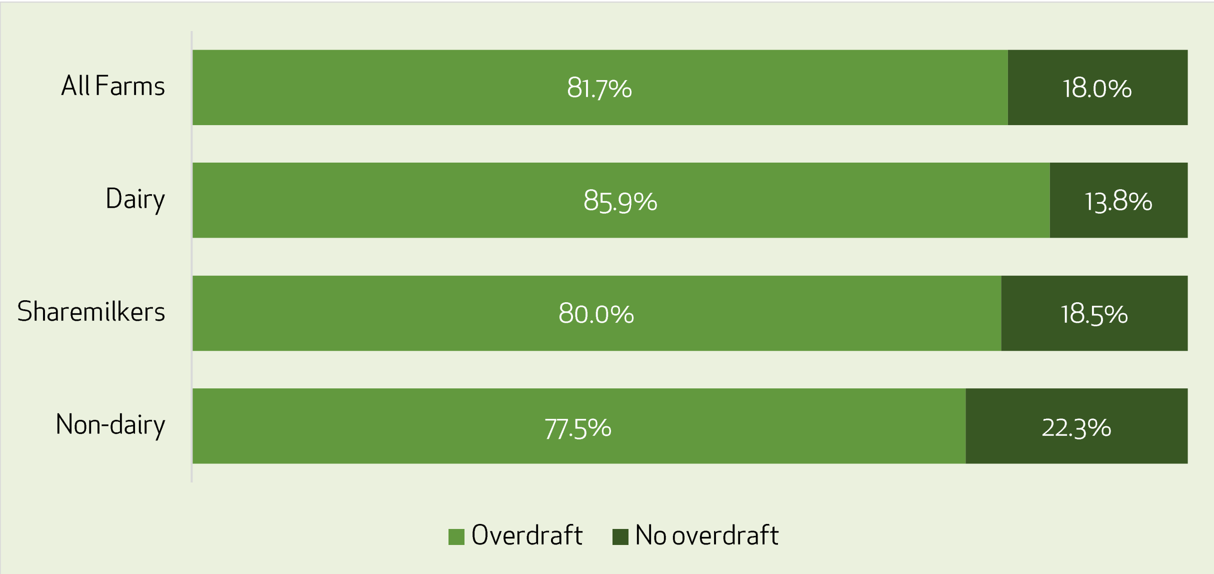


3 Overdrafts

3.1 Farms with an Overdraft

Farming is unpredictable and often overdrafts are used to smooth out seasonal fluctuations and cashflow shortages. Access to overdrafts is critical to managing cashflow shortages. Eight out of ten farms have overdrafts, and this is consistent across all industry types with the exception of dairy (86% of dairy farms have overdrafts). The proportion of farms with an overdraft has decreased over the past 6 months across all sectors (Figure 3.1).

Figure 3.1 Proportion of farms with an overdraft by industry type



Although more dairy farms are likely to have an overdraft, their limits are likely to be lower than non-dairy farms (Table 3.1). As in previous surveys the higher average limit of non-dairy is driven by arable farms who have an average overdraft limit of $309,000. Regionally farms in the East Coast of the North Island, Canterbury and Otago to Southland regions have higher overdraft limits than other regions (not shown).

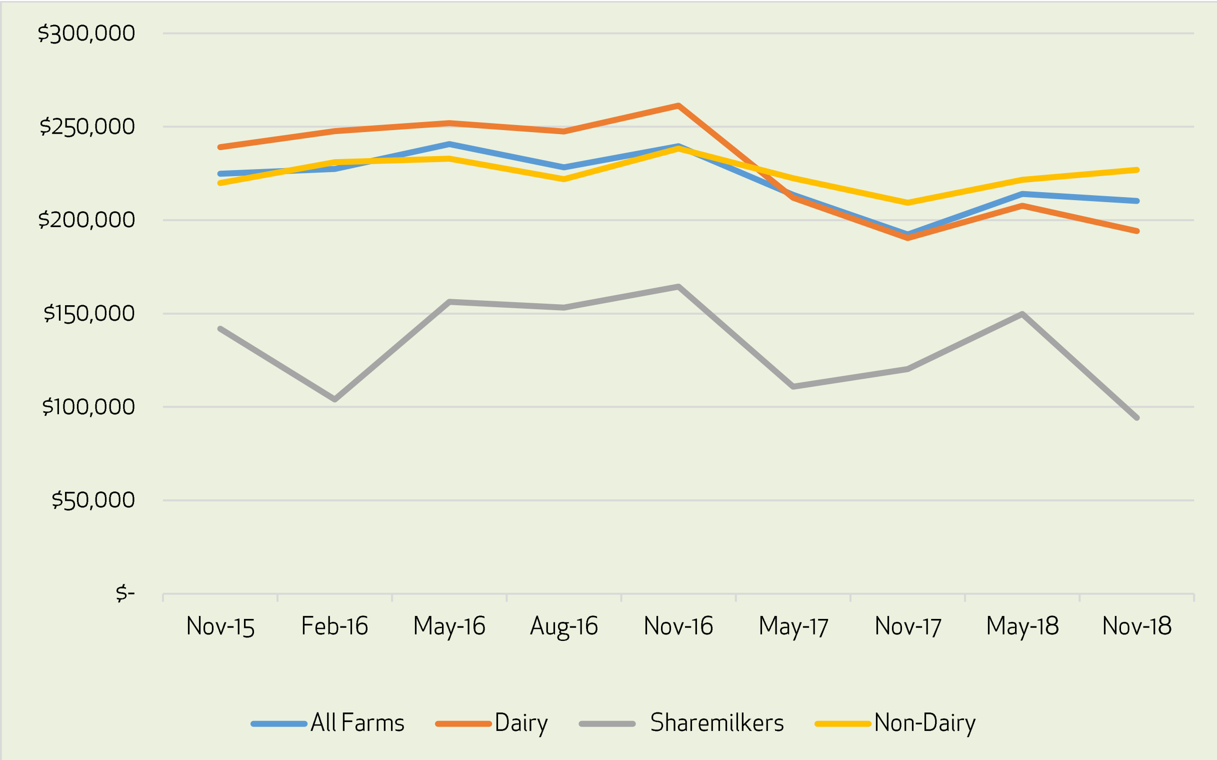
Table 3.1 Average overdraft limit by industry type[3]

