


FEDERATED FARMERS

MID SEASON FARM CONFIDENCE SURVEY
January 2013

Ups and Downs

CONTENTS

THE FEDERATED FARMERS FARM CONFERENCE SURVEY

The Farm Confidence Survey is recorded biannually. The two survey periods are at the commencement of the new season, July, and mid-season, January. It is emailed to all Federated Farmer members to complete.

There have been eight surveys so far:

- July 2009
- January 2010
- July 2010
- January 2011
- July 2011
- January 2012
- July 2012
- January 2013

Reports from these surveys and a time-series of data are available from the Federations' website: http://www.fedfarm.org.nz/farmconfidencesurvey

The next survey will be published in July 2013.

SUMMARY:
UPS AND DOWNS

Federated Farmers' mid-season Farm Confidence Survey shows an improvement in farmers' confidence, both in the wider economy and in their own prospects. But this is off a low base and the overall results are masked by a strong divergence in the sentiment of dairy farmers compared to other farming sectors. While it is a case of better for dairy, it is very much a case of worse for the rest.

Overall, the survey shows an improvement in most indicators since the July 2012 new-season survey. Farmers remain negative about prospects for the wider economy but they are less gloomy than they were in July. Similarly, despite a slight improvement in sentiment, farmers remain very pessimistic about their own profitability. Farmers are generally positive about production, but they are evenly split on whether they will increase or reduce spending. More farmers expect to reduce debt rather than increase debt, but this intention is less strong than at any time in the last three years. Meanwhile, farmers continue to find it harder to find skilled and motivated staff.

While the overall results seem to indicate a modest improvement in the farming economy, there has been a major divergence between dairy farmers and the rest of the industry. Last July, dairy farmer confidence was, like that of all farmers, at a low ebb but improved commodity prices in the second half of 2012 saw upward revisions in payout forecasts. These upward revisions have driven big improvements in dairy farmer views on their own profitability and on the wider economy; albeit off very negatives bases. More dairy farmers also expect to increase production and spending; and there is only a small drop in those expecting to reduce debt.

In contrast, meat and fibre farmers have not enjoyed the benefits of the improved world dairy commodity prices and the strong dollar has further eroded what they get for their products. This is especially so for sheep farmers, where lamb prices are down around 35 percent on this time last year. As a group, the meat and fibre farmers have become even more pessimistic about their profitability and they are only slightly less negative than they were about the wider economy. They are also less optimistic about production, in part due to weather concerns in areas like the Hawkes Bay, and more of them are expecting to reduce their spending. There has also been an increase in meat and fibre farmers expecting to increase debt, most of which will be to get through the tough season. The sentiment of grains farmers is similar to that of meat and fibre farmers.

One area where there has not been a divergence of view is the difficulty of finding skilled and motivated staff. While dairy farmers are finding it especially hard to find good staff, the labour market remains tight for other farmers too. This labour shortage is despite relatively high unemployment nationally.

The state of farmgate and commodity prices remains the biggest issue of concern for farmers, followed by the high exchange rate and by regulation and compliance costs.

Farmers also continue to think that fiscal policy, reducing government spending and reducing government debt, should be the highest priority for the Government. But the high exchange rate has resulted in a large increase in those wanting more direct action to reduce the value of the dollar.

Overall, this survey shows farming very much in a two-speed environment. While it is encouraging that dairy farmers are more positive than six months ago, the ongoing and deepening pessimism in the rest of the farming community is concerning. Meat and fibre farmers and grains farmers will be hoping for a much better second half of the season.

The headline results from the Farm Confidence Survey:

- A net 13.6 percent of respondents expect general economic conditions to worsen over the next 12 months
- A net 32.1 percent of respondents expect their own farm's profitability to worsen over the next 12 months.
- A net 26.5 percent of respondents expect to increase production over the next 12 months
- A net 0.2 percent of respondents believe that they will reduce on-farm spending over the next 12 months
- A net 13.1 percent of respondents expect their farm debt to reduce over the next 12 months
- A net 18.6 percent of respondents found it harder to find skilled and motivated staff
- Respondents' biggest single concern is the level of commodity prices and/or farmgate prices, cited by 21.8 percent of respondents
- Respondents' highest priority for the Government is reduced government spending and/or reduced government debt, cited by 18.6 percent of respondents.

GENERAL ECONOMIC CONDITIONS

Farmers produce largely for world markets, with up to 95 percent of agricultural production exported. Their view of general economic conditions is heavily influenced by what they see happening in the global economy and the impact of developments overseas on commodity prices and the exchange rate.

Last July there was much bad news, especially out of Europe. Since then the prospects of a meltdown have receded and prices of most commodities have recovered some of the ground lost in the first half of the year. However, the underlying problems remain to be addressed and unorthodox monetary stimulus overseas is keeping the NZ Dollar at an uncomfortably high level.

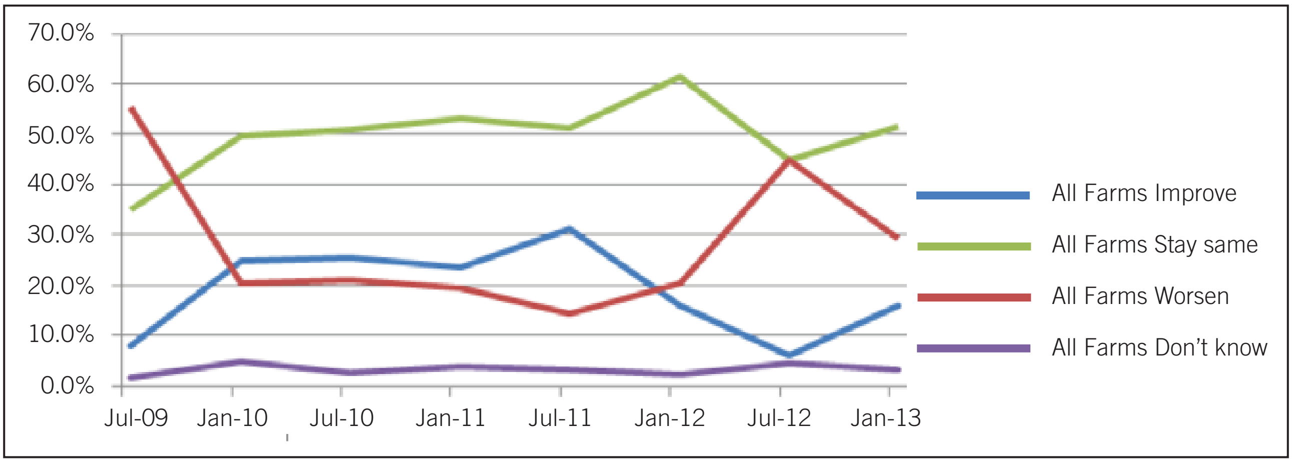
Improvement in economic confidence but still negative

A net 13.6 percent of respondents expect general economic conditions to worsen over the coming 12 months[1]. This is an improvement of 25.2 points on July 2012 when a net 38.8 percent expected conditions to worsen. Despite this improvement, sentiment remains weaker than this time last year when a net 4.2 percent expected the economy to worsen.

There has been a sharp reduction in the proportion of farmers expecting the economy to worsen from 44.7 percent to 29.4 percent, with corresponding increases in those expecting the economy to improve, up 9.9 points to 15.8 percent, and those who expected it to stay the same, up 6.6 points to 51.6 percent.

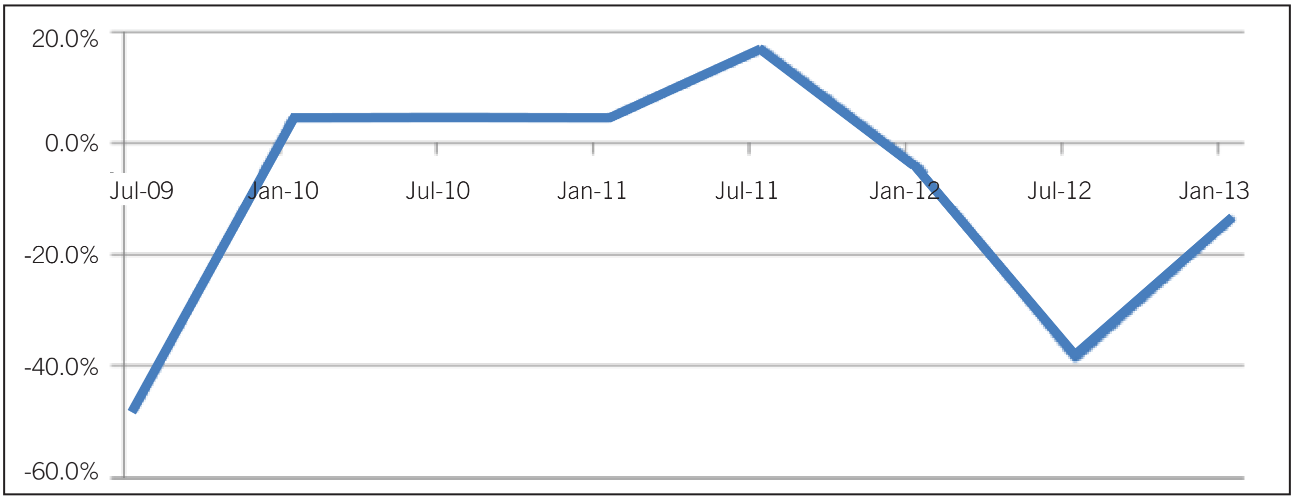
Figures 1 and 2 show how confidence in general economic confidence has tracked over the life of the survey.

Figure 1: General Economic Conditions - All Farms July 2009 - January 2013



[1] The 'net' figure is the difference between those expecting general economic conditions to improve (15.8%) and those expecting them to worsen (29.4%).

Figure 2: Net General Economic Conditions - All Farms July 2009 - January 2013



Industry Groups

All industry groups saw an improvement in sentiment compared to last July, but the degree of improvement varied.

Dairy farmers are by far the most optimistic about the general economy, with a net 3.0 percent expecting economic conditions to improve. This is up 37.5 percent on July and dairy farmers are also the only group to be more optimistic than this time last year.

A net 28.4 percent of meat and fibre farmers expect economic conditions to worsen. This is an improvement of 14.6 points on July but is still down 19.8 points on this time last year.

Grains farmers are the most pessimistic, with a net 37.0 percent of grains farmers expecting economic conditions to worsen. This is an improvement of 4.7 points on July but is still down 29.9 points on this time last year.

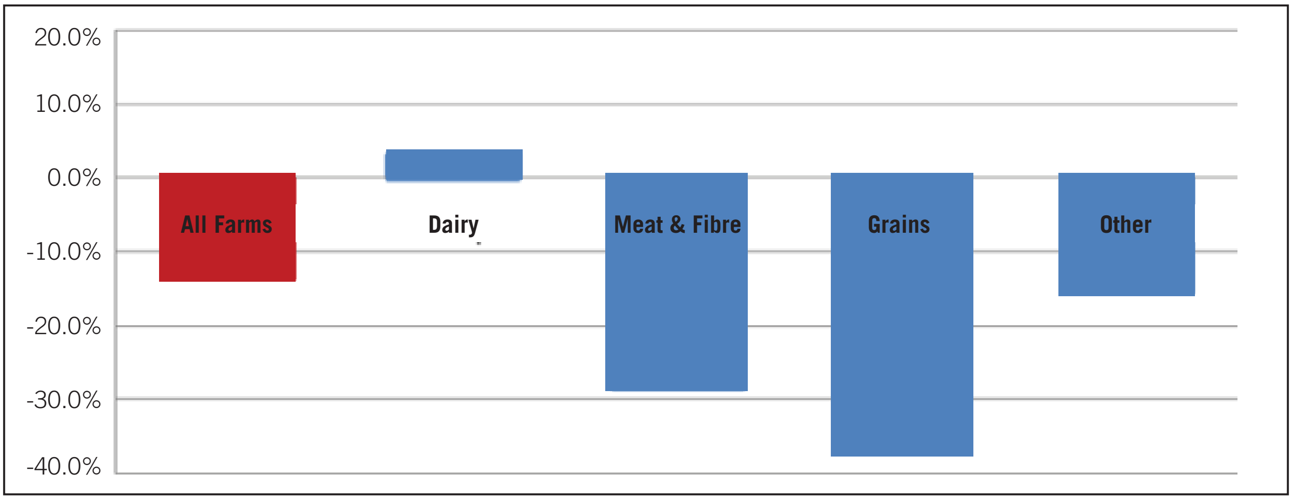
A net 15.4 percent of the 'Other' farming groups, such as bees, goats, rural butchers, and South Island High Country, expect economic conditions to worsen, an improvement of 15.2 points on July, but down 26.5 points on this time last year.

TABLE ONE: General Economic Conditions by Industry Group

	January 2013 Improve	January 2013 Stay the Same	January 2013 Worsen	January 2013 Don't Know	January 2013 Net	July 2012 Net	
All Farms	**15.8%**	**51.6%**	**29.4%**	**3.2%**	**-13.6%**	**-38.8%**	↑
Dairy	22.2%	54.1%	19.1%	4.6%	+3.0%	-34.5%	↑
Meat & Fibre	9.9%	48.2%	38.3%	3.7%	-28.4%	-43.0%	↑
Grains	4.6%	51.9%	41.7%	1.9%	-37.0%	-41.7%	↑
Other	25.6%	28.2%	41.0%	5.1%	-15.4%	-30.6%	↑

See the section 'About the Survey' for an explanation of the industry groups

Figure 3: Net Confidence in General Economic Conditions by Industry Group January 2013



Regions

All seven regions remain pessimistic about the general economy, but all were improved on last July's levels. Otago-Southland is the most pessimistic region, with a net 23.7 percent expecting the economy to worsen. Waikato-Bay of Plenty is the least pessimistic region, -5.6 percent, followed closely by Taranaki-Wanganui-Manawatu, -7.4 percent.

