



FEDERATED FARMERS

NEW SEASON FARM CONFIDENCE SURVEY

A TALE OF TWO ISLANDS: Farmers' confidence patchy in January



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THE FEDERATED FARMERS FARM CONFIDENCE SURVEY

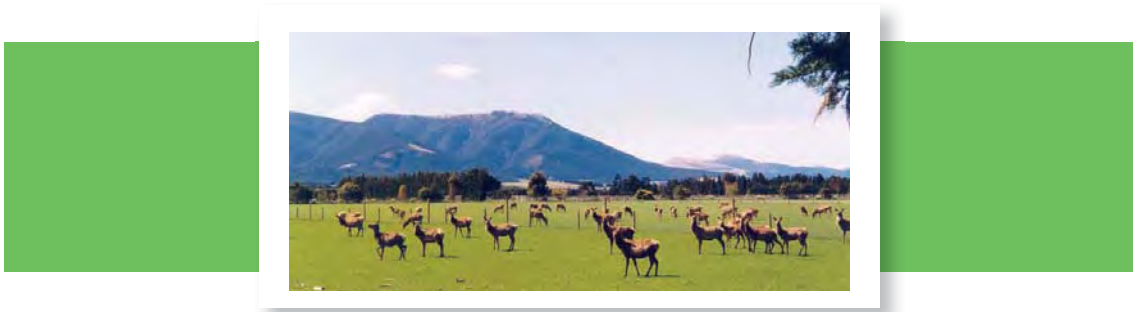
The Federated Farmers Farm Confidence Survey is a biannual survey of farm confidence. The two survey periods are at the commencement of the new season (July) and mid-season (January). It is an email survey of Federated Farmers members.

There have now been four surveys:

- July 2009
- January 2010
- July 2010
- January 2011

Reports from these surveys are available from Federated Farmers' website at: <http://www.fedfarm.org.nz/farmconfidencesurvey>.

The next survey will be undertaken and published in July 2011.



A TALE OF TWO ISLANDS: FARMERS CONFIDENCE PATCHY IN JANUARY

Farmers' confidence in the economy has edged up to a net 4.8 percent of respondents expecting improvement in the general economic environment over the coming 12 months. However, confidence is patchy with South Island farmers considerably more optimistic than those in the North Island, especially the upper North Island where confidence has gone negative.

As has been the case in previous surveys respondents are considerably more positive about the profitability of their own farms over the coming 12 months and the overwhelming depression recorded in 2009 has receded. The increase in optimism about profitability was particularly evident in the South Island while the upper North Island saw a considerable drop in optimism.

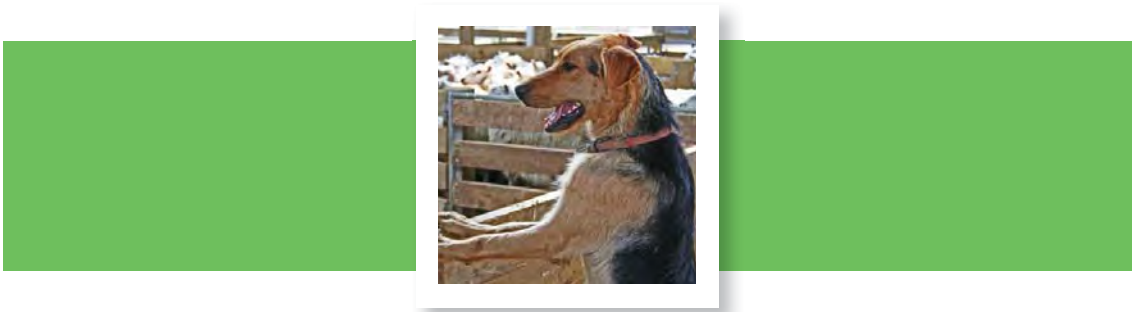
Production is still likely to increase over the coming 12 months but adverse weather conditions over recent months means that fewer farmers are expecting to increase production compared to last July's survey. Reduced expectations for production appears to be more of a North Island story, which in turn reflects concern about the La Niña weather pattern causing very dry conditions in areas like Northland, Auckland, Waikato and Taranaki.

More farmers are expecting to increase spending over the coming 12 months. In part this reflects improved confidence, especially in the South Island, but there is also a price effect with many farmers concerned about increasing input costs. Dry weather will also have an impact on spending due to increasing demand for supplementary feed.

Farmers continue to be focused on debt reduction with an increase in the proportion of farmers expecting to reduce debt over the coming 12 months. The small minority (14 percent) that expect to increase debt are more likely to be negative about their profitability which indicates that in contrast to the 2000s not so much of the new debt is being used for growth; rather it could be better described as 'survival debt'.

The farm labour market is highly seasonal, but it also appears that it has tightened with a net 5.8 percent of respondents reported it being harder to find skilled and motivated staff. The labour market appears to be especially tight in the South Island, another indication that its rural economy is more buoyant.