	November 2018	May 2018
All farms	$210,000	$214,000
Dairy	$194,000	$207,000
Sharemilkers	94,000	$150,000
Non-Dairy	$227,000	$222,000

[3] Rounded to the nearest $1,000

The average overdraft limit has decreased over the past 6 months. This is consistent across all farm types except non-dairy (Figure 3.2).

Figure 3.2 Average overdraft limit by industry over time



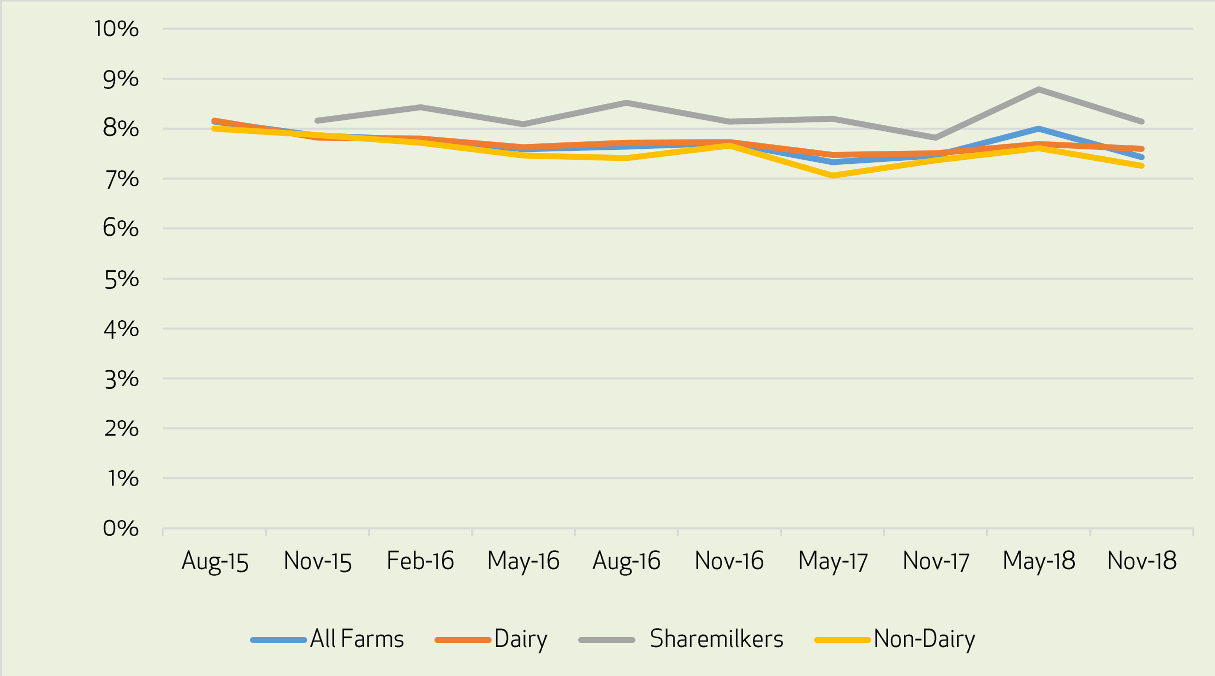
The average overdraft interest rate was stable between May 2018 and November 2018 (Table 3.3).

Table 3.3 Average overdraft interest rate by industry type

	November 2018	May 2018
All farms	7.4%	7.6%
Dairy	7.6%	7.7%
Sharemilkers	8.1%	8.8%
Non-Dairy	7.3%	7.5%

Similar to mortgage interest rates, overdraft interest rates have decreased over the past six months. The fluctuations are more volatile for sharemilkers; in the past six months they have seen a decrease of 0.6% (Figure 3.3).