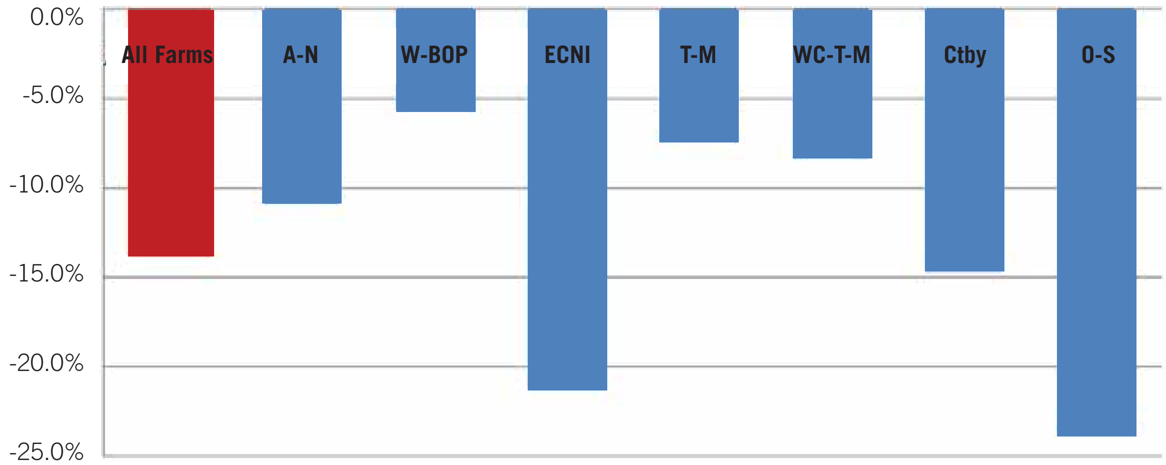
The biggest improvement in net confidence was enjoyed by Auckland-Northland, which increased 36.8 points from last July. East Coast North Island has had the smallest increase, up 15.7 points.

TABLE TWO: General Economic Conditions by Region

	January 2013 Improve	January 2013 Stay the Same	January 2013 Worsen	January 2013 Don't Know	January 2013 Net	July 2012 Net	
All Farms	**15.8%**	**51.6%**	**29.4%**	**3.2%**	**-13.6%**	**-38.8%**	↑
Auckland-Northland	13.0%	58.7%	23.9%	4.3%	-10.9%	-47.7%	↑
Waikato-BOP	17.8%	55.9%	23.5%	2.8%	-5.6%	-33.3%	↑
East Coast North Is	14.2%	48.0%	35.4%	2.4%	-21.3%	-37.0%	↑
Taranaki-Manawatu	16.6%	55.2%	23.9%	4.3%	-7.4%	-38.7%	↑
WC-Tasman-Marl	22.9%	43.8%	31.3%	2.1%	-8.3%	-40.0%	↑
Canterbury	14.2%	53.2%	28.9%	3.7%	-14.7%	-41.4%	↑
Otago-Southland	14.5%	44.6%	38.2%	2.7%	-23.7%	-43.7%	↑

See the section 'About the Survey' for an explanation of the regions

Figure 4: Net Confidence in General Economic Conditions by Region January 2013



FARM PROFITABILITY

Perhaps the more accurate reflection of farmer sentiment is the prospects for their own businesses' profitability. In previous surveys, respondents have been much more optimistic about their own prospects than the general economic outlook, but not so this time.

Profitability to worsen over the coming year

A net 32.1 percent of respondents are expecting their profits to worsen over the next 12 months[2]. This is an improvement of 8.5 points on last July's survey where a net 40.6 percent expected their profitability to worsen. This time last year, a net 32.4 percent of farmers expected their profitability to improve.

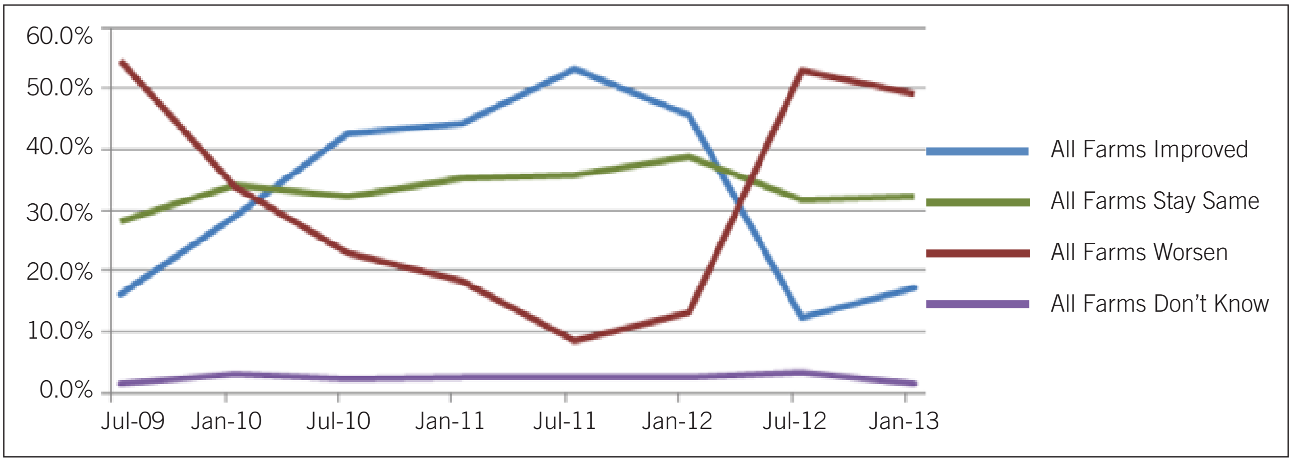
The first half of 2012 saw a large drop in commodity prices, with the July 2012 ANZ World Commodity Price Index down 12.9 percent on its level in January. Since that low point, the World Price Index has increased 7.5 percent, but although dairy prices have increased around 15 percent and beef prices are also up, sheep-meat prices have fallen and this is before adjusting for the strong NZ Dollar, up a further 3.5 percent on July's already high level.

The 2011/12 season was probably one of the best in recent history for dairy, meat, and wool. Farmgate prices were high and the weather was, for the most part, kind to production. As discussed in July's survey report, there was always going to be some falling away in the survey indicators for 2012/13. For dairy and, to a lesser extent, beef farmers the falling away is not looking as bad as feared in July, but not so for sheep farmers, with many having already written the season off and some also pessimistic about the longer-term future.

On the other side of the equation costs continue to be of concern. Statistics NZ's Producer Price Index shows that in September 2012, input prices for sheep and beef farmers were up 6.2 percent on a year before, with dairy farmers' input prices up 4.4 percent. This is causing a squeeze in margins.

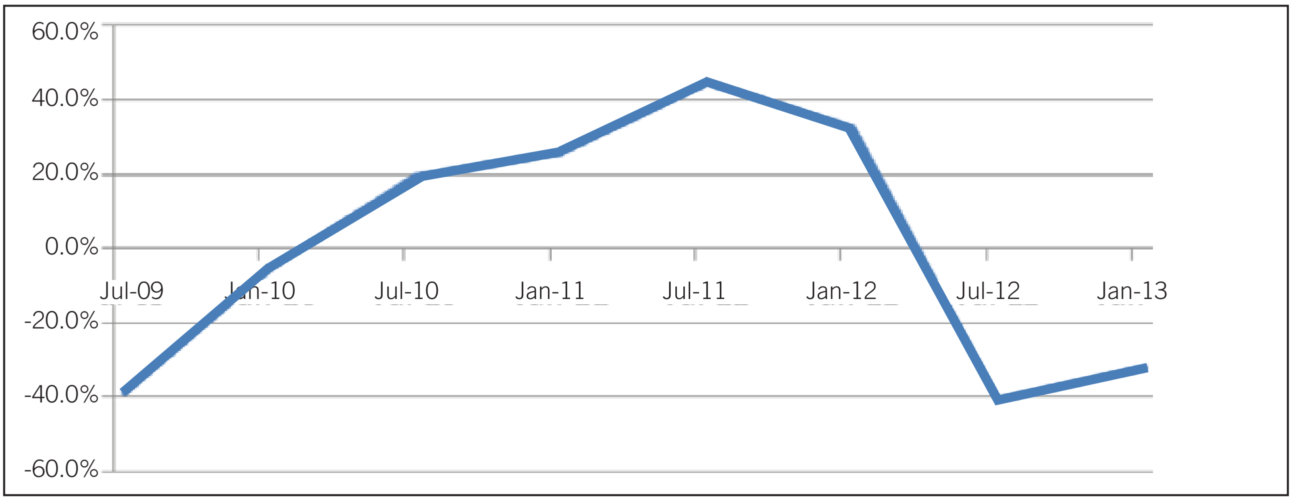
Figures 5 and 6 show how profit expectations have tracked over the life of the survey.

Figure 5: Farm Profitability - All Farms July 2009 - January 2013



[2] The 'net' figure is the difference between those expecting their profitability to improve (17.2%) and those expecting it to worsen (49.2%).

Figure 6: Net Farm Profitability - All Farms July 2009 - January 2013



Industry Groups

All industry groups continue to have more pessimists than optimists and all but the dairy industry group had an increase in pessimism.

Last July, dairy farmers were deeply pessimistic, with a net 45.4 expecting profitability to worsen. The July survey was undertaken when dairy commodity prices were at their low point. Since mid-July Fonterra's GlobalDairyTrade auction has increased by 27 percent and Fonterra has revised up its payout forecasts.

In this survey a net 8.3 percent of dairy farmers expected their profit to worsen, an improvement of 37.1 points. But it is still significantly down on this time last year when a net 25.0 percent expected profitability to improve.

A net 52.9 percent of meat and fibre farmers expect their profitability to worsen. This is a deterioration of 15.7 points on last July when the figure was a net 37.2 percent. Although beef prices and wool prices have held up, lamb prices are down 35 percent on this time last year. The drops in lamb prices have been much larger than earlier forecast.

Grains farmers have also had an increase in pessimism, with a net 39.8 percent expecting a worsening in profitability, down 13.4 points on last July's -26.4 percent. Grains prices are volatile, with Canterbury wheat prices lower than this time last year. Furthermore, there is a harvest coming with many farmers still having unsold grain in storage.

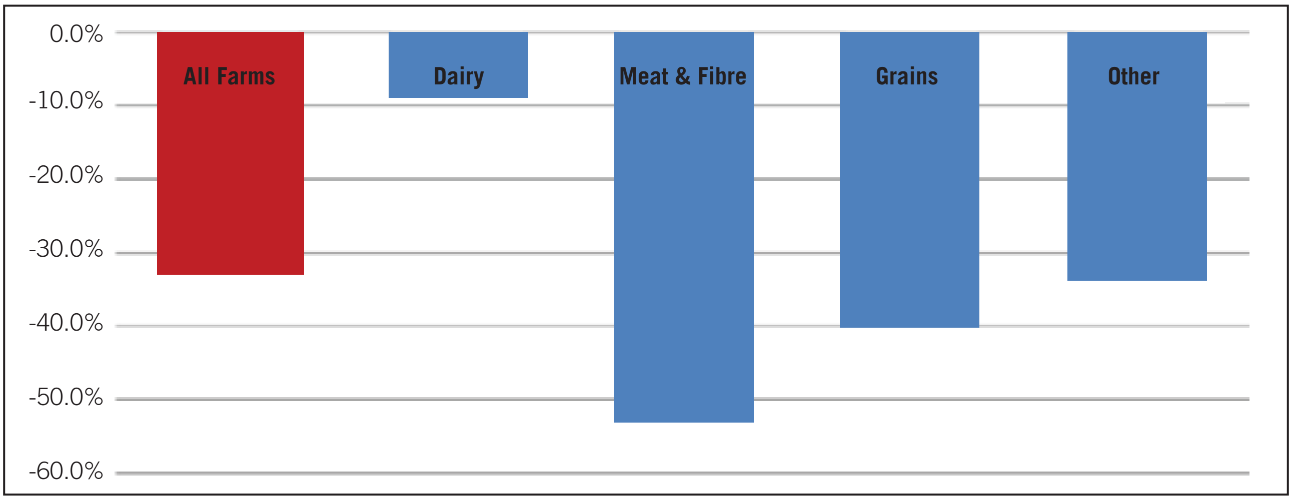
For the 'other' farmers a net 27.8 percent expect their profitability to worsen, down 5.5 points on July.

TABLE THREE: Own Farm Profitability by Industry Group

	January 2013 Improve	January 2013 Stay the Same	January 2013 Worsen	January 2013 Don't Know	January 2013 Net	July 2012 Net	
All Farms	**17.2%**	**32.3%**	**49.2%**	**1.3%**	**-32.1%**	**-40.6%**	↑
Dairy	24.6%	40.0%	32.8%	2.6%	-8.3%	-45.4%	↑
Meat & Fibre	10.6%	23.8%	63.6%	2.0%	-52.9%	-37.2%	↓
Grains	12.0%	35.2%	51.9%	0.9%	-39.8%	-26.4%	↓
Other	17.9%	28.2%	51.3%	2.6%	-33.3%	-27.8%	↑

See the section 'About the Survey' for an explanation of the industry groups

Figure 7: Net Expectations of Own Farm Profitability by Industry Group January 2013



Regions

All seven regions remain in negative territory. The most pessimistic region is East Coast North Island, with a net 56.7 percent expecting profitability to worsen. This reflects low lamb prices and dry weather, which is forcing many sheep farmers to de-stock. The least pessimistic region is the dairy dominant Waikato-Bay of Plenty at -17.4 percent, followed closely by Taranaki-Wanganui-Manawatu at -18.4 percent.