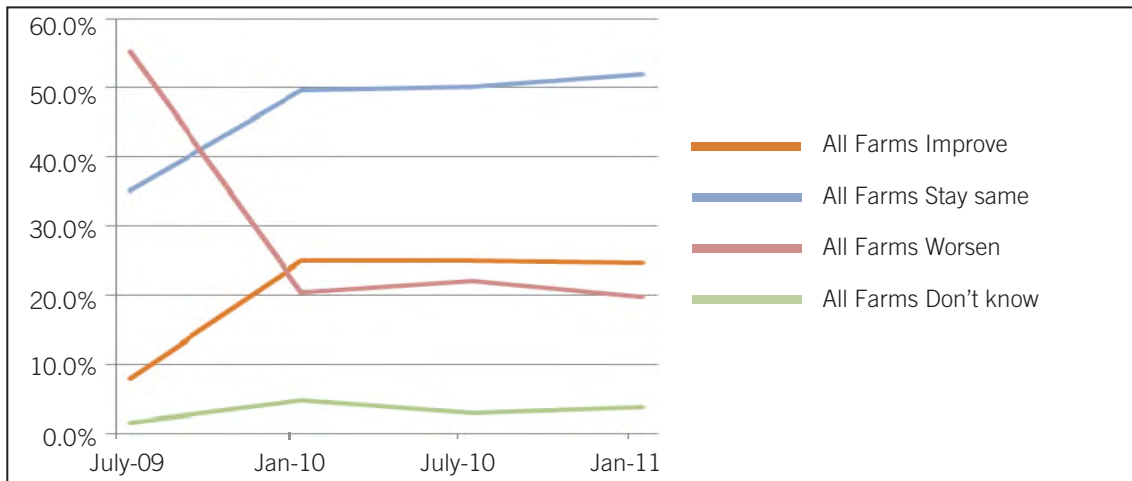
Dairy farmers remain the most optimistic of the Federation's industry groups, but the gap with meat and fibre and grains farmers narrowed in January. This narrowing partly reflects improved confidence for meat and fibre as well as grains farmers thanks to improved commodity prices. However, it is also a reflection of reduced confidence felt by dairy farmers who, despite enjoying the benefits of high commodity prices, are in many instances expecting lower production and lower profits due to dry weather conditions.



GENERAL ECONOMIC CONDITIONS

A net 4.8 percent of respondents expect general economic conditions to improve over the coming 12 months¹. This is slightly higher than the previous survey run last July, in which a net 2.9 percent expected conditions to improve. Confidence returns to a similar level prevailing this time last year (when a net 4.4 percent expected improvement). 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 2011)



¹ The 'net' figure is the difference between those expecting the economy to improve (24.6%) and those expecting it to worsen (19.7%).

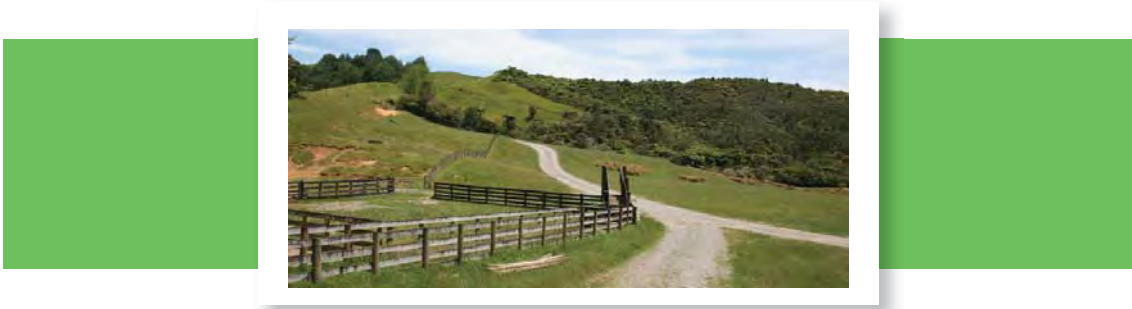
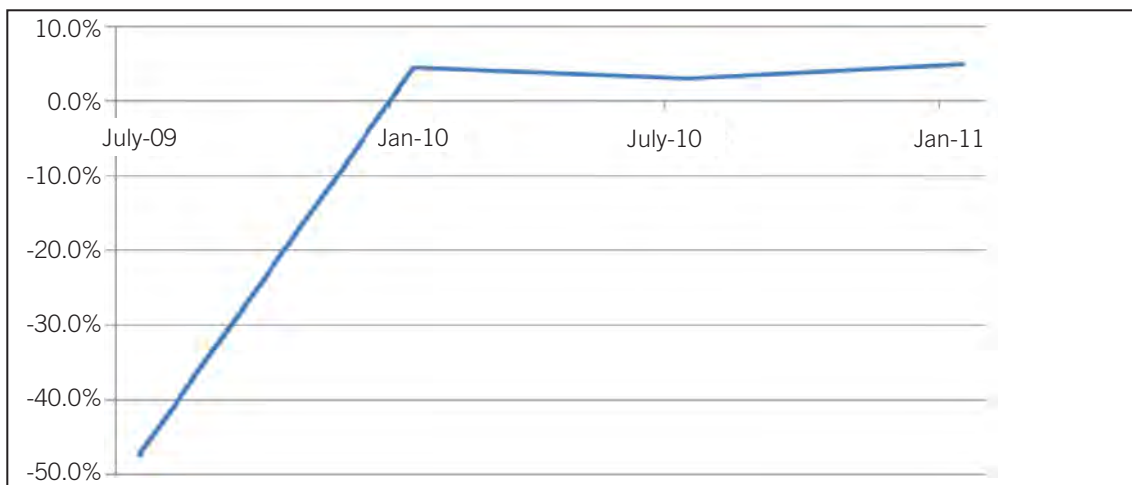


Figure 2: Net General Economic Conditions - All Farms (July 2009 - January 2011)



Industry Groups

Grains farmers are now the most optimistic of the main Federated Farmers industry groups, with a net 9.2 percent expecting an improvement in the economy. This is a major turnaround from last July when a net 13.4 percent of grains farmers were expecting the economy to worsen.

There has also been a turnaround in the optimism of meat and fibre farmers, with a net 1.3 percent expecting an improvement. This is an improvement from last July when a net 11.7 percent of meat and fibre farmers expected the economy to worsen. It is also the first time since the survey commenced that there are more optimists than pessimists among meat and fibre farmers.