Figure 3.3 Average overdraft interest rate by industry type over time



For overdraft facilities, ANZ bank was the most common bank used by farmers (38%). The next common banks were BNZ (19% of farmers had an overdraft) and Rabobank (17% of farmers had an overdraft). During the period May 2018 and November 2018, the percentage of farmers who had an overdraft with ANZ decreased 2.6%. During the same period farmers who had an overdraft with BNZ increased 3.7% (Figure 3.4). Figure 3.5 shows the banks that farmers have their mortgages with over time.

Figure 3.4 Banks that farmers' have an overdraft with

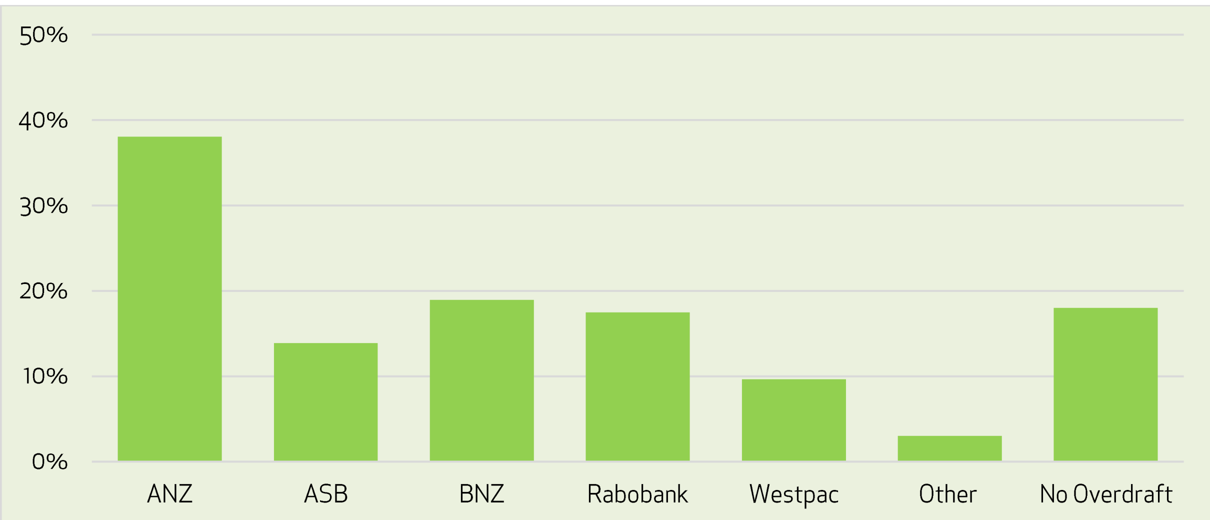
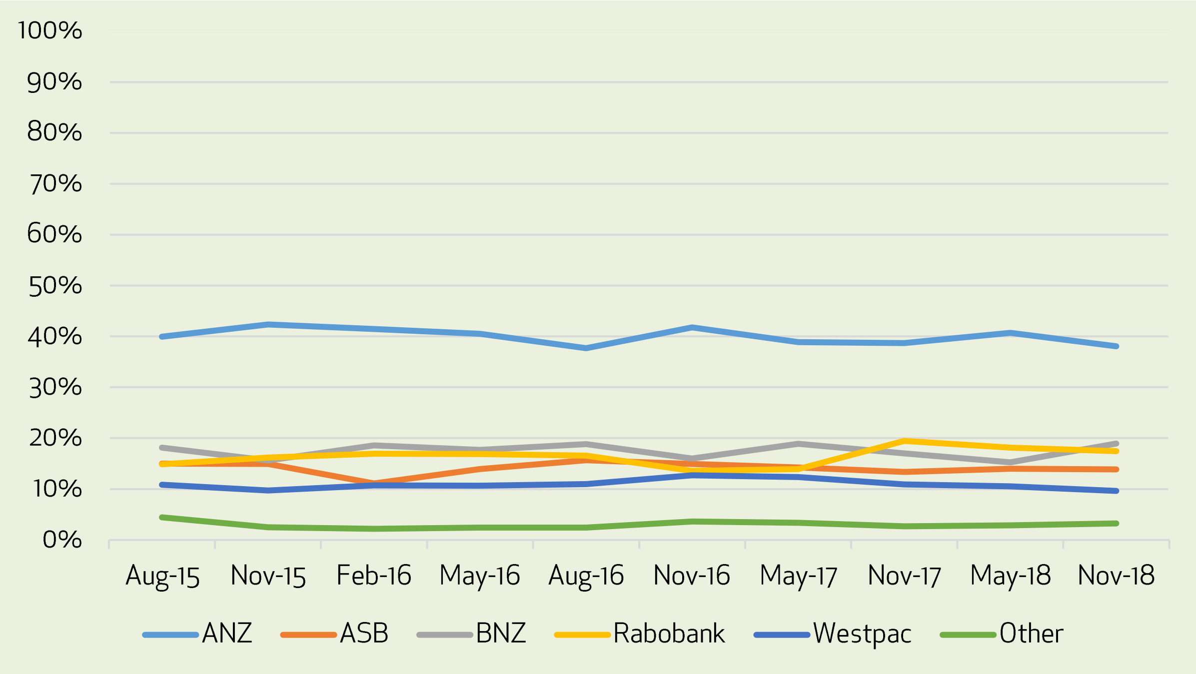