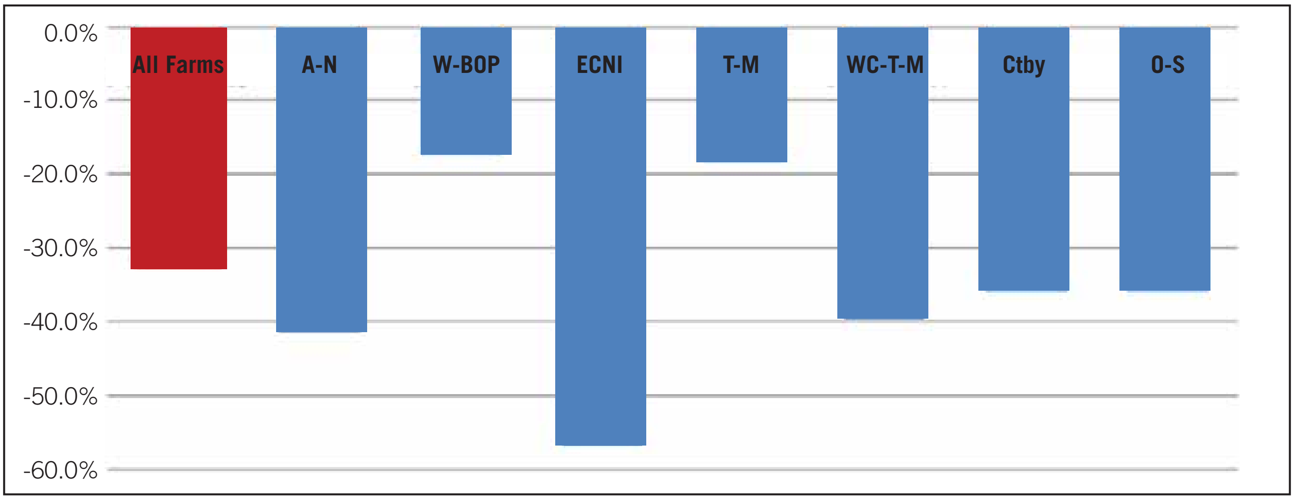
The biggest fall in profit expectations was recorded by East Coast North Island, with a 20.6 point worsening in net sentiment. In contrast, Taranaki-Wanganui-Manawatu and Waikato-Bay of Plenty each had improvements in net sentiment of more than 28 points.

TABLE FOUR: Own Farm Profitability by Region

	January 2013 Improve	January 2013 Stay the Same	January 2013 Worsen	January 2013 Don't Know	January 2013 Net	July 2012 Net	
All Farms	**17.2%**	**32.3%**	**49.2%**	**1.3%**	**-32.1%**	**-40.6%**	↑
Auckland-Northland	10.9%	37.0%	52.2%	0.0%	-41.3%	-47.7%	↑
Waikato-BOP	18.8%	43.7%	36.2%	1.4%	-17.4%	-45.5%	↑
East Coast North Is	8.7%	25.2%	65.4%	0.8%	-56.7%	-36.1%	↓
Taranaki-Manawatu	24.5%	31.3%	42.9%	1.8%	-18.4%	-47.2%	↑
WC-Tasman-Marl	14.6%	31.3%	54.2%	0.0%	-39.6%	-33.3%	↓
Canterbury	15.3%	32.6%	51.1%	1.1%	-35.8%	-32.9%	↓
Otago-Southland	18.8%	23.7%	54.8%	2.7%	-36.0%	-37.9%	↑

See the section 'About the Survey' for an explanation of the regions

Figure 8: Net Expectations of Own Farm Profitability by Region January 2013



FARM PRODUCTION

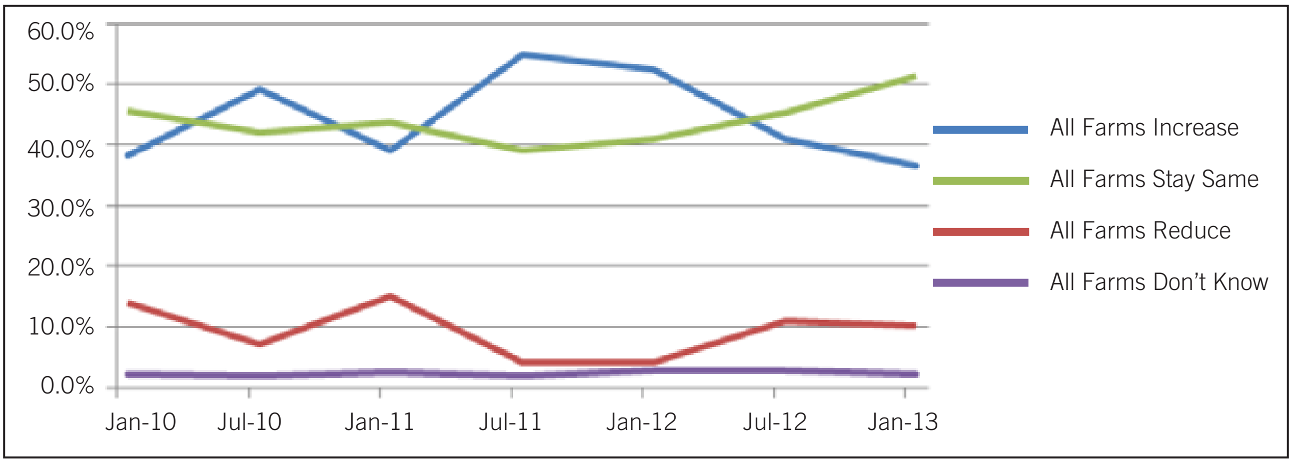
There has been a pull-back in the proportion of farmers expecting to increase production, with a net 26.5 percent expecting to increase production over the coming 12 months[3]. This is down from a net 30.1 percent in last July's survey and is also lower than the sentiment this time last year when a net 48.2 percent expected to increase production.

A moderation in production forecasts is to be expected following the generally good weather conditions throughout most of the country for most of the 2011/12 season. Most farmers are still feeling optimistic about production but dry conditions in some parts of the country have seen farmers pulling back their expectations.

There is always awareness among farmers that dry weather can have a serious impact on production and this highlights the need for water harvesting and storage.

Figures 9 and 10 show how production expectations have tracked over the life of the survey.

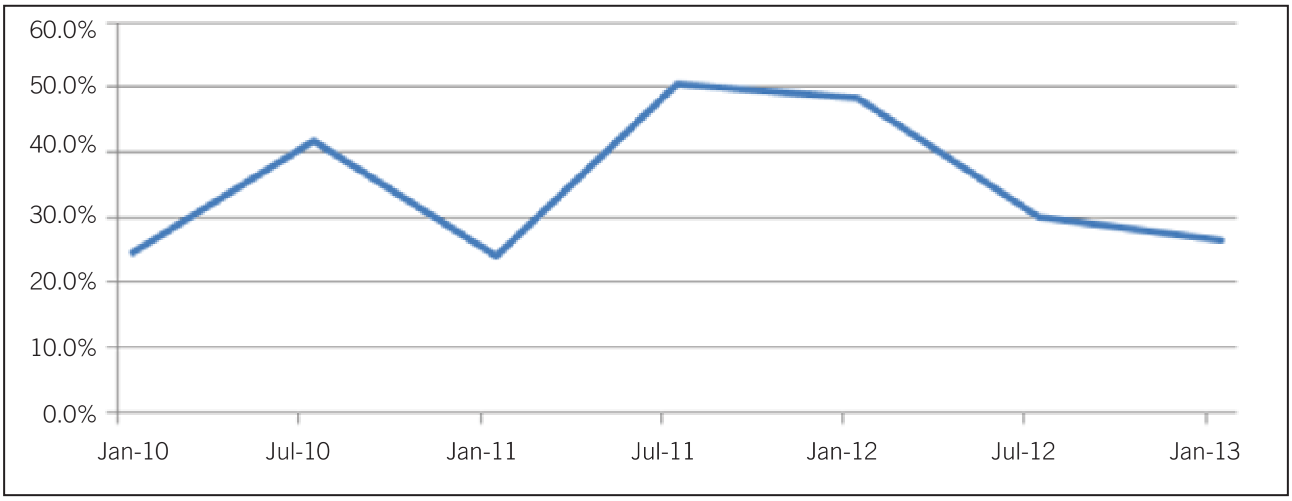
Figure 9: Farm Production - All Farms January 2010 - January 2013



Note: The question on production was not asked in the inaugural survey in January 2009

[3] The 'net' figure is the difference between those expecting their production to increase (36.6%) and those expecting it to reduce (10.1%).

Figure 10: Net Farm Production - All Farms January 2010 - January 2013



Note: The question on production was not asked in the inaugural survey in January 2009.

Industry Groups

A net 35.2 percent of dairy farmers expect to produce more, the highest for any of Federated Farmers' industry groups. This is largely unchanged on last July, when a net 34.8 percent expected to increase production, but is down 19.5 points on this time last year.

A net 19.4 percent of meat and fibre farmers expect to produce more. This is down 7.1 points on last July's +26.5 percent and down 22.4 points on this time last year.

A net 9.3 percent of grains farmers expect to increase production. This is down 14.3 points on last July's +23.6 percent and down 43.6 points on this time last year.

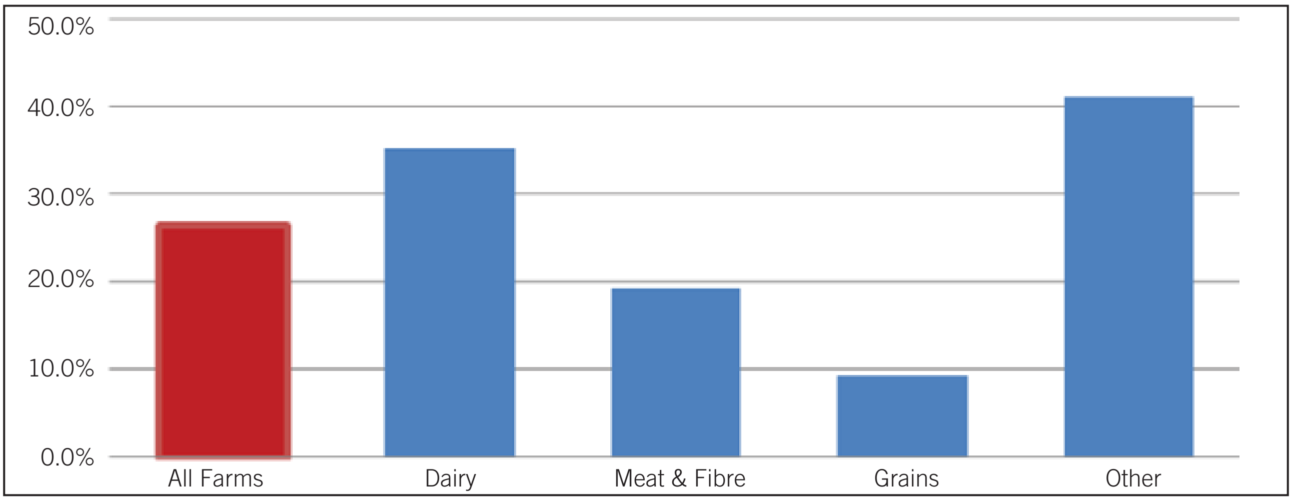
The 'other' farmers had a small increase in production expectations compared to last July, up 2.1 points to a net 41.0 percent expecting to increase production. This is also up 4.9 points on this time last year.

TABLE FIVE: Farm Production by Industry Group

	January 2013 Increase	January 2013 Stay the Same	January 2013 Reduce	January 2013 Don't Know	January 2013 Net	July 2012 Net	
All Farms	**36.6%**	**51.2%**	**10.1%**	**2.2%**	**+26.5%**	**+30.1%**	↓
Dairy	42.6%	46.7%	7.4%	3.3%	+35.2%	+34.8%	↔
Meat & Fibre	31.1%	54.8%	11.7%	2.4%	+19.4%	+26.5%	↓
Grains	20.4%	64.8%	11.1%	3.7%	+9.3%	+23.6%	↓
Other	48.7%	38.5%	7.7%	5.1%	+41.0%	+38.9%	↑

See the section 'About the Survey' for an explanation of the industry groups

Figure 11: Net Expectations of Farm Production by Industry Group January 2013



Regions

Auckland-Northland has an even split between those increasing and those reducing production. The next least optimistic region is East Coast North Island where a net 12.6 percent expect to increase production. The most optimistic region is Otago-Southland where a net 40.9 percent expected to increase production.

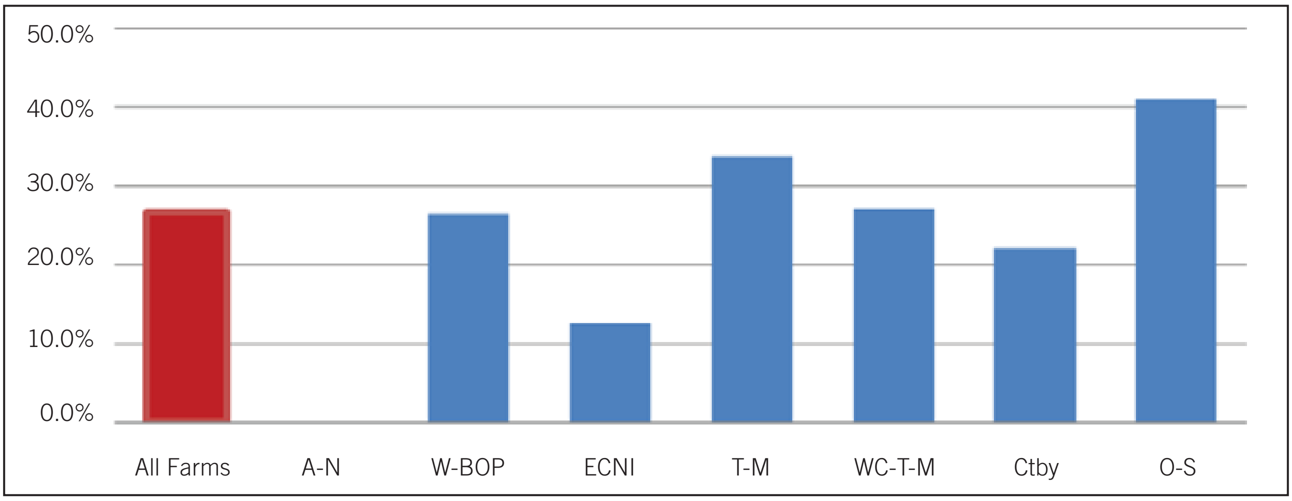
Five out of the seven regions recorded a reduction in net production forecasts. East Coast North Island is the region with the largest fall, down 23.5 percent on last July. This is not a surprise given the dry conditions prevailing in most of that region. Waikato-Bay of Plenty has had the largest increase, up 10.1 points.