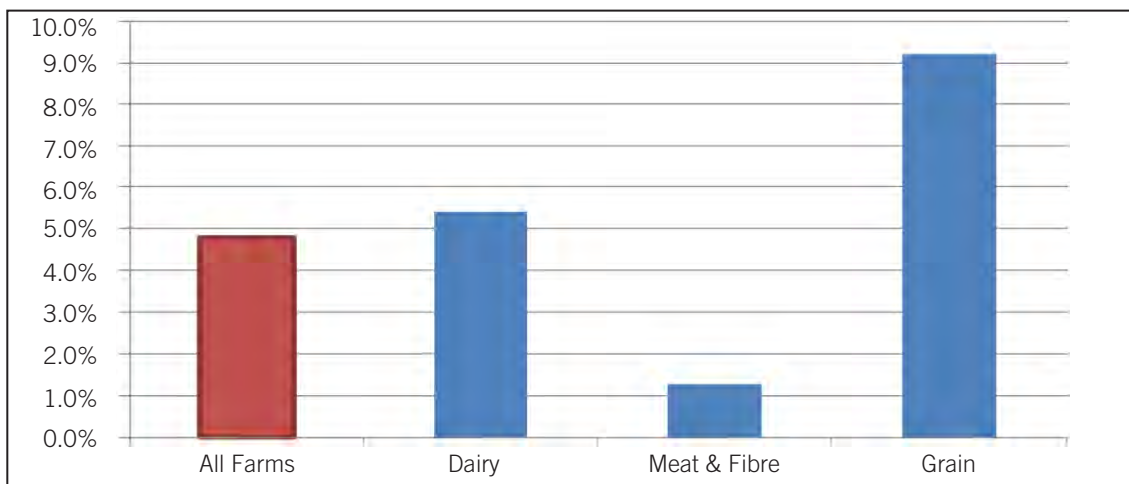
However, while grains farmers and meat and fibre farmers have enjoyed lifts in confidence, the optimism of dairy farmers has taken a hit in the wake of La Niña drought conditions in the traditional North Island dairying areas. As a result a net 5.4 percent of dairy farmers are now expecting an improvement in the economy, down from a net 28.5 percent last July



TABLE ONE: General Economic Conditions by Industry Group

	Jan 2011 Improve	Jan 2011 Stay the Same	Jan 2011 Worsen	Jan 2011 Don't Know	Jan 2011 Net	July 2010 Net
All Farms ²	24.6%	52.1%	19.7%	3.7%	+4.8%	+2.9%
Dairy	24.6%	52.7%	19.2%	3.4%	+5.4%	+28.5%
Meat & Fibre	23.1%	51.5%	21.8%	3.7%	+1.3%	-11.7%
Grains	27.6%	48.7%	18.4%	5.3%	+9.2%	-13.4%

Figure 3: Net Confidence in General Economic Conditions by Industry Group (January 2011)



Regions

There has also been a significant transformation in confidence at a regional level, with South Island farmers now much more optimistic about the general economy than those in the North Island. Last July, the North Island was optimistic and the South Island was pessimistic, but this feeling has now been reversed. Again, the weather is likely to have been a major factor behind the decline in confidence among North Island farmers but it cannot explain the large increases in confidence in the South Island.

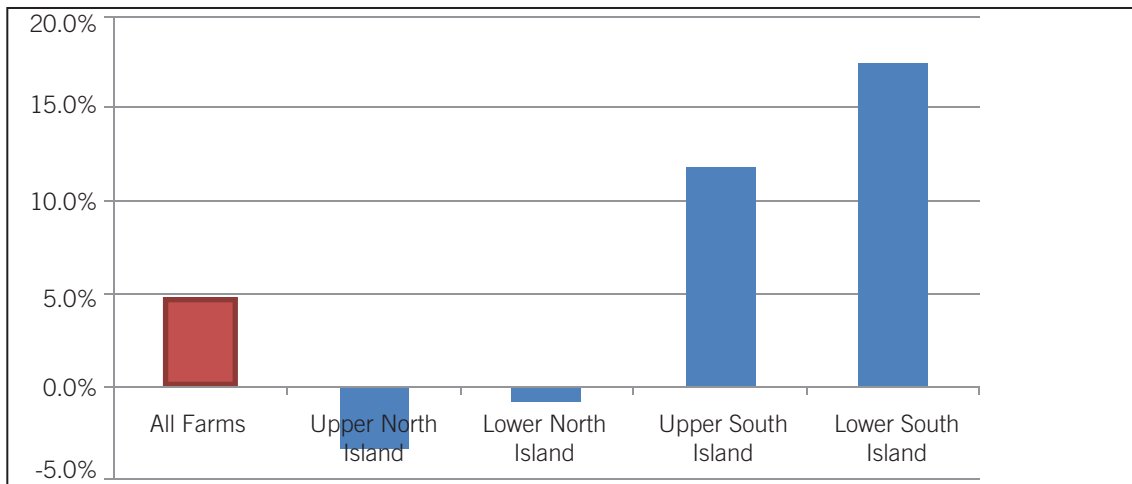
² See the section 'About the Survey' for an explanation of the industry groups.