Figure 3.5 Identification of the banks farmers have their overdraft(s) with over time

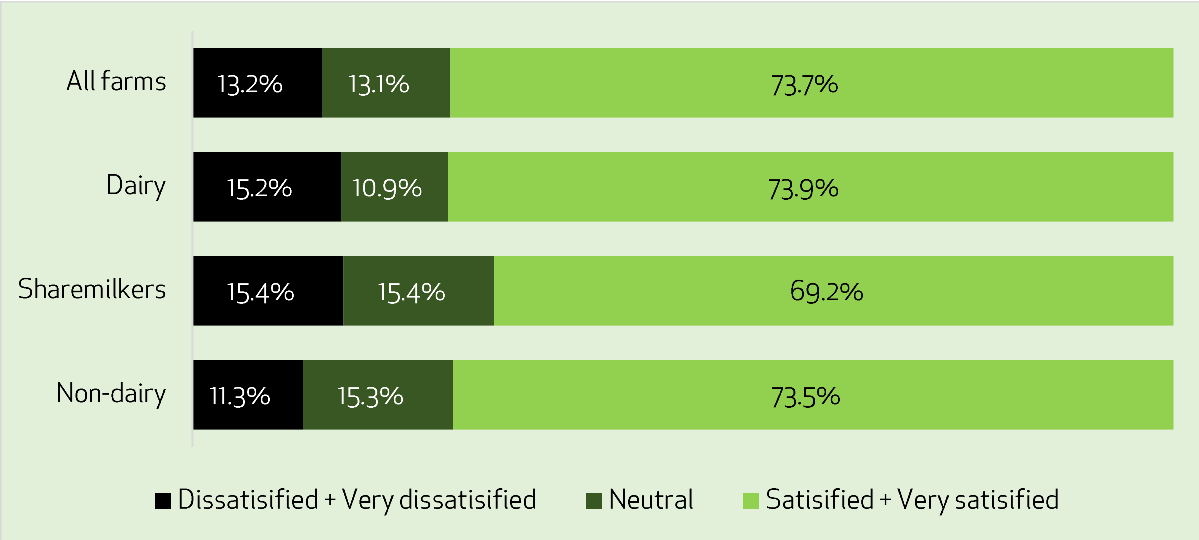


4 Satisfaction with Banks

4.1 Satisfaction

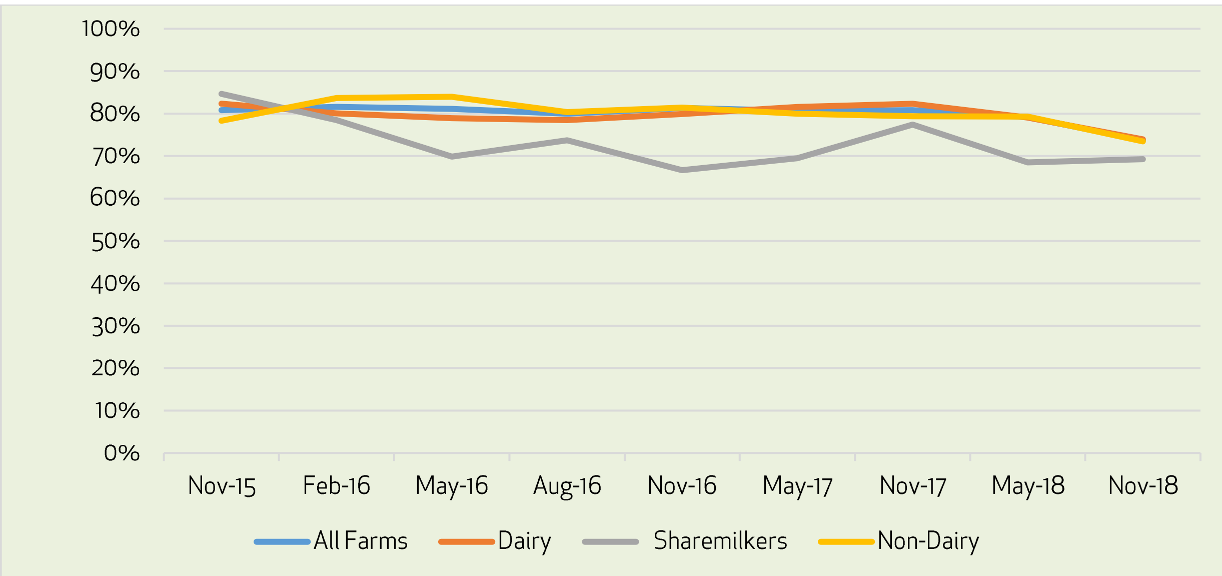
Satisfaction with banks remains strong, with over 73.7% of farmers claiming they are satisfied or very satisfied with their bank (Figure 4.1).