TABLE SIX: Farm Production by Region

	January 2013 Increase	January 2013 Stay the Same	January 2013 Reduce	January 2013 Don't Know	January 2013 Net	July 2012 Net	
All Farms	**36.6%**	**51.2%**	**10.1%**	**2.2%**	**+26.5%**	**+30.1%**	↓
Auckland-Northland	21.7%	56.5%	21.7%	0.0%	0.0%	+18.2%	↓
Waikato-BOP	34.7%	53.5%	8.5%	3.3%	+26.3%	+16.2%	↑
East Coast North Is	29.9%	52.0%	17.3%	0.8%	+12.6%	+36.1%	↓
Taranaki-Manawatu	39.9%	53.4%	6.1%	0.6%	+33.7%	+31.7%	↑
WC-Tasman-Marl	35.4%	56.3%	8.3%	0.0%	+27.1%	+44.4%	↓
Canterbury	32.1%	54.7%	10.0%	3.2%	+22.1%	+32.1%	↓
Otago-Southland	48.9%	39.8%	8.1%	3.2%	+40.9%	+44.7%	↓

See the section 'About the Survey' for an explanation of the regions

Figure 12: Net Expectations of Farm Production by Region January 2013



FARM SPENDING

According to the Ministry of Primary Industries, farmers spend around $11-12 billion annually in their local and regional economies[4]. Asking farmers whether they expect to spend more or less can be an important barometer of economic trends in the provinces and ultimately for New Zealand as a whole.

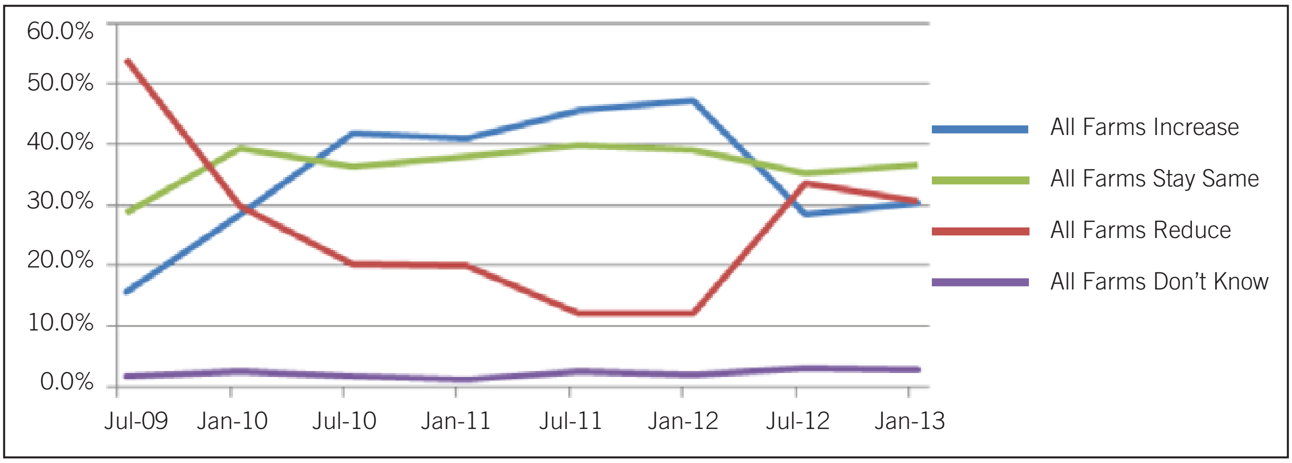
Despite continued concern about their profitability, farmers are evenly split on their spending plans. Overall, a net 0.2 percent of respondents expect to reduce their spending[5], an improvement of 5.1 points on last July when a net 5.3 percent expected to reduce spending. However, while this is an improvement overall, the situation varies by industry group, and is still indicating weak intentions compared to this time last year when a net 35.0 percent were expecting to increase their spending.

It is also important to recognise that while some farmers will be increasing spending to purchase more goods and services, they are also factoring in the impact of increasing input prices, including fuel, fertiliser, feed, wages, electricity, local authority rates, etc. Farmers across the board are concerned about increasing farm input costs, especially those set or influenced by local and central government.

Over the past five years, farm input prices have increased by 22.3 percent, 7.1 points more than the rate of increase of the consumer price index[6]. This has made high and increasing input costs one of the top issues of concern throughout the life of this survey.

Figures 13 and 14 show how spending expectations have tracked over the life of the survey.

Figure 13: Farm Spending - All Farms July 2009 - January 2013

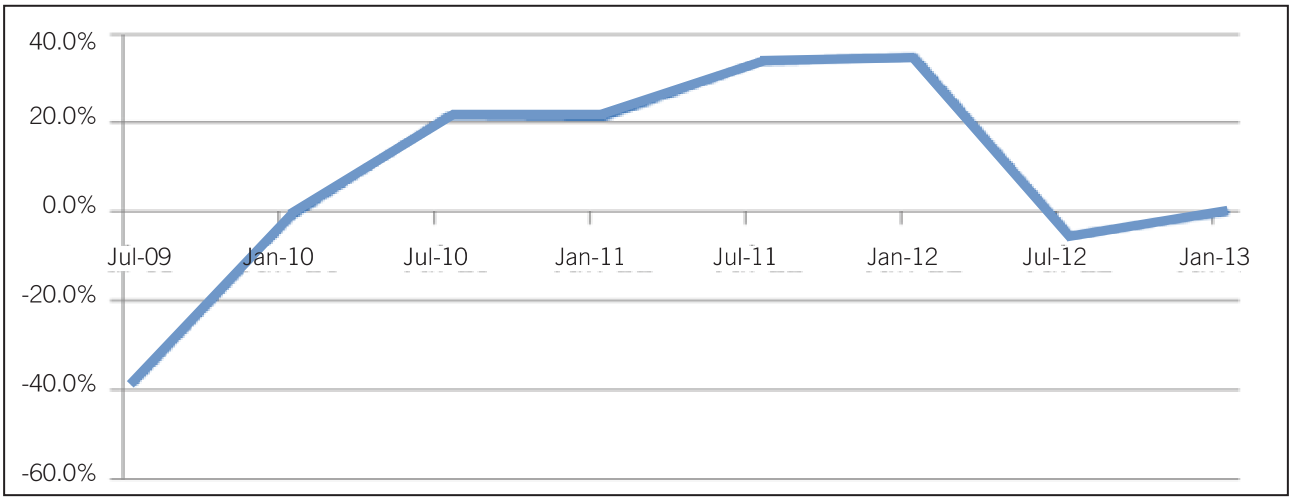


[1] *Situation and Outlook for Primary Industries 2012*, Ministry for Primary Industries, June 2012.

[5] The 'net' figure is the difference between those expecting their spending to increase (30.3%) and those expecting it to reduce (30.5%).

[6] *Movements in Sheep & Beef Farm Input Prices 2011/12*, Beef+Lamb NZ, June 2012

Figure 14: Net Farm Spending - All Farms July 2009 - January 2013



Industry Groups

A net 12.4 percent of dairy farmers are expecting to increase their spending over the coming year, a major turnaround on last July's survey when a net 10.1 percent expected to reduce their spending. Dairy farmers have gone from being the most cautious to the most likely to up their spending, but this optimism is relative and it is still down on this time last year when a net 28.8 percent expected to increase spending.

The expectations of meat and fibre farmers have dipped firmly into negative territory, with a net 10.4 percent expecting to reduce their spending. This is down 9.9 points on last July when sentiment was evenly poised. It is also down 50.0 points on this time last year when a net 39.6 percent expected to increase spending.

Grains are now the sector that is evenly poised, with a net 0.9 percent expecting to increase their spending. This is down 8.8 points on last July and also down 26.2 points on this time last year.

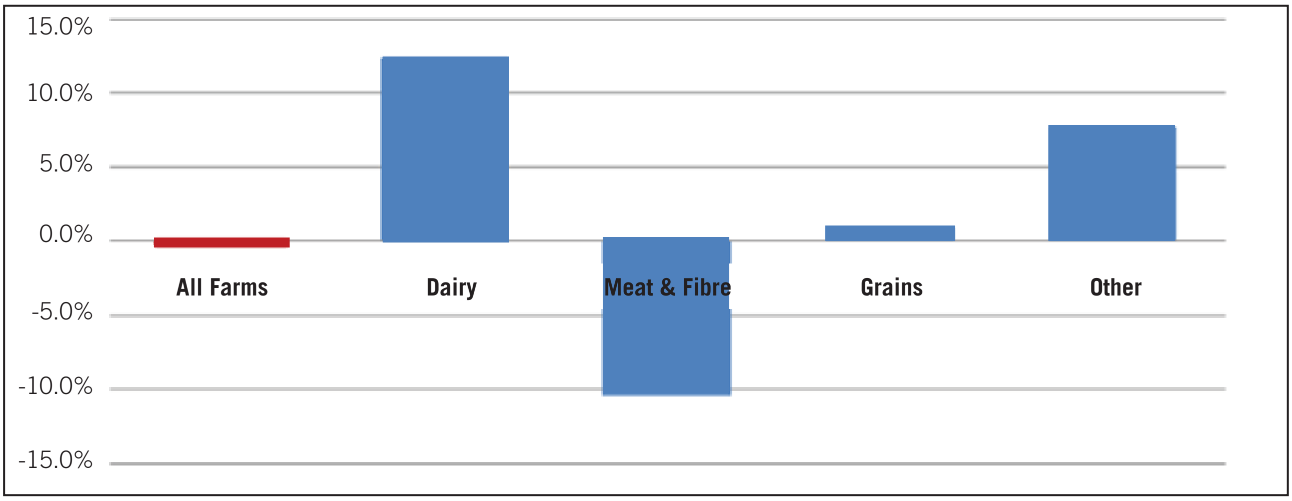
A net 7.7 percent of the 'other' farmers are expecting to increase their spending, up 2.1 points on last July, but down 17.3 points on this time last year.

TABLE SEVEN: Farm Spending by Industry Group

	January 2013 Increase	January 2013 Stay the Same	January 2013 Reduce	January 2013 Don't Know	January 2013 Net	July 2012 Net	
All Farms	**30.3%**	**36.5%**	**30.5%**	**2.7%**	**-0.2%**	**-5.3%**	↑
Dairy	34.8%	39.1%	22.4%	3.7%	+12.4%	-10.1%	↑
Meat & Fibre	26.4%	33.0%	36.8%	3.8%	-10.4%	-0.5%	↓
Grains	34.3%	32.4%	33.3%	0.0%	+0.9%	+9.7%	↓
Other	38.5%	30.8%	30.8%	0.0%	+7.7%	+5.6%	↑

See the section 'About the Survey' for an explanation of the industry groups

Figure 15: Net Expectations of Farm Spending by Industry Group January 2013



Regions

Four of the seven regions have more respondents expecting to increase their on-farm spending than reduce their spending. Waikato-Bay of Plenty is the region with the farmers most likely to spend more, with a net 12.2 percent expecting to increase spending, followed closely by Canterbury with a net 11.6 percent.

East Coast North Island is the region with the most cautious farmers, with a net 25.2 percent expecting to reduce spending. Its reduced spending intentions will be an understandable reaction to the dry weather and falling lamb prices, which has significantly reduced profit and production expectations.

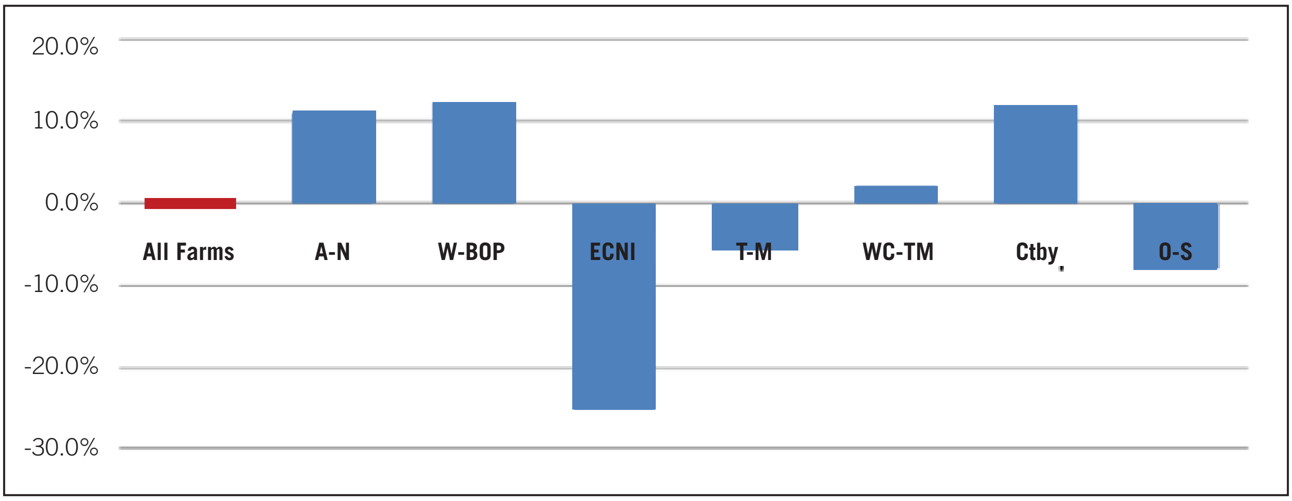
Five regions have had improvements in their net proportions compared to last July, with the largest increase being for Auckland-Northland, up 24.5 points to a net 10.9 percent now expecting to increase spending. East Coast North Island has had the largest decline in intentions, down 15.0 points.