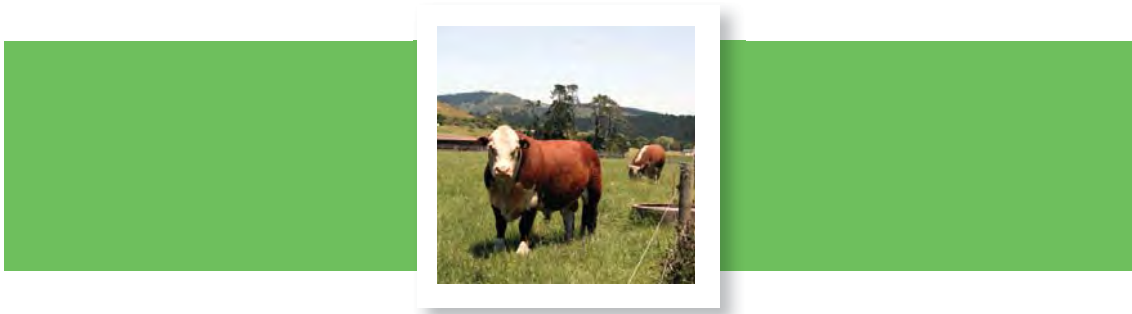
TABLE TWO: General Economic Conditions by Region

	Jan 2011 Improve	Jan 2011 Stay the Same	Jan 2011 Worsen	Jan 2011 Don't Know	Jan 2011 Net	July 2010 Net
All Farms³	24.6%	52.1%	19.7%	3.7%	+4.8%	+2.9%
Upper North Island	17.9%	57.3%	21.4%	3.4%	-3.4%	+17.6%
Lower North Island	21.8%	51.1%	22.6%	4.5%	-0.8%	+9.7%
Upper South Island	29.0%	51.7%	17.0%	2.3%	+11.9%	-12.2%
Lower South Island	33.3%	46.8%	15.8%	4.1%	+17.5%	-10.2%

Figure 4: Net Confidence in General Economic Conditions by Region (January 2011)



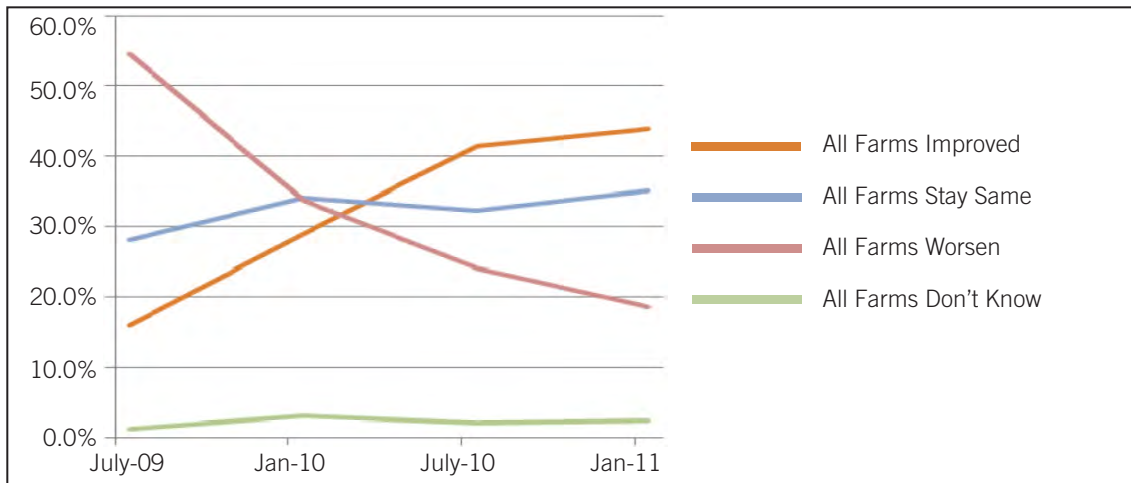
³ See the section 'About the Survey' for a description of each region.



FARM PROFITABILITY

Perhaps a more accurate reflection of farmer sentiment is in the prospects for their own businesses, where **a net 25.5 percent of respondents are expecting their profitability to improve over the coming 12 months⁴**. This is a further improvement from last July's survey where a net 17.3 percent expected their profitability to improve and from this time last year when a net 5.0 percent expected their profitability to worsen. Figures 5 and 6 show how profit expectations have tracked over the life of the survey.

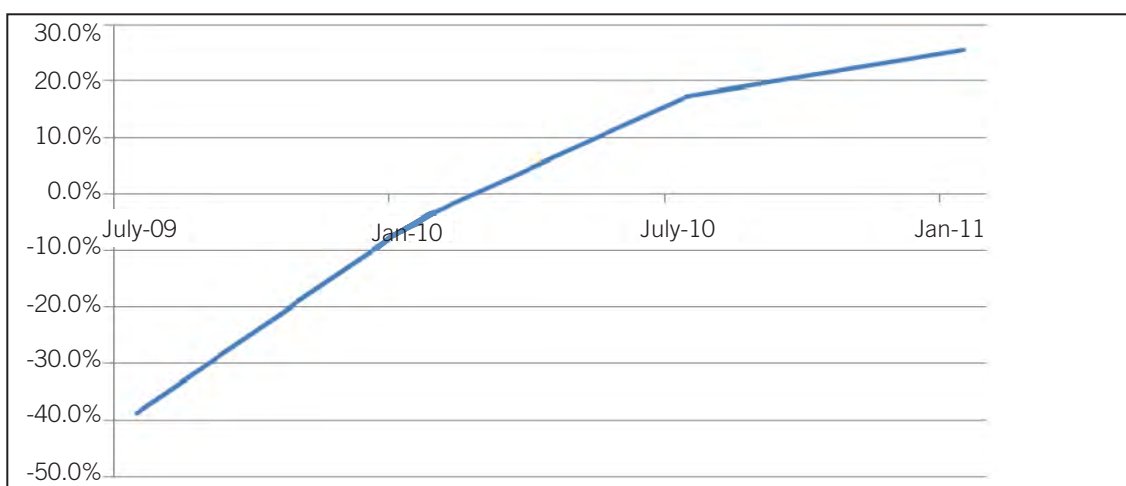
Figure 5: Farm Profitability - All Farms (July 2009 - January 2011)



⁴ The 'net' figure is the difference between those expecting their profitability to improve (44.0%) and those expecting it to worsen (18.5%).