Figure 4.1 Bank satisfaction by industry type



Although satisfaction has remained strong, there has been a decrease in the satisfaction of farmers with their banks (with the exception of sharemilkers). Overall satisfaction has dropped 5 percentage points. Drops were recorded for all industry groups, with the exception of sharemilkers where satisfaction remains steady on 69%.

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 increased again over the past 6 months (by 2 percentage points). The proportion of sharemilkers feeling undue pressure was more than other groups (Table 4.1). One in four sharemilkers felt undue pressure; a 6.5 percentage point increase compared to six months ago. Non-dairy farmers are feeling comparatively less pressure but even its was up 1.4 percentage points.

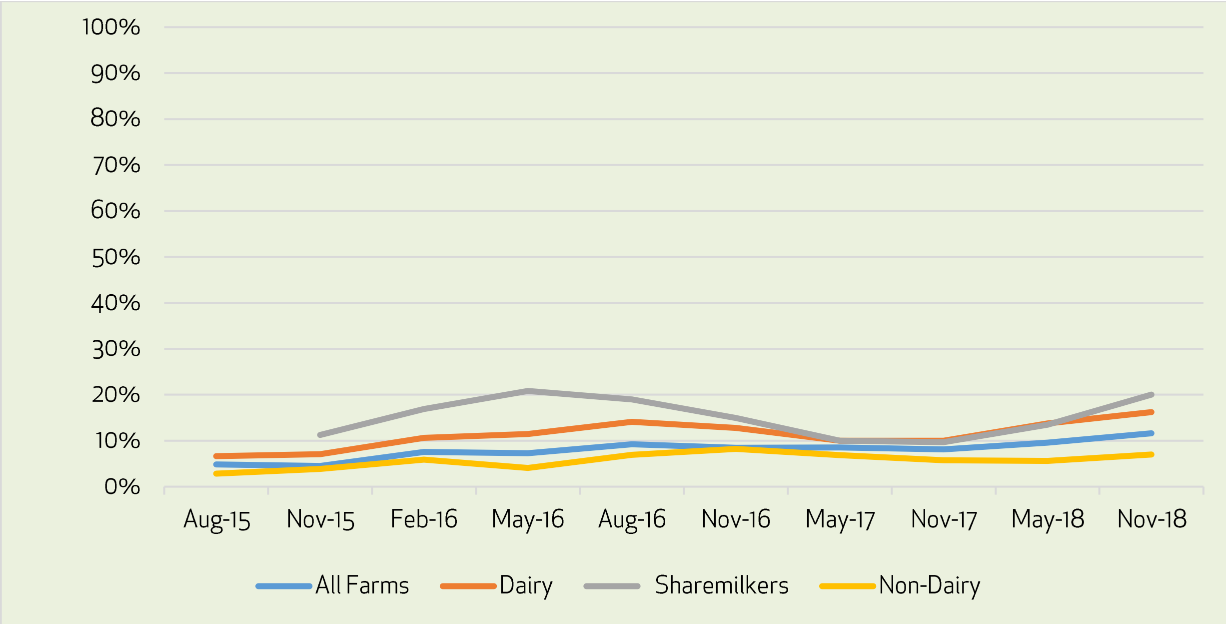
Table 4.1 Proportion of farmers feeling undue pressure from banks by industry type (average of overdraft and mortgage pressures)

	November 2018	May 2018
All farms	11.6%	9.6%
Dairy	16.2%	13.8%
Sharemilkers	20.0%	13.5%
Non-Dairy	7.0%	5.6%

As a group, more farmers feel undue pressure than any time since August 2015. This is largely driven by the dairy industry (Figure 4.3). Non-dairy farms remain relatively stable, experiencing less pressure. This will likely be due to their mortgages are substantially less (about half in dollar values) than dairy farms and their farm incomes and profitability did not come under the degree of pressure that dairy farmers came under in the 2014-16 period.

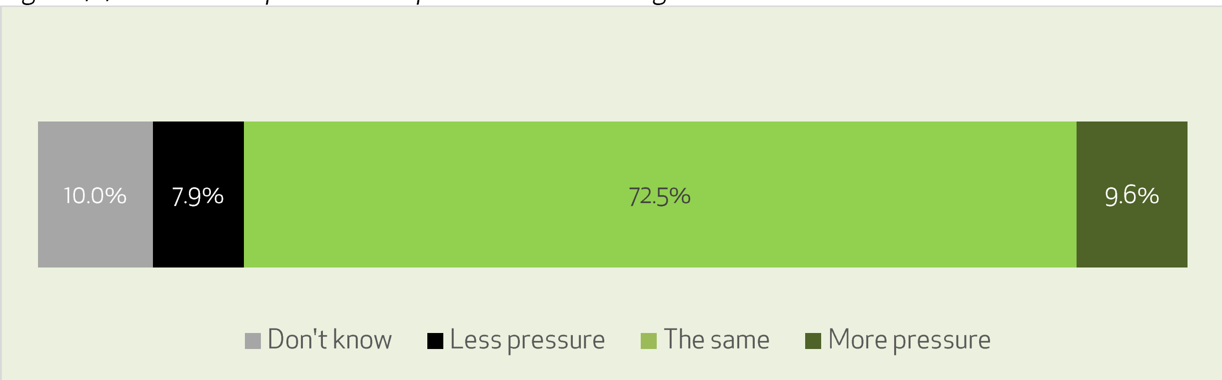
An increase in pressure may seem counterintuitive considering dairy farmers' incomes and profitability have been recovering after the 2014-16 downturn. Banks generally stood by their dairy clients during that downturn and allowed them to increase debt to get through. Now that times are better (notwithstanding a recent drop in milk prices) banks want farmers to pay debt down.