TABLE EIGHT: Farm Spending by Region

	January 2013 Increase	January 2013 Stay the Same	January 2013 Reduce	January 2013 Don't Know	January 2013 Net	July 2012 Net	
All Farms	**30.3%**	**36.5%**	**30.5%**	**2.7%**	**-0.2%**	**-5.3%**	↑
Auckland-Northland	32.6%	41.3%	21.7%	4.3%	+10.9%	-13.6%	↑
Waikato-BOP	36.2%	37.1%	23.9%	2.8%	+12.2%	-6.1%	↑
East Coast North Is	18.1%	35.4%	43.3%	3.1%	-25.2%	-10.2%	↓
Taranaki-Manawatu	26.4%	39.9%	31.9%	1.8%	-5.5%	-6.3%	↔
WC-Tasman-Marl	31.3%	35.4%	29.2%	4.2%	+2.1%	+11.1%	↓
Canterbury	36.8%	35.3%	25.3%	2.6%	+11.6%	+2.1%	↑
Otago-Southland	28.0%	33.9%	36.0%	2.2%	-8.1%	-10.7%	↑

See the section 'About the Survey' for an explanation of the regions

Figure 16: Net Expectations of Farm Spending by Region January 2013



FARM DEBT

At the end of 2012 agricultural debt stood at $49.7 billion[7]. Annual interest on that debt is likely to be around $2.5 to $3 billion and bank interest is often the largest expense for farms. Federated Farmers is keen to ensure that banks continue to support viable businesses and sound propositions and they should be transparent in setting interest rates.

After huge growth in farm debt during the 2000's, the Global Financial Crisis saw banks become more conservative in their lending and farmers themselves became more cautious about debt. Agricultural debt dropped slightly from late 2010 to the end of 2011 but growth resumed in 2012, with debt increasing $2 billion last year.

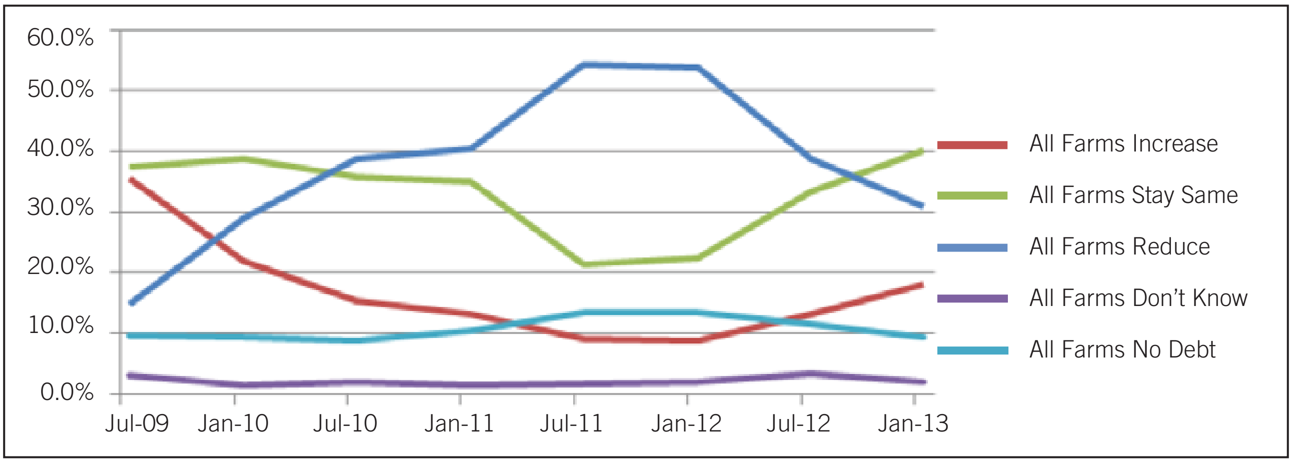
Fewer farmers expect to reduce their debt over the coming 12 months.

A net 13.1 percent of respondents expect to reduce their debt in the next year[8]. This is down 12.4 points from last July, when a net 25.5 percent of farmers expected to reduce their debt. It is also down on this time last year when a net 44.8 percent expected their debt to fall. The net proportion is back to similar levels, seen three years ago, but is still a far cry from July 2009 when a net 20.8 percent expected to increase their debt.

Compared to this time last year those expecting debt to increase climbed from 8.8 percent to 17.9 percent while those expecting it to stay the same rose from 22.4 percent to 40.1 percent. Although activity in the rural property market increased in 2012, worsening profit expectations are also likely to be reducing the ability of many farmers to pay down debt and some will be borrowing just to get through the season. After a couple of good years many farmers will also be paying a lot more tax this year and they will need to keep more aside for the IRD.

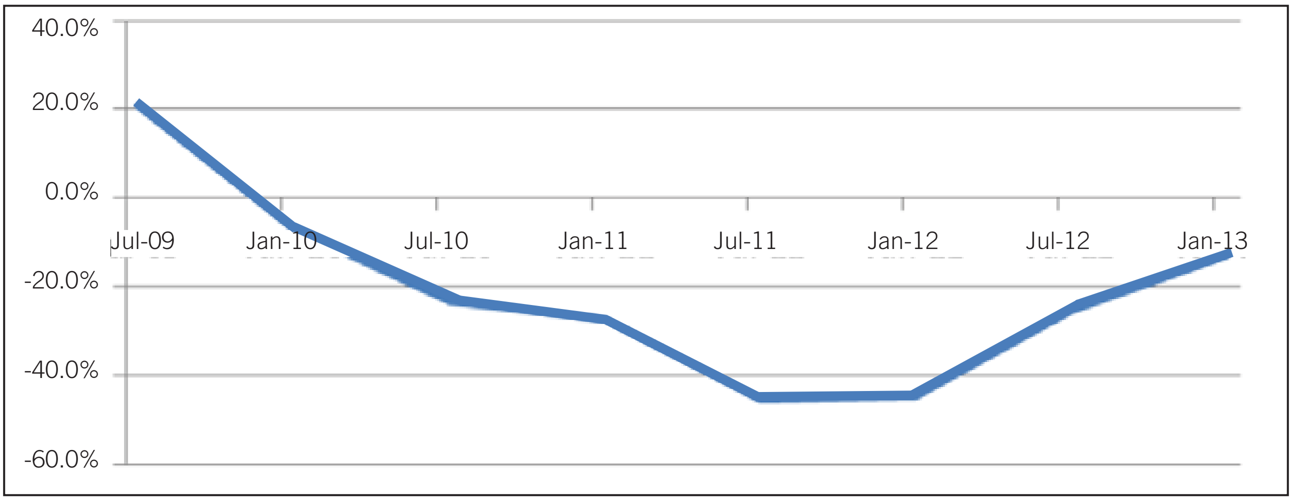
Figures 17 and 18 show how debt expectations have tracked over the life of the survey.

Figure 17: Farm Debt - All Farms July 2009 - January 2013



[7] Sector Credit Statistics, Reserve Bank of NZ, December 2012.
[8] The 'net' figure is the difference between those expecting their debt to increase (17.9%) and those expecting it to reduce (30.9%).

Figure 18: Net Farm Debt - All Farms July 2009 - January 2013



Industry Groups

A net 21.7 percent of dairy farmers expect to reduce their debt. This is down 3.3 points from last July when a net 25.0 percent expected to reduce debt. It is also down 25.2 points on this time last year. Dairy farmers' sentiment has improved since last July, but it remains cautious; and compared to that survey, the proportion of dairy farmers expecting to increase debt was almost unchanged.

A net 4.4 percent of meat and fibre farmers expect to reduce their debt, down 24.9 points from last July when a net 29.3 percent expected to reduce debt. It is also down 36.7 points on this time last year. Compared to last July the proportion of meat and fibre farmers expecting to increase debt more than doubled while those expecting to reduce debt halved. The sector's negative sentiment indicates that meat and fibre farmers are taking on debt and deferring debt reductions in order to get through the tough season.

Grains farmers are evenly poised between those expecting to reduce their debt and those expecting to increase debt. This compares to last July's net 11.1 percent expecting to reduce debt and this time last year when a net 42.9 percent expected to reduce debt.

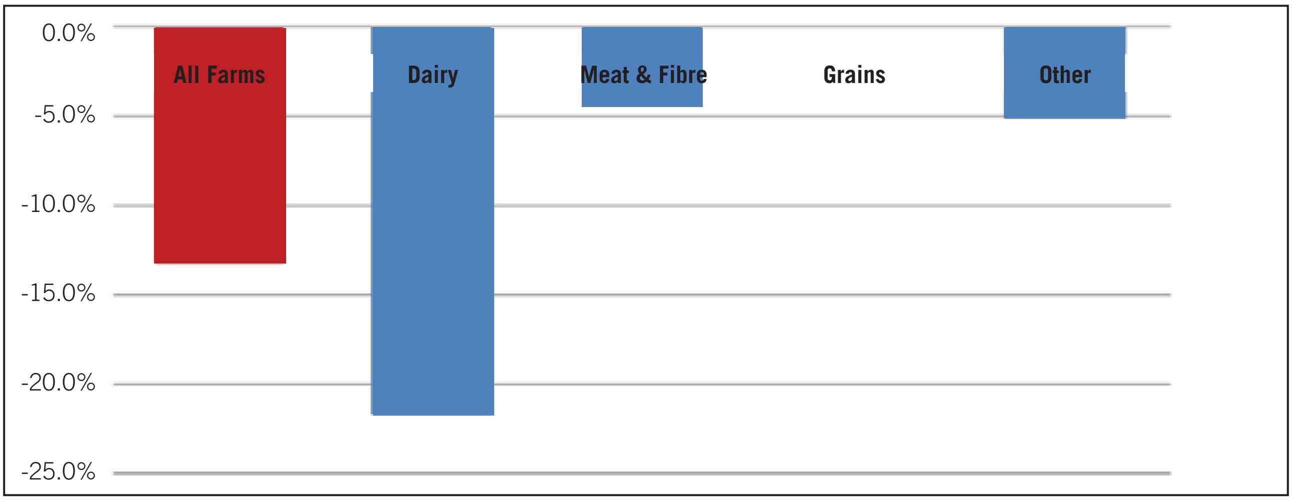
Also down sharply were the 'other' farmers where a net 5.1 percent expect to reduce their debt, down 33.8 points from last July when a net 38.9 percent expected to reduce debt and this time last year when a net 36.1 percent expected to reduce debt.

TABLE NINE: Farm Debt by Industry Group

	January 2013 Increase	January 2013 Stay the Same	January 2013 Reduce	January 2013 Don't Know	January 2013 No Debt	January 2013 Net	July 2012 Net	
All Farms	**17.9%**	**40.1%**	**30.9%**	**1.8%**	**9.2%**	**-13.1%**	**-25.5%**	↑
Dairy	14.8%	39.8%	36.5%	3.3%	5.7%	-21.7%	-25.0%	↑
Meat & Fibre	20.7%	39.9%	25.1%	2.7%	11.5%	-4.4%	-29.3%	↑
Grains	24.1%	49.1%	24.1%	0.0%	2.8%	0.0%	-11.1%	↑
Other	20.5%	30.8%	25.6%	7.7%	15.4%	-5.1%	-38.9%	↑

See the section 'About the Survey' for an explanation of the industry groups

Figure 19: Net Expectations of Farm Debt by Industry Group January 2013



Regions

Five of the seven regions have more respondents expecting to reduce their debt than increase their debt. Taranaki-Wanganui-Manawatu farmers are the most keen to reduce debt with a net 22.1 percent expecting it to reduce, followed closely by Waikato-Bay of Plenty with a net 21.6 percent.

In contrast, Canterbury is the region where farmers are most likely to expect to increase their debt, with a net 1.1 percent of farmers expecting to do so. West Coast-Tasman-Marlborough is evenly poised between those expecting to increase and those expecting to reduce debt.

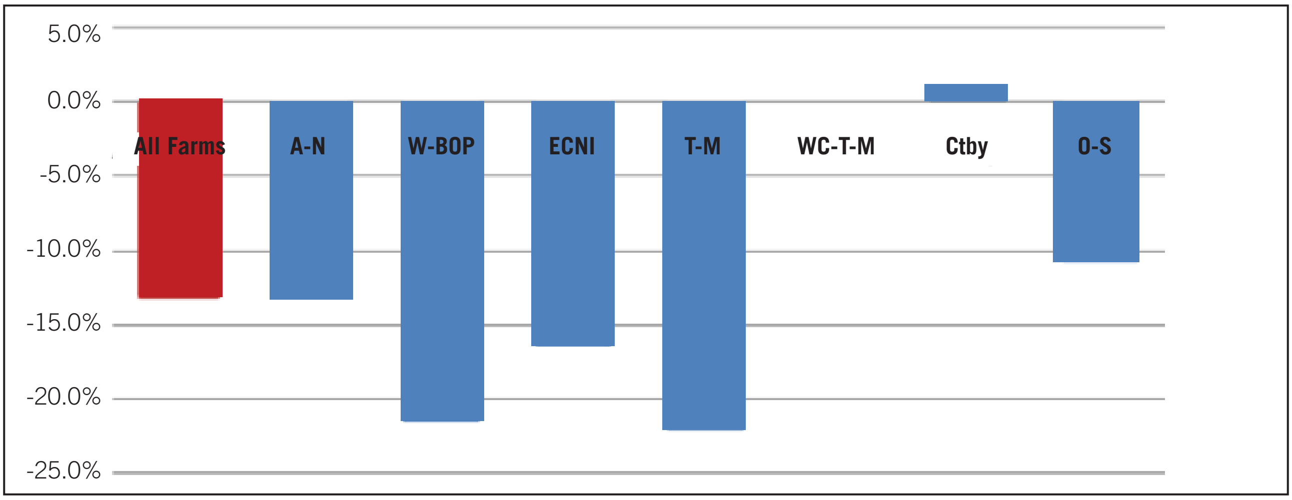
Compared to last July's survey, West Coast-Tasman-Marlborough is the region with the largest decrease in net respondents expecting to reduce their debt, down 20.0 points to a net 0.0 percent. It is followed closely by East Coast North Island's 17.8 point decrease to a net 16.5 percent expecting to reduce debt.