Figure 6: Net Farm Profitability - All Farms (July 2009 - January 2011)



Industry Groups

Dairy farmers continue to be the most optimistic with a net 29.2 percent expecting to be more profitable over the coming 12 months, but this is down from last July's net 52 percent. Dairy commodity prices have been strong in recent months and as a result Fonterra's forecast milk price was revised upwards in December to \$6.90 per kilogram of milksolids (kg/MS). However, this good news has not translated into higher profit expectations. The drop in expectations is largely due to La Niña drought conditions in traditional dairy areas impacting on production forecasts and resulting in higher feed costs, which impact on expenses.

Meat and fibre farmers have had a significant turnaround in profit expectations, with a net 24.1 percent expecting to be more profitable. This compares to last July's net 2.7 percent expecting profits to worsen. World meat and wool prices have improved in recent months and lower lamb numbers are causing an increase in price expectations. However, the widely reported problems with the meat and wool industries, coupled with a high and volatile exchange rate, continue to weigh on meat and fibre producers' minds as they look ahead.

Grain farmers have seen an even bigger turnaround in profit expectations. In January a net 15.8 percent expect to be more profitable, compared to last July's 14.9 percent expecting profits to worsen. However, grains farmers remain the least optimistic of the Federation's three main industry groups.

All farmers report concern about increasing farm input costs eroding their margins. Dairy farmers are particularly wary about optimistic milk price forecasts encouraging suppliers to lift the prices for their farm inputs.

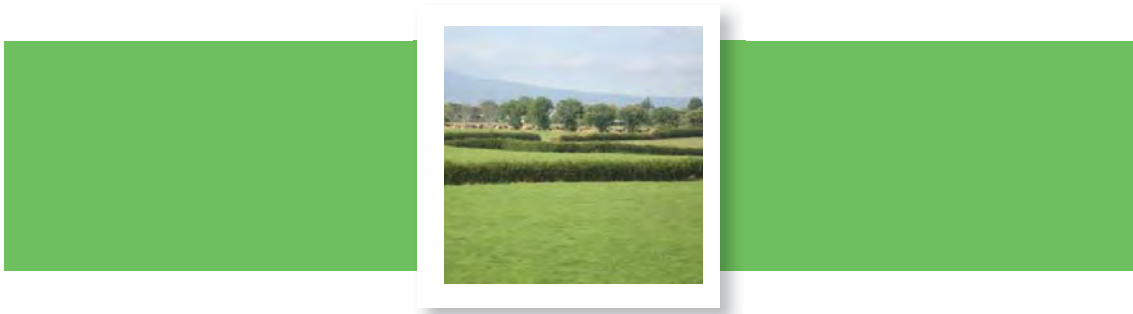
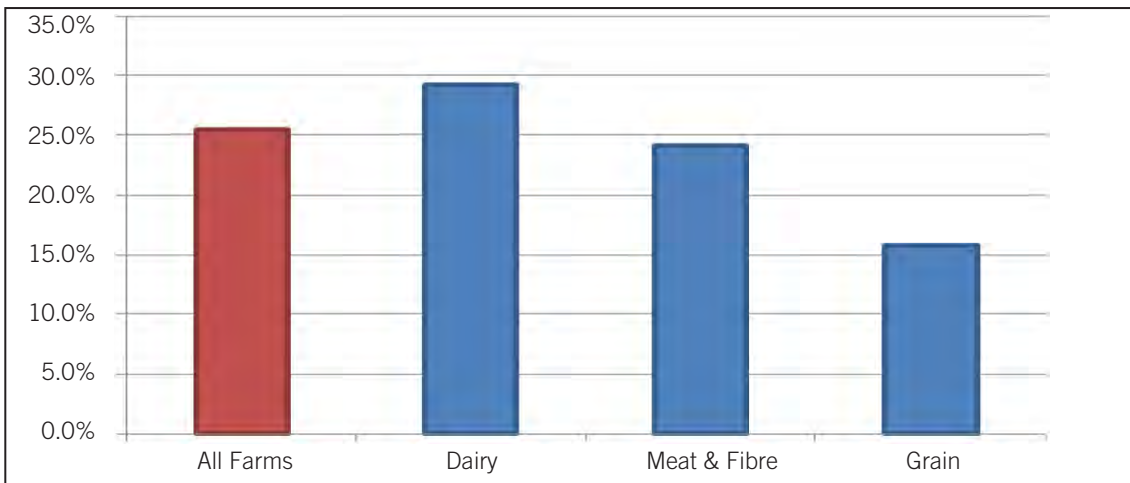


TABLE THREE: Own Farm Profitability by Industry Group

	Jan 2011 Improve	Jan 2011 Stay the Same	Jan 2011 Worsen	Jan 2011 Don't Know	Jan 2011 Net	July 2010 Net
All Farms ⁵	44.0%	35.1%	18.5%	2.4%	+25.5%	+17.3%
Dairy	45.8%	35.5%	16.6%	2.0%	+29.2%	+52.0%
Meat & Fibre	43.8%	33.7%	19.6%	2.9%	+24.1%	-2.7%
Grains	36.8%	40.8%	21.1%	1.3%	+15.8%	-14.9%

Figure 7: Net Expectations of Own Farm Profitability by Industry Group (January 2011)



Regions

All four regions have more farmers expecting their own farm's profitability to improve than worsen and all but one of the regions has seen an improvement in profit forecasts since last July. The exception is the upper North Island, where the impact of La Niña drought conditions on profitability has seen that region go from being the most optimistic about profit expectations in July to being the least optimistic in January. The most optimistic region is now the lower South Island.