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



As well as more farmers feeling under pressure, one in ten farmers reported increased pressure from their banks compared to six months ago (Figure 4.4), although the majority of farms feel the pressure has remained the same.

Figure 4.4 Current bank pressure compared to six months ago



4.3 Changed Conditions

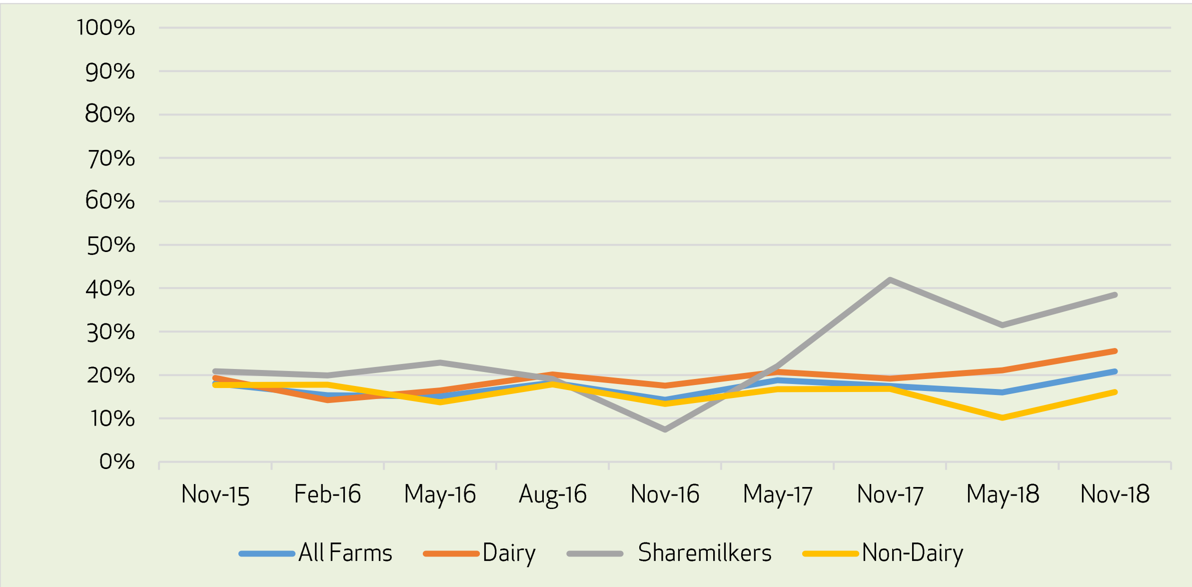
One in five farmers report a change in conditions over the past six months. The proportion of farmers that report a change in conditions has increased since May 2018 (Table 4.2 and Figure 4.5) by close to 5%. Examples of changed conditions include: interest rates; margins; shifting from fixed to floating interest rates (or vice-versa); more information or security required. This has affected all industry types, although most noticeable in sharemilkers.

This is consistent with banks wanting farmers to pay down debt after supporting them during the 2014-16 dairy downturn.

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

	November 2018	May 2018
All farms	20.8%	16.0%
Dairy	25.5%	21.1%
Sharemilkers	38.5%	31.5%
Non-Dairy	16.1%	10.1%

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 was high, and seven in ten farmers thought communication was either good or very good (Figure 5.1). However, satisfaction has been slowly eroding since August 2017 (Figure 5.2). Sharemilkers are consistently the least likely to be satisfied.