TABLE TEN: Farm Debt by Region

	January 2013 Increase	January 2013 Stay the Same	January 2013 Reduce	January 2013 Don't Know	January 2013 No Debt	January 2013 Net	July 2012 Net	
All Farms	**17.9%**	**40.1%**	**30.9%**	**1.8%**	**9.2%**	**-13.1%**	**-25.5%**	↑
Auckland-Northland	23.9%	30.4%	37.0%	2.2%	6.5%	-13.0%	-25.0%	↑
Waikato-BOP	12.2%	40.8%	33.8%	2.8%	10.3%	-21.6%	-29.8%	↑
East Coast North Is	18.9%	32.3%	35.4%	1.6%	11.8%	-16.5%	-34.3%	↑
Taranaki-Manawatu	12.3%	41.1%	34.4%	1.8%	10.4%	-22.1%	-26.8%	↑
WC-Tasman-Marl	18.8%	54.2%	18.8%	2.1%	6.3%	0.0%	-20.0%	↑
Canterbury	23.2%	45.3%	22.1%	0.5%	8.9%	+1.1%	-13.6%	↑
Otago-Southland	21.5%	37.1%	32.3%	2.2%	7.0%	-10.8%	-25.2%	↑

See the section 'About the Survey' for an explanation of the regions

Figure 20: Net Expectations of Farm Debt by Region January 2013



RECRUITMENT

The farm labour market has become tighter, with a net 18.6 percent of farmers reporting it was harder to find skilled and motivated staff over the preceding six months[9]. This is up 5.9 points from last July and is at the highest level recorded since the survey began in 2009. This time last year, a net 11.2 percent of farmers had reported finding it harder to find staff.

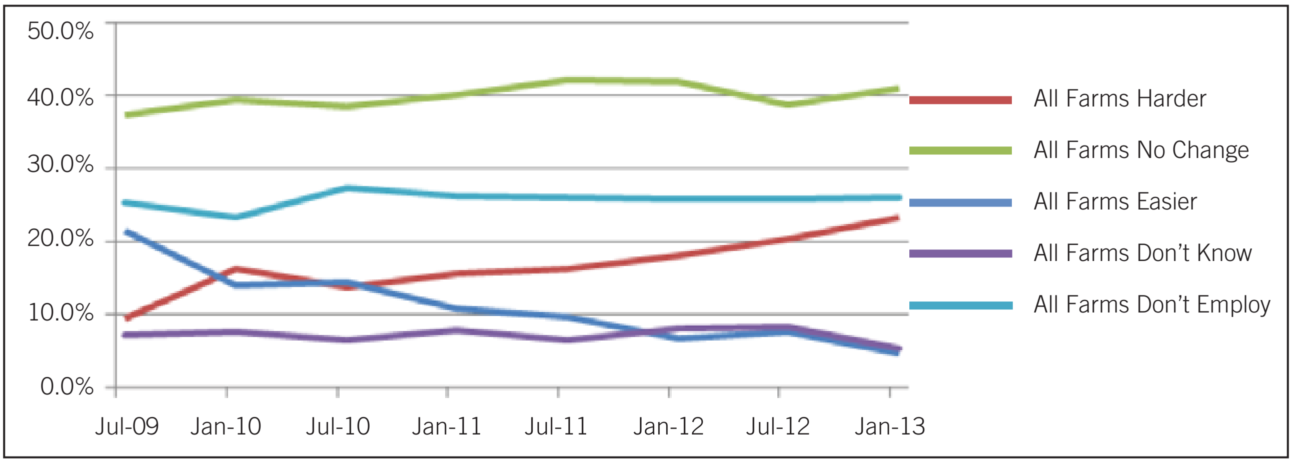
There is an element of seasonality in these results, with the spring and summer period tending to be the busiest times on farm and when demand for labour is likely to be highest. We will require a longer history of data before we have a sufficient time series to do any seasonal adjustment. However, when compared to January 2010, January 2011 and January 2012 it does appear that the farm labour market is noticeably tighter.

This tightness in the farm labour market is despite relatively high unemployment nationally. Clearly there is a 'disconnect' between the labour that is available and what farmers need in terms of skill and motivation.

This is becoming a frustration point for farmers. The proportion of farmers citing 'staffing' as their single biggest concern increased to 5.2 percent and the proportion of farmers saying that 'employment' should be the Government's highest priority also increased to 6.5 percent. Both are highs for the life of the survey.

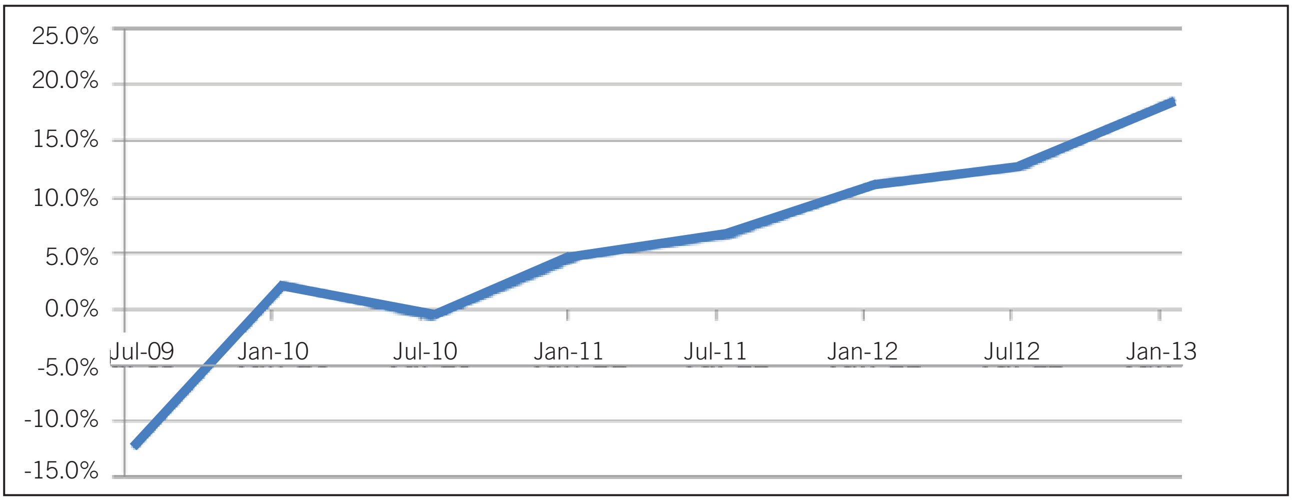
Figures 21 and 22 show how recruitment experience has tracked over the life of the survey.

Figure 21: Recruitment - All Farms July 2009 - January 2013



[9] The 'net' figure is the difference between those reporting it being harder to find staff (23.1%) and those reporting it being easier (4.5%).

Figure 22: Recruitment - All Farms July 2009 - January 2013



Industry Groups

The tightening in the farm labour market since last July has been felt across the board, but particularly so for dairy farmers.

A net 24.6 percent of dairy farmers reported that it was harder to find skilled and motivated staff. This is up 12.2 points from last July and up 12.1 points on this time last year when a net 12.5 percent reported it having been harder.

A net 13.0 percent of meat and fibre farmers reported it had been harder. This is up 0.8 points from last July and is also up 3.3 points on this time last year when a net 9.7 percent reported it having been harder.

A net 20.4 percent of grains farmers reported it had been harder. This is up 5.1 points from last July and is also up 4.7 points on this time last year when a net 15.7 percent reported it having been harder.

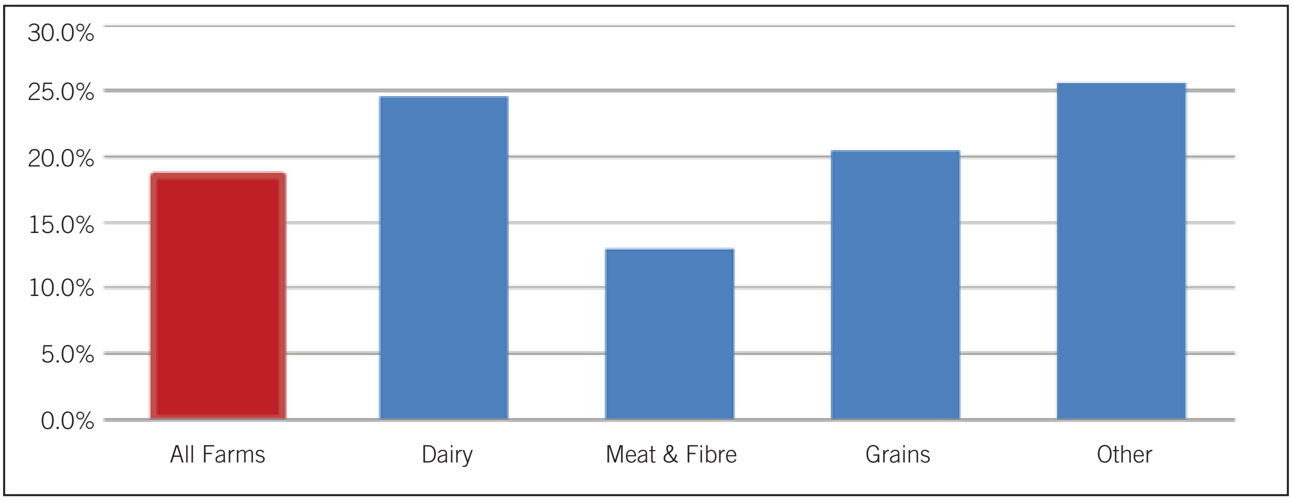
For 'other' farmers, a net 25.6 percent of farmers reported it having been harder. This is up 0.6 points from last July and up 20.0 points on this time last year when a net 5.6 percent reported it having been harder.

TABLE ELEVEN: Recruitment by Industry Group

	January 2013 Harder	January 2013 No Change	January 2013 Easier	January 2013 Don't Know	January 2013 Don't Employ	January 2013 Net	July 2012 Net	
All Farms	**23.1%**	**41.0%**	**4.5%**	**5.3%**	**26.0%**	**+18.6%**	**+12.7%**	
Dairy	29.6%	39.8%	5.0%	7.6%	18.0%	+24.6%	+12.4%	
Meat & Fibre	16.7%	42.9%	3.7%	4.8%	32.1%	+13.0%	+12.2%	
Grains	23.1%	44.4%	2.8%	5.6%	24.1%	+20.4%	+15.3%	
Other	28.2%	43.6%	2.6%	2.6%	23.1%	+25.6%	+25.0%	

See the section 'About the Survey' for an explanation of the industry groups

Figure 23: Net Experience on Recruitment by Industry Group January 2013



Regions

All seven regions had more respondents reporting it having been harder to find skilled and motivated staff than those reporting it having been easier, but there was some variation between regions. Otago-Southland had the highest net figure of 29.0 percent while East Coast North Island had the lowest net figure of 8.7.

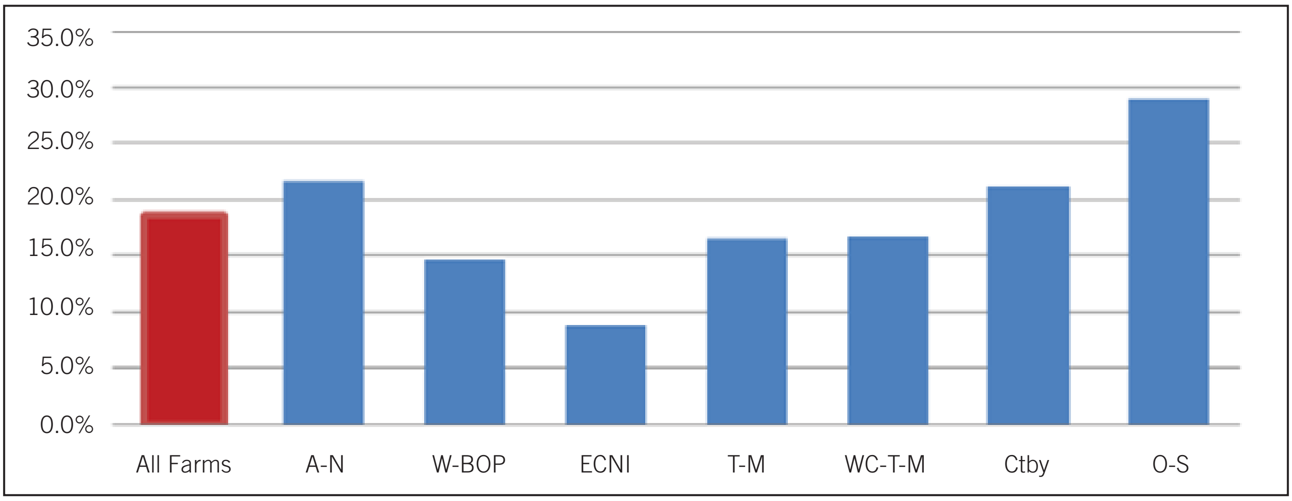
All regions bar one experienced increases for their net figures, with the largest increase being for Auckland-Northland, which was up 19.4 points to a net 21.7 percent reporting it had been harder to find skilled and motivated staff. The one region to have a decrease was East Coast North Island, which dropped 5.2 points.