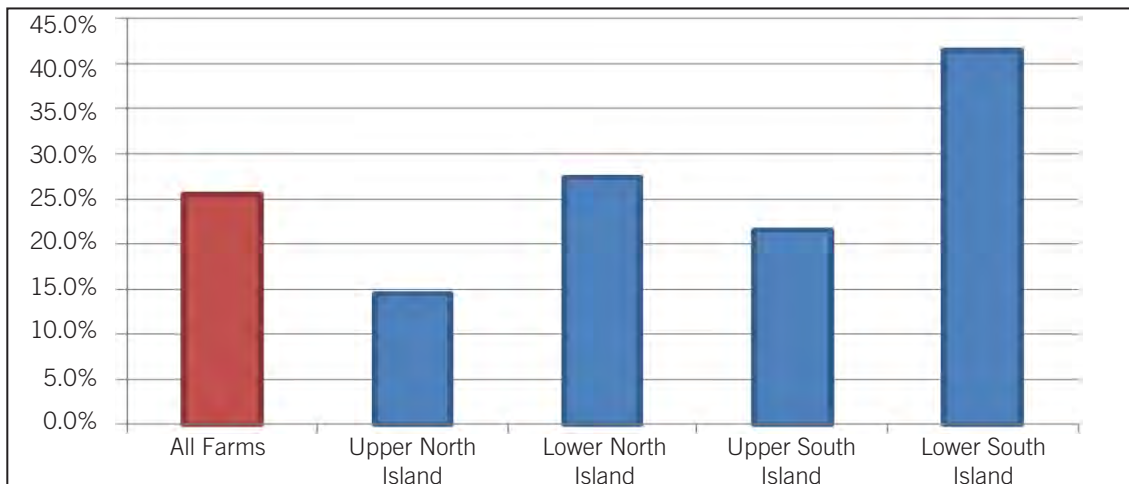
⁵ See the section 'About the Survey' for an explanation of the industry groups.



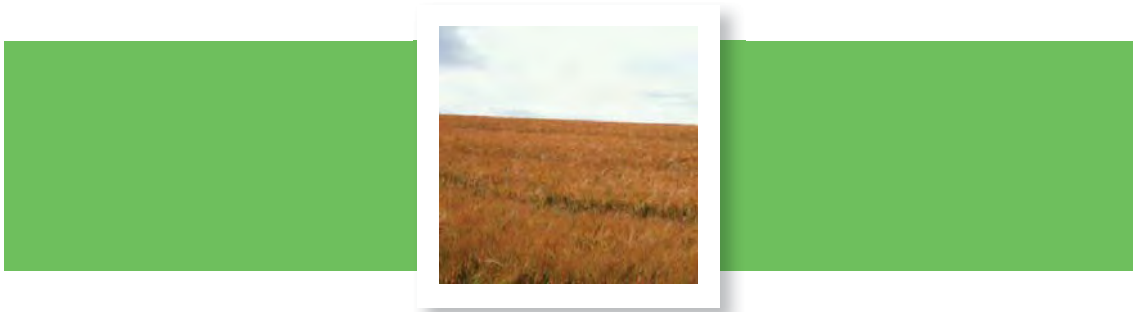
TABLE FOUR: Own Farm Profitability by Region

	Jan 2011 Improve	Jan 2011 Stay the Same	Jan 2011 Worsen	Jan 2011 Don't Know	Jan 2011 Net	July 2010 Net
All Farms⁶	44.0%	35.1%	18.5%	2.4%	+25.5%	+17.3%
Upper North Island	34.2%	41.9%	19.7%	4.3%	+14.5%	+39.7%
Lower North Island	43.6%	37.6%	16.2%	2.6%	+27.4%	+19.9%
Upper South Island	43.8%	33.5%	22.2%	0.6%	+21.6%	-1.8%
Lower South Island	58.5%	23.4%	17.0%	1.2%	+41.5%	+5.7%

Figure 8: Net Expectations of Own Farm Profitability by Region (January 2011)



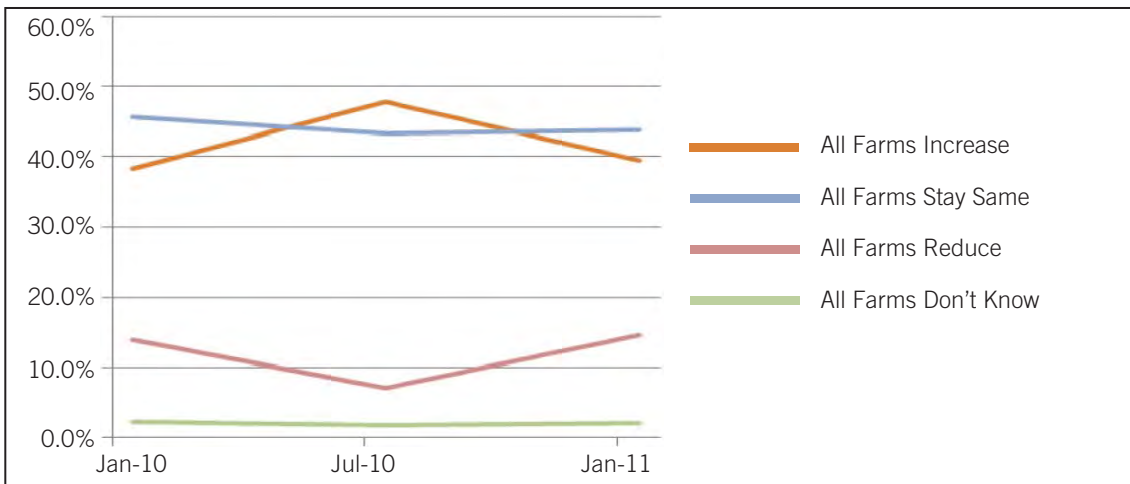
⁶ See the section 'About the Survey' for a description of each region.