Figure 5.1 Quality of bank communication by industry type

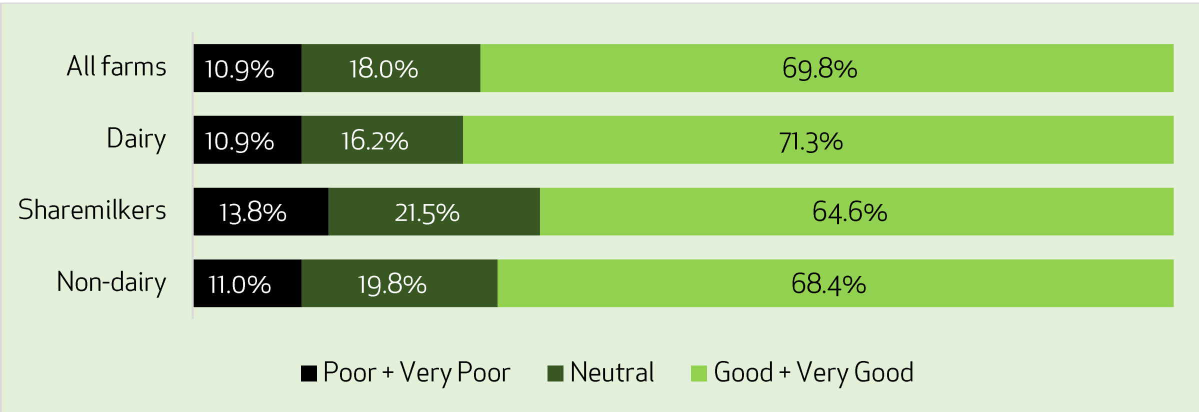
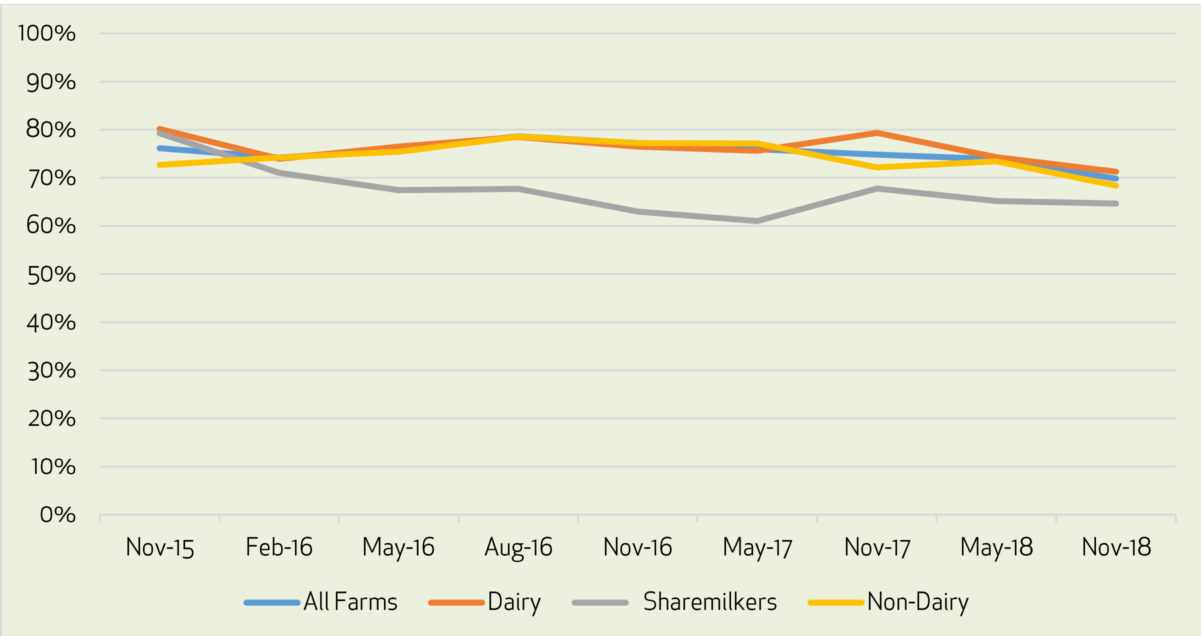


Figure 5.2 Satisfaction with bank communication (very good + good) by industry type over time



6 Budgeting

6.1 Farms with Up-to-Date Budgets

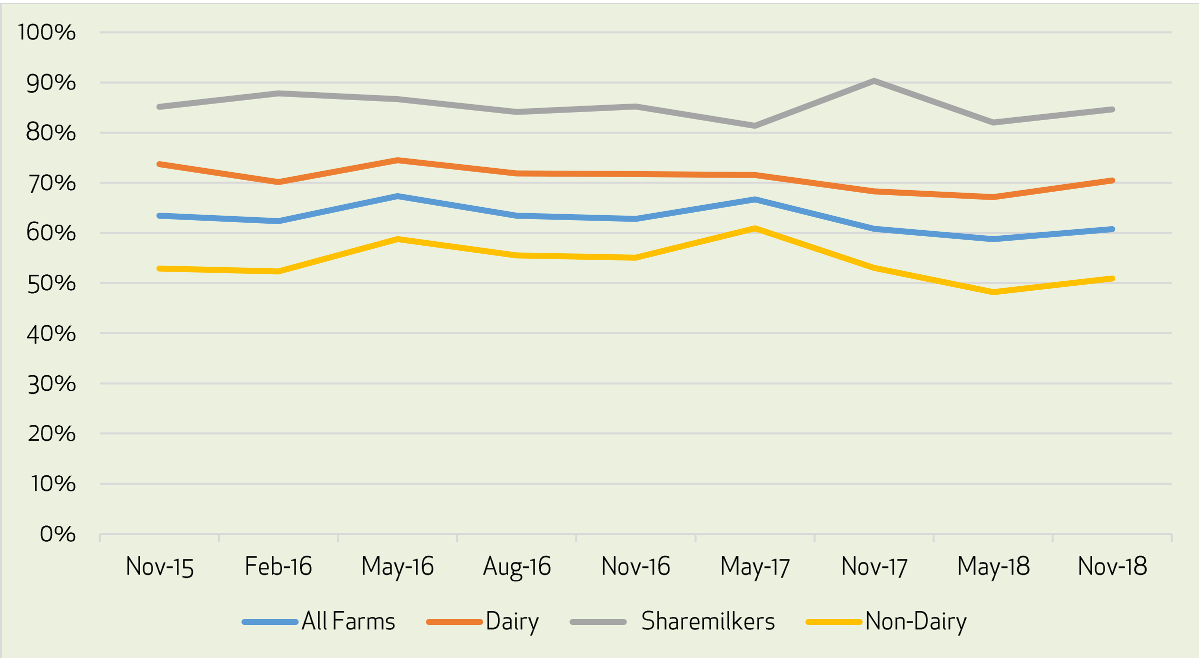
Having an up-to-date budget continues to be more prevalent in sharemilkers (just under 9 in 10) compared to all other industry groups (6 of 10). Just under 20% of farms have an up-to-date budget for the future season, which may reflect the timing of the financial year (Table 6.1). Figure 6.1 shows the trend in budgeting over time. Farms without mortgages and non-dairy much are less likely to have a budget compared to dairy industry farms (particularly sharemilkers).