TABLE TWELVE: Recruitment by Region

	January 2013 Harder	January 2013 No Change	January 2013 Easier	January 2013 Don't Know	January 2013 Don't Employ	January 2013 Net	July 2012 Net	
All Farms	**23.1%**	**41.0%**	**4.5%**	**5.3%**	**26.0%**	**+18.6%**	**+12.7%**	↑
Auckland-Northland	23.9%	34.8%	2.2%	4.3%	32.6%	+21.7%	+2.3%	↑
Waikato-BOP	22.1%	40.8%	7.5%	6.6%	23.0%	+14.6%	+9.1%	↑
East Coast North Is	15.0%	53.5%	6.3%	7.1%	18.1%	+8.7%	+13.9%	↓
Taranaki-Manawatu	22.1%	38.7%	5.5%	3.1%	30.7%	+16.6%	+14.8%	↑
WC-Tasman-Marl	16.7%	39.6%	0.0%	12.5%	31.3%	+16.7%	+2.2%	↑
Canterbury	23.7%	40.5%	2.6%	3.7%	29.5%	+21.1%	+16.4%	↑
Otago-Southland	31.7%	36.6%	2.7%	4.8%	24.2%	+29.0%	+19.4%	↑

See the section 'About the Survey' for an explanation of the regions

Figure 24: Net Experience on Recruitment by Region January 2013



BIGGEST ISSUES FOR FARMERS

In this survey the biggest issue on farmers' minds is farmgate and commodity prices with 21.8 percent of respondents citing it as their biggest concern. This is up 2.1 points from last July's survey. This is not surprising given the volatility in commodity prices over the past 12 months and the forecasts of lower farmgate prices this season.

Next was the exchange rate, with 16.9 percent of respondents, up 9.2 points on last July. The increase in concern about the exchange rate is again not surprising given its persistent strength in 2012 when it did not act as its usual buffer against commodity price movements.

In third place was regulation and compliance costs, with 16.5 percent of respondents, up 3.4 points on last July. Most of those that elaborated on this referred to particularly regional and district planning, with a number citing specific concerns about Horizons Regional Council's One Plan and Environment Canterbury's Natural Resources Regional Plan.

In fourth place was 'industry specific issues', with 12.1 percent of respondents, up 5.2 points on last July and at its highest level since the survey began. The increase can be explained by renewed concerns and complaints about the meat industry sparked by poor prices for lambs in particular.

Perennials such as the weather, 7.8 percent, up 2.5 points; high and increasing input costs, 8.1 percent, up 0.7 points; and staffing, 5.2 percent (up 3.0 points) also drew an increased proportion of respondents.

Other issues that have previously been 'hot button issues' have fallen in prominence in this survey. These include:

- Climate Change Policy and the Emissions Trading Scheme, 0.6 percent (down 2.7 points). This issue has been resolved to the satisfaction of most farmers although a change of approach by a future government would likely ramp up concern.
- Debt, interest and banks, 4.2 percent, down 0.5 points.
- Economic situation, 3.0 percent, down 8.5 points. It appears that there has been a shift of respondents away from the global economic situation to the exchange rate.

Figure 25a and 25b show how the farmers' views on issues of concern have tracked over the life of the survey. The tracks for the issues are very volatile and depend on what is 'top of mind' at the time of each survey.

Figure 25a: Single Biggest Concern - All Farms July 2009 - January 2013

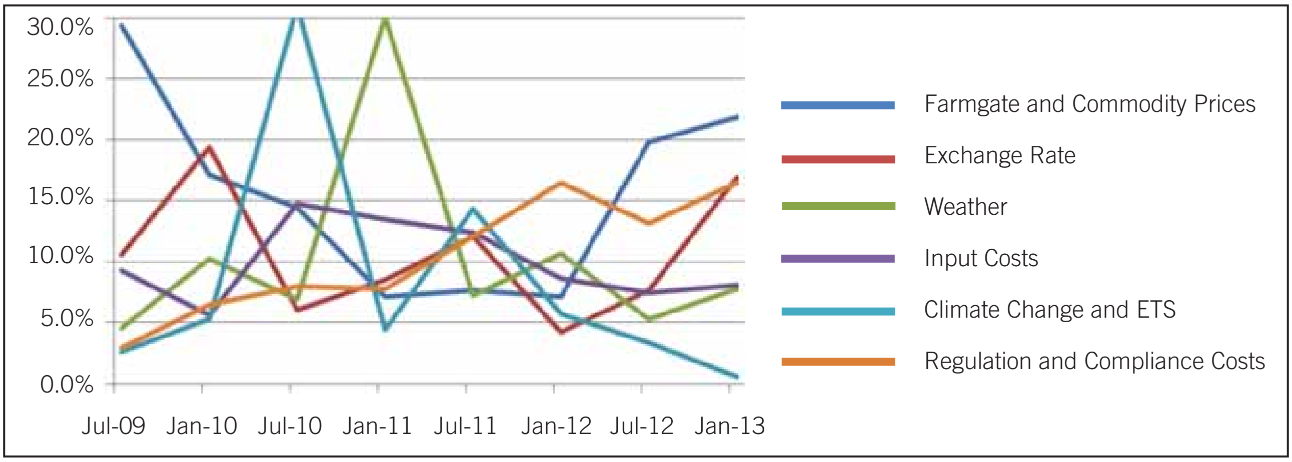
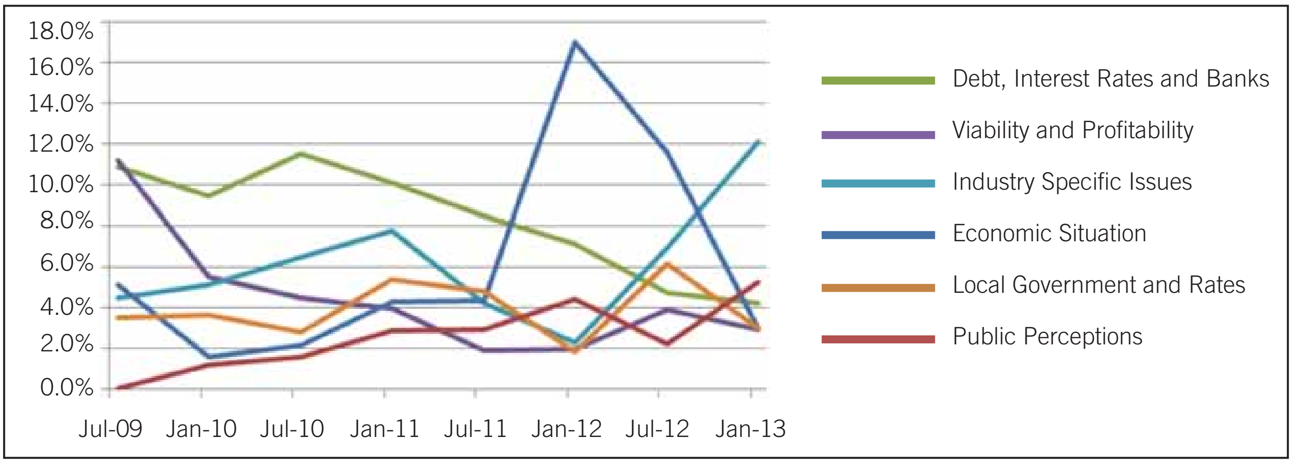


Figure 25b: Single Biggest Concern - All Farms July 2009 - January 2013



Industry Groups

For dairy farmers the issues of most concern are:

- Regulation and compliance costs, 22.8 percent.
- Exchange rate, 17.4 percent.
- Farmgate and commodity prices, 12.0 percent.

For meat and fibre farmers the issues of most concern are:

- Farmgate and commodity prices, 29.5 percent.
- Exchange rate, 16.5 percent.
- Industry specific issues, 15.4 percent.

For grains farmers the issues of most concern are:

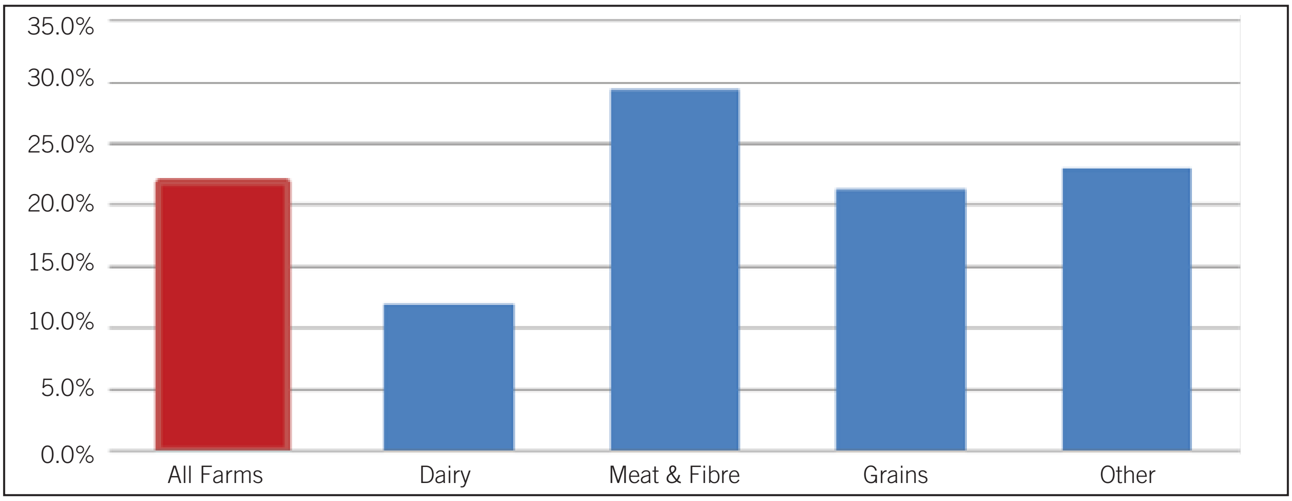
- Regulation and compliance costs, 25.0 percent.
- Farmgate and commodity prices, 21.3 percent.
- Industry specific issues, 17.6 percent.

For ‘other’ farmers the issues of most concern are:

- Farmgate and commodity prices, 23.1 percent.
- Exchange rate, 15.4 percent.
- Input costs, 15.4 percent.

Figure 26 shows how the concern about farmgate and commodity prices varied by industry group.

Figure 26: Farmgate and Commodity Prices as Concern by Industry Group January 2013



Regions

For Auckland-Northland farmers the issues of most concern are:

- Exchange rate, 28.3 percent.
- Weather, 13.0 percent.
- Input costs, 10.9 percent.

For Waikato-Bay of Plenty farmers the issues of most concern are:

- Regulation and compliance costs, 20.7 percent.
- Exchange rate, 16.9 percent.
- Farmgate and commodity prices, 14.6 percent.

For East Coast North Island farmers the issues of most concern are:

- Farmgate and commodity prices, 22.0 percent.
- Exchange rate, 17.3 percent.
- Industry specific issues, 17.3 percent.

For Taranaki-Manawatu farmers the issues of most concern are:

- Farmgate and commodity prices, 21.5 percent.
- Exchange rate, 18.4 percent.
- Regulation and compliance costs, 16.0 percent.

For West Coast-Tasman-Marlborough farmers the issues of most concern are:

- Farmgate and commodity prices, 29.2 percent.
- Industry specific issues, 20.8 percent.
- Exchange rate, 16.7 percent.
- Input costs, 16.7 percent.

For Canterbury farmers the issues of most concern are:

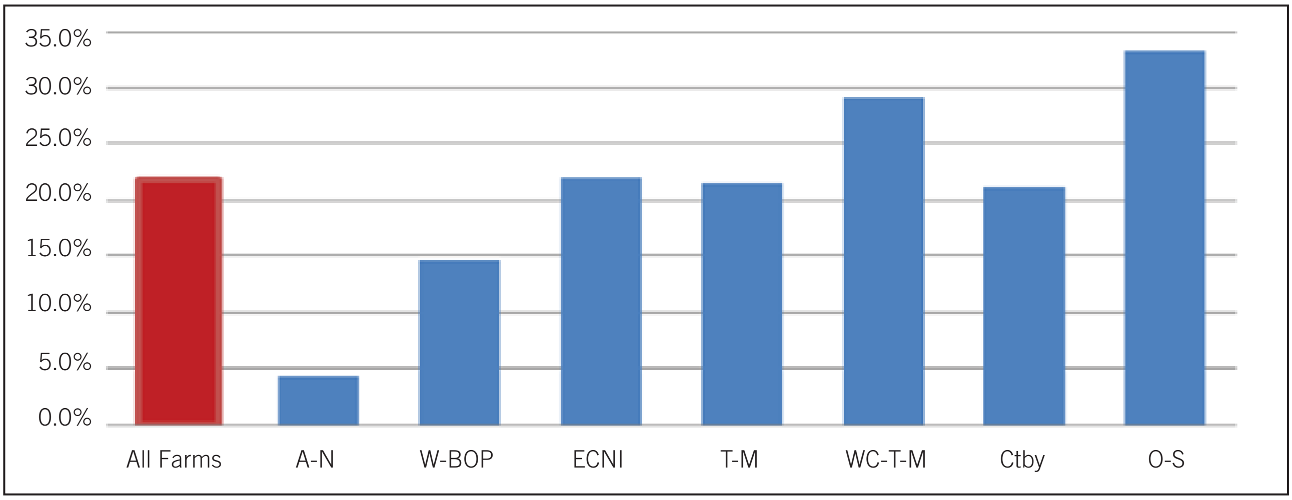
- Regulation and compliance costs, 23.2 percent.
- Farmgate and commodity prices, 21.1 percent.
- Exchange rate, 17.9 percent.

For Otago-Southland farmers the issues of most concern are:

- Farmgate and commodity prices, 33.3 percent.
- Industry specific issues, 21.5 percent.
- Regulation and compliance costs, 13.4 percent.

Figure 27 shows how the concern about regulation and compliance costs varied by region.

Figure 27: Farmgate and Commodity Prices as Concern by Region January 2013



HIGHEST PRIORITY FOR GOVERNMENT

When asked what they think should be the highest priority for the Government, once again more respondents are focused on fiscal policy. But heightened concern about the exchange rate means that monetary policy is nipping at its heels. Reducing government spending and reducing government debt attracted a combined 18.6 percent, down 7.1 points on last July.

The most cited responses were:

- Monetary policy i.e. the exchange rate, interest rates, banking, etc. 17.3 percent (up 10.1 points)
- Reduce government spending/balance the books, 12.1 percent (down 4.8 points)
- Reduce regulation and compliance costs, 11.1 percent (up 2.3 points)
- Economy and better business environment general, 8.5 percent (down 4.4 points)
- Reduce government debt, 6.5 percent (down 2.3 points)
- Employment and skills, 6.5 percent (up 1.6 points)
- Support agriculture and exporters, 5.3 percent (down 0.7 points).