FARM PRODUCTION

There has been a decline in the proportion of farmers expecting to increase production, with **a net 24.8 percent expect to increase production over the coming 12 months⁷**. This is down from a net 40.6 percent in last July's survey and returns production forecasts to a similar level to that prevailing this time last year (when a net 24.4 percent expected to increase production). Figures 9 and 10 show how production expectations have tracked over the life of the survey.

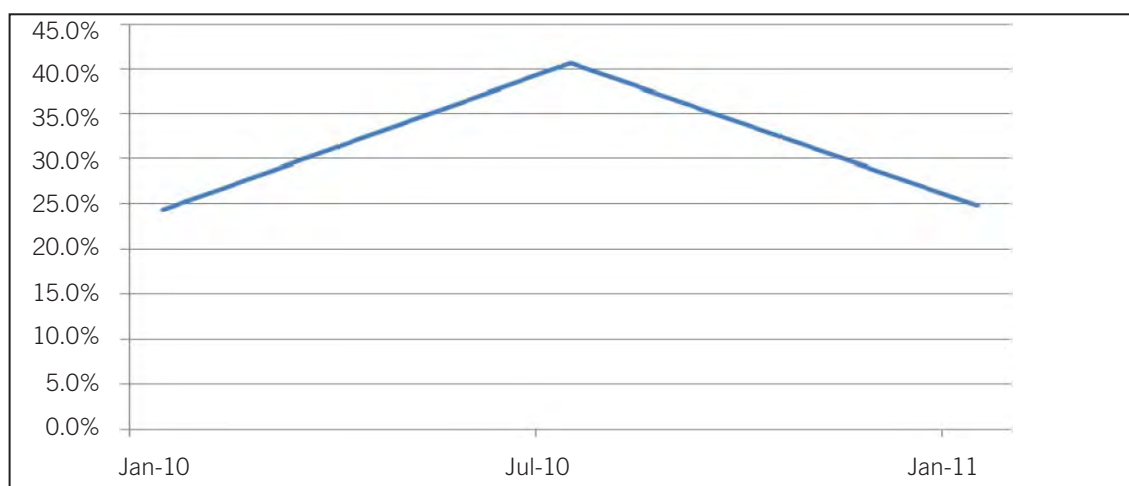
Figure 9: Farm Production - All Farms (July 2009 - January 2011)



⁷ The 'net' figure is the difference between those expecting their production to increase (39.4%) and those expecting it to reduce (14.6%).



Figure 10: Net Farm production - All Farms (January 2010 - January 2011)



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

Last July increased forecasts for production reflected of farmers hoping for a return to more normal weather patterns (and therefore production) following drought conditions experienced in many parts of the country in the preceding summer and autumn. However, these hopes were cruelly dashed by September's floods and snow storms followed more recently by La Niña's dry conditions. As a result many farmers have revised downward their expectations.

Industry Groups

A net 25.8 percent of dairy farmers expect to produce more, down sharply from a net 63.9 percent last July and below last January's net 29.9 percent. Milk production is particularly sensitive to dry conditions, particularly in traditional dairying areas that do not have widespread irrigation. Dairy farmers are particularly concerned about the dry weather and its impact on production, with 35 percent of dairy respondents citing it as their primary concern at present.

A net 20.4 percent of meat and fibre farmers expect to produce more, down from a net 26.7 percent last July but up from last January's net 17.8 percent. Over recent years, there has been a significant drop in sheep numbers due to drought conditions in various parts of the country and more generally, in response to several years of poor farm-gate prices for sheep meat and wool. The latter trend has been encouraging land use change, such as converting to dairy and forestry planting. It will take time for capital stock to recover even assuming no further change in land use away from meat and fibre.

A net 32.9 percent of grains farmers expect to increase production, up from a net 22.4 percent last July, and very similar to last January's net 33.8 percent.

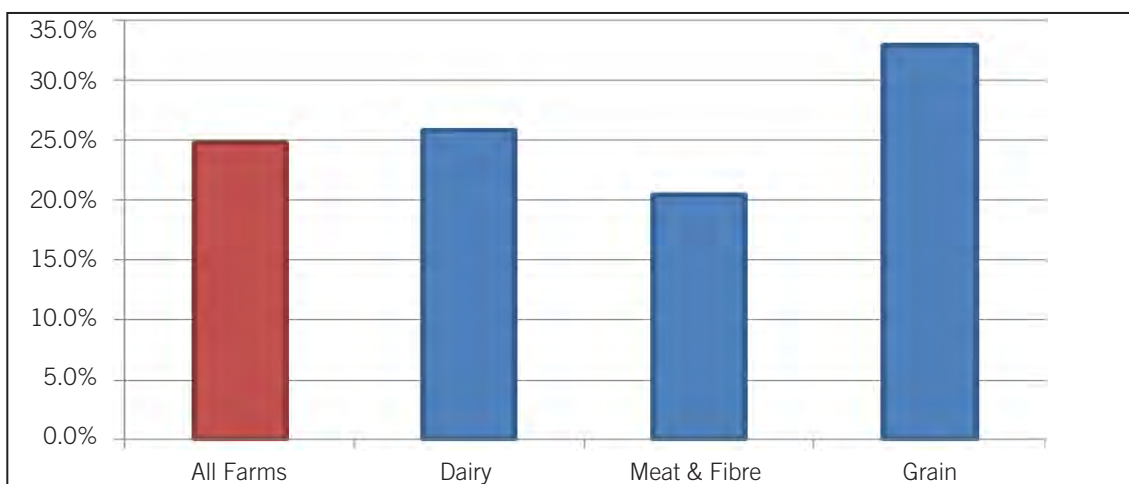


The risk of drought and the impact this can have on production highlights the need for water harvesting and storage.