Table 6.1 Budget for current and future seasons by industry type

	Have an up-to-date detailed budget for current season (2018/2019)		**Have an up-to-date detailed budget for current and future season (2019/2020)***	
	November 2018	May 2018	November 2018	May 2018
All farms	61%	58.8%	18%	32.8%
Dairy	70%	67.1%	20.7%	40.0%
Sharemilkers	85%	82.0%	26.2%	65.2%
Non-Dairy	51%	48.2%	14.5%	23.7%

*Percentages shown equal the proportion of all respondents

Figure 6.1 Budget for current season by industry type over time



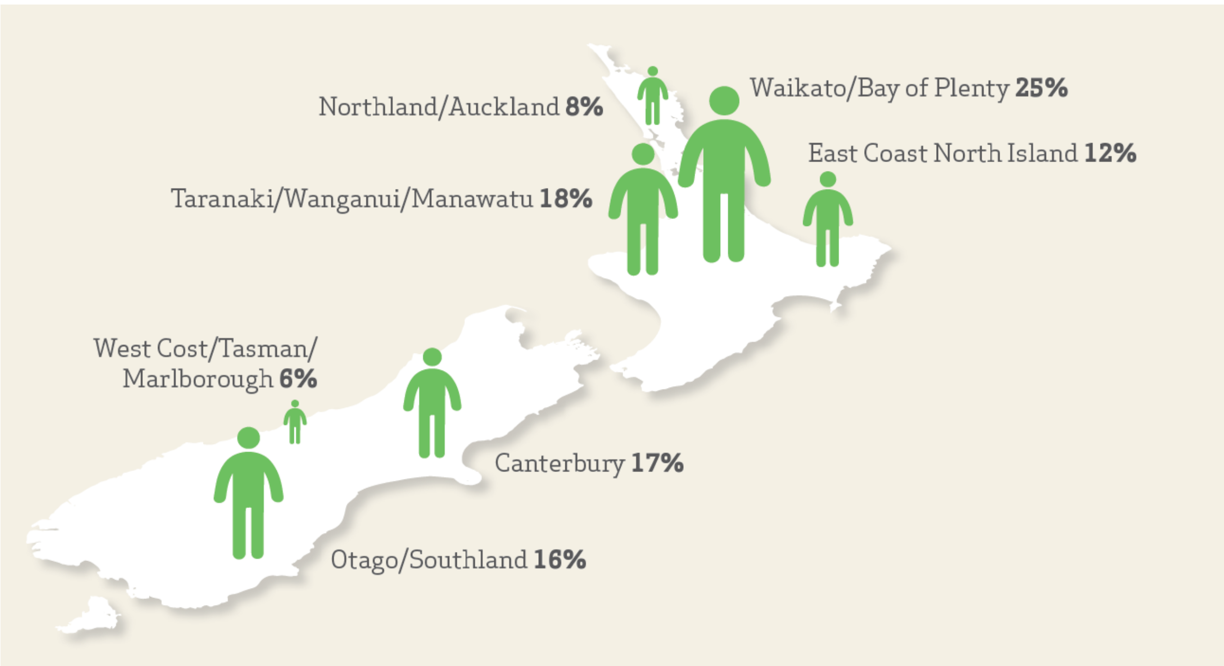
7 Appendix

7.1 November 2018 Respondents by Industry Group

Industry Group	Percent	Number of Respondents
Dairy	50%	376
Meat & Wool	39%	295
Arable	4%	32
Other Industry	3%	21
Supporters	3%	25
Non-Dairy	50%	373
TOTAL	100%	749

Industry Group	Percent	Number of Respondents
All Farms	100%	749
Dairy	56%	376
Sharemilkers	16%	65
Non-dairy	44%	373

7.2 November 2018 Respondents by Location



7.3 About this Survey

- **'Non-Dairy' farmers** include: meat & wool (beef cattle, sheep, deer), arable, other (livestock: goat, pigs, poultry, horses, bees; horticultural crops: fruit, vegetables, flowers; forestry; high country, and rural butchers), supporters (rural professional, retired).

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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