There is no doubt that the strength of the NZ Dollar is causing considerable frustration among farmers. Although there are some who want intervention in the exchange rate, more accept that there is little the Government can do to directly control it, especially when it is being influenced mainly by global events. They have instead taken the view that reduced government spending and debt will help take pressure off the exchange rate and/or that less regulation and a better business environment would help build resilience against a high exchange rate.

Consistent with the diminished level of farmer concern about the ETS, there was a further drop to just 1.2 percent of the respondents citing scrapping or reducing cost from the ETS as their highest priority. This priority could quickly bounce back up if farmers perceive any threat of a change in policy. In July 2010, when the ETS came into force, more than 30 percent of respondents named it as their highest priority for action.

Figures 28a and 28b show how farmers' views on the priorities for the Government have tracked over the life of the survey

Figure 28a: Highest Priority for Government - All Farms July 2009 - January 2013

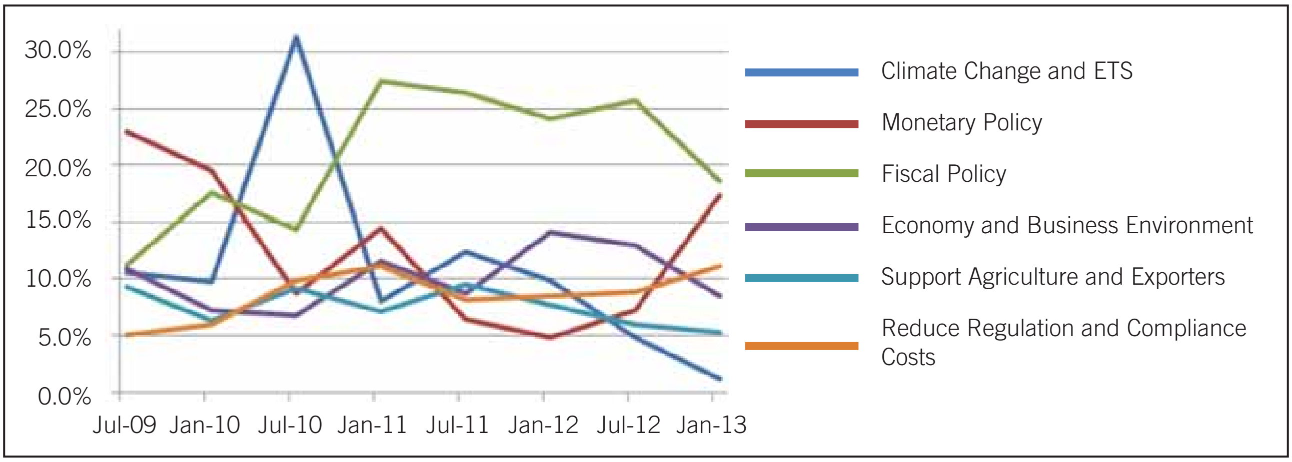
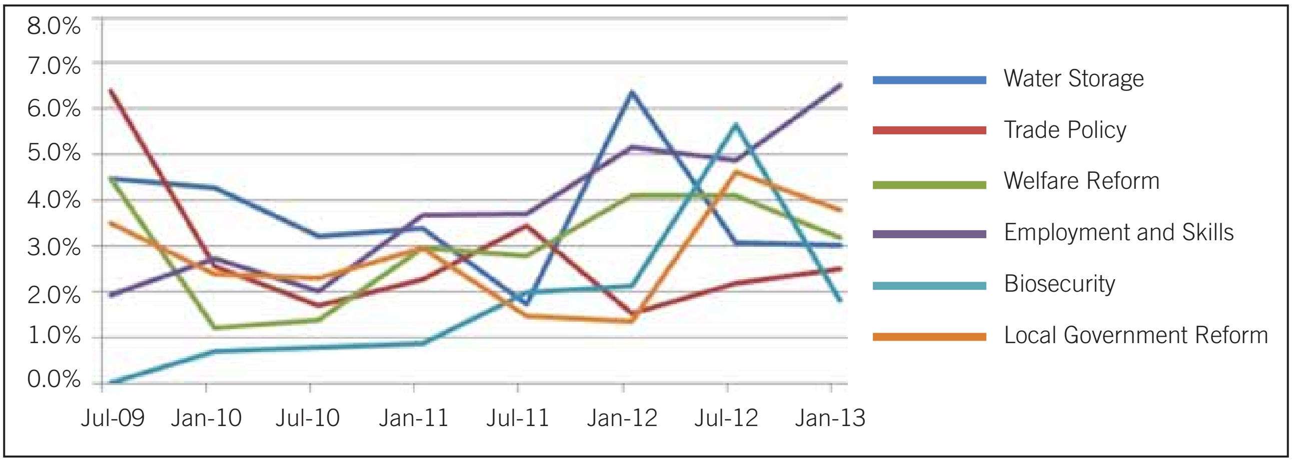


Figure 28b: Highest Priority for Government - All Farms July 2009 - January 2013



Industry Groups

According to dairy farmers the highest priorities for government should be:

- Monetary policy, 14.3 percent.
- Reduce regulation and compliance costs, 13.7 percent.
- Reduce government spending, 11.3 percent..

The combined total for fiscal policy of 16.7 percent was slightly lower than for all farms.

According to meat and fibre farmers the highest priorities for government should be:

- Monetary policy, 19.6 percent.
- Reduce government spending, 13.7 percent.
- Reduce regulation and compliance costs, 9.9 percent.

The combined total for fiscal policy of 20.1 percent was slightly higher than for all farms.

According to grains farmers the highest priorities for government should be:

- Monetary policy, 15.7 percent.
- Reduce regulation and compliance costs, 15.7 percent.
- Economy and business environment, 9.3 percent.

The combined total for fiscal policy of 10.2 percent was significantly lower than for all farms.

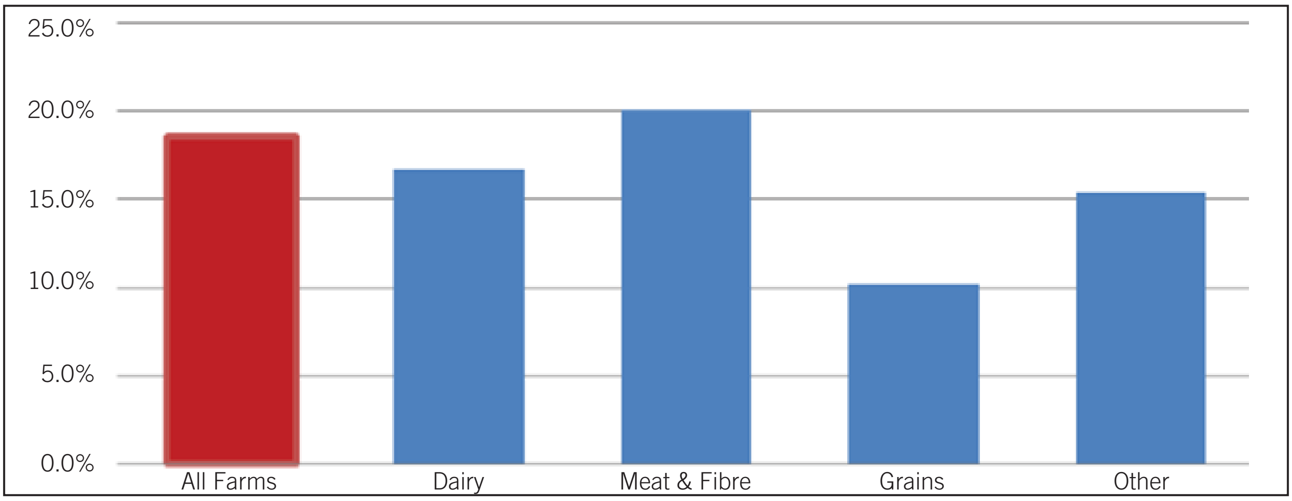
According to 'other' farmers the highest priorities for government should be:

- Monetary policy, 23.1 percent.
- Reduce government spending, 10.3 percent.
- Reduce regulation and compliance costs, 10.3 percent.

The combined total for fiscal policy of 15.4 percent was somewhat lower than for all farms.

Figure 29 shows how the combined fiscal policy priorities vary by industry group.

Figure 29: Fiscal Policy as Highest Priority by Industry Group January 2013



Regions

According to Auckland-Northland farmers the highest priorities for government should be:

- Monetary policy, 26.1 percent.
- Reduce government spending, 15.2 percent.
- Economy and business environment, 13.0 percent.

The combined total for fiscal policy of 17.4 percent is slightly lower than for all farms.

According to Waikato-Bay of Plenty farmers the highest priorities for government should be:

- Monetary policy, 14.6 percent.
- Reduce regulation and compliance, 11.7 percent.
- Reduce government debt, 10.3 percent.

The combined total for fiscal policy of 19.2 percent is slightly higher than for all farms.

According to East Coast North Island farmers the highest priorities for government should be:

- Reduce government spending, 17.3 percent.
- Monetary policy, 15.0 percent.
- Industry specific issues, 8.7 percent (mainly meat industry reform).

The combined total for fiscal policy of 22.0 percent is somewhat higher than for all farms.

According to Taranaki-Manawatu farmers the highest priorities for government should be:

- Monetary policy, 16.6 percent.
- Reduce government spending, 15.3 percent.
- Reduce regulation and compliance costs, 14.7 percent.

The combined total for fiscal policy of 19.0 percent is slightly higher than for all farms.

According to West Coast-Tasman-Marlborough farmers the highest priorities for government should be:

- Monetary policy, 16.7 percent.
- Reduce government debt, 12.5 percent.
- Reduce government spending, 10.4 percent.

The combined total for fiscal policy of 22.9 percent is somewhat higher than for all farms.

According to Canterbury farmers the highest priorities for government should be:

- Monetary policy, 12.6 percent.
- Reduce regulation and compliance costs, 11.1 percent.
- Reduce government spending, 9.5 percent.

The combined total for fiscal policy of 15.3 percent is somewhat lower than for all farms.

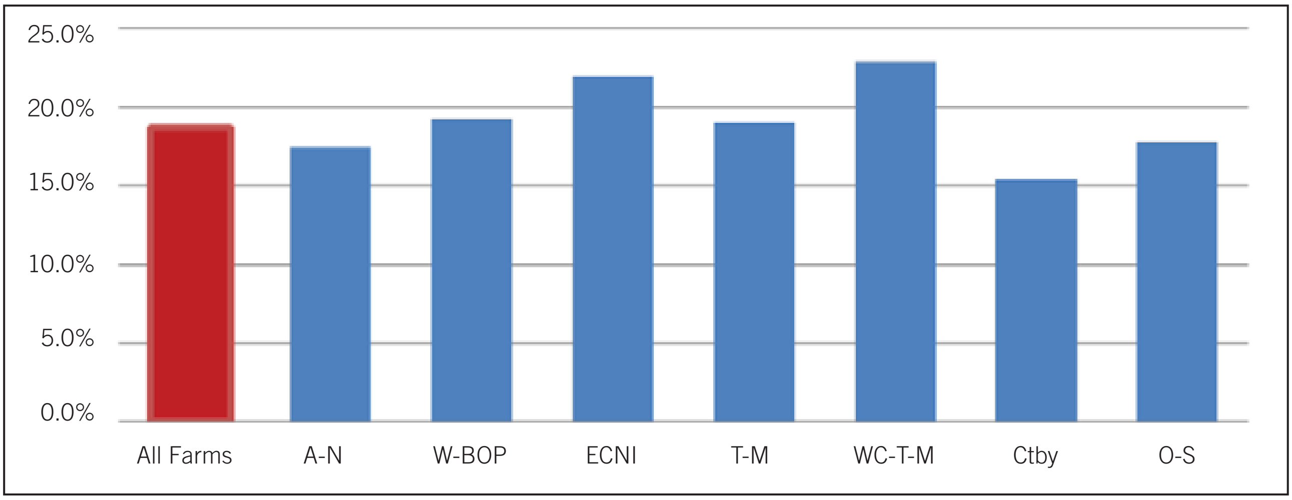
According to Otago-Southland farmers the highest priorities for government should be:

- Monetary policy, 25.3 percent.
- Reduce regulation and compliance costs, 12.4 percent.
- Reduce government spending, 11.8 percent.

The combined total for fiscal policy of 17.7 percent is slightly lower than for all farms.

Figure 30 shows how the combined fiscal policy priorities vary by region.

Figure 30: Fiscal Policy as Highest Priority by Region January 2013



ABOUT THIS SURVEY

Federated Farmers' January 2013 Mid-Season Farm Confidence Survey was a web-based member survey, held from 7-18 January 2013. The survey is run on a six monthly basis, with the next survey to be held in July 2013.

The January 2013 survey attracted 973 individual responses from the following Federated Farmers industry groups:

- Bees: 7
- Dairy: 460
- Goats: 10
- Grains: 108
- Meat and Fibre: 546
- Rural Butchers: 1
- High Country: 21

The 973 responses came from the following regions

- Auckland-Northland: 46
- Waikato-Bay of Plenty: 213
- East Coast North Island: 127
- Taranaki-Manawatu: 163
- West Coast-Tasman-Marlborough: 48
- Canterbury: 190
- Otago-Southland: 186

Industry Group Tables, Tables 1, 3, 5, 7, 9, 11

'All farms' includes respondents for the three major Federated Farmers industry groups, Dairy, Meat & Fibre, and Grains, as well as those from the smaller Federated Farmers industry groups, Bees, Goats, Rural Butchers, and High Country. The smaller groups' results are combined in the 'other' category.

Regions Tables, Tables 2, 4, 6, 8, 10, 12

The seven regions listed are comprised as follows:

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

Federated Farmers thanks those farmers who took the time to complete the survey and for their ongoing support.