TABLE FIVE: Farm Production by Industry Group

	Jan 2011 Increase	Jan 2011 Stay the Same	Jan 2011 Reduce	Jan 2011 Don't Know	Jan 2011 Net	July 2010 Net
All Farms ^a	39.4%	43.8%	14.6%	2.1%	+24.8%	+40.6%
Dairy	41.8%	39.3%	16.0%	2.9%	+25.8%	+63.9%
Meat & Fibre	36.1%	46.2%	15.6%	2.1%	+20.4%	+26.7%
Grains	39.5%	53.9%	6.6%	0.0%	+32.9%	+22.4%

Figure 11: Net Expectations of Farm Production by Industry Group (January 2011)



Regions

All four regions remain 'net positive' in terms of production expectations, but the two North Island regions saw significant drops in their net figures, with the upper North Island down from last July's net 51.5 percent expecting to increase production to a net 15.0 percent in January. Bucking the trend of

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



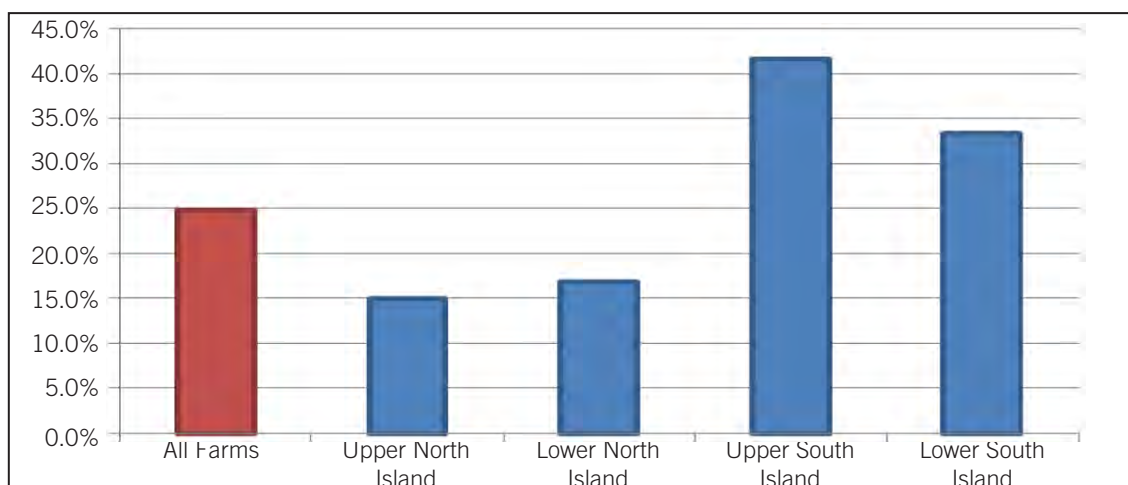
decline in net production forecasts was the upper South Island which saw an increase from last July's net 23.2 percent expecting to increase production to a net 41.5 percent in January.

The Lower South Island's decline (from a net 42.7 percent to a net 33.3 percent expecting to increase production) is surprisingly small given the impact of September's severe snowstorm which saw huge stock losses in Southland and South Otago. Farmers there are no doubt looking forward to a 'normal' spring lambing in 2011.

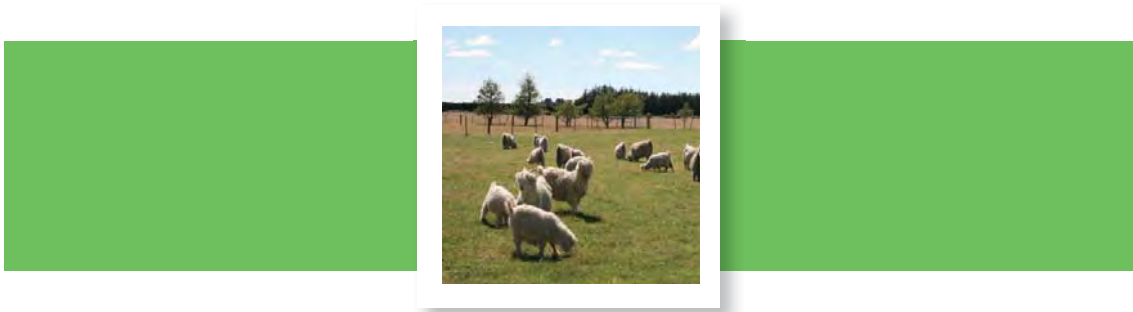
TABLE SIX: Farm Production by Region

	Jan 2011 Improve	Jan 2011 Stay the Same	Jan 2011 Worsen	Jan 2011 Don't Know	Jan 2011 Net	July 2010 Net
All Farms ⁹	39.4%	43.8%	14.6%	2.1%	+24.8%	+40.6%
Upper North Island	32.9%	44.4%	17.9%	4.7%	+15.0%	+51.5%
Lower North Island	33.1%	48.9%	16.2%	1.9%	+16.9%	+41.6%
Upper South Island	51.1%	38.1%	9.7%	1.1%	+41.5%	+23.2%
Lower South Island	46.2%	40.9%	12.9%	0.0%	+33.3%	+42.7%

Figure 12: Net Expectations of Farm Production by Region (January 2011)



⁹ See the section 'About the Survey' for a description of each region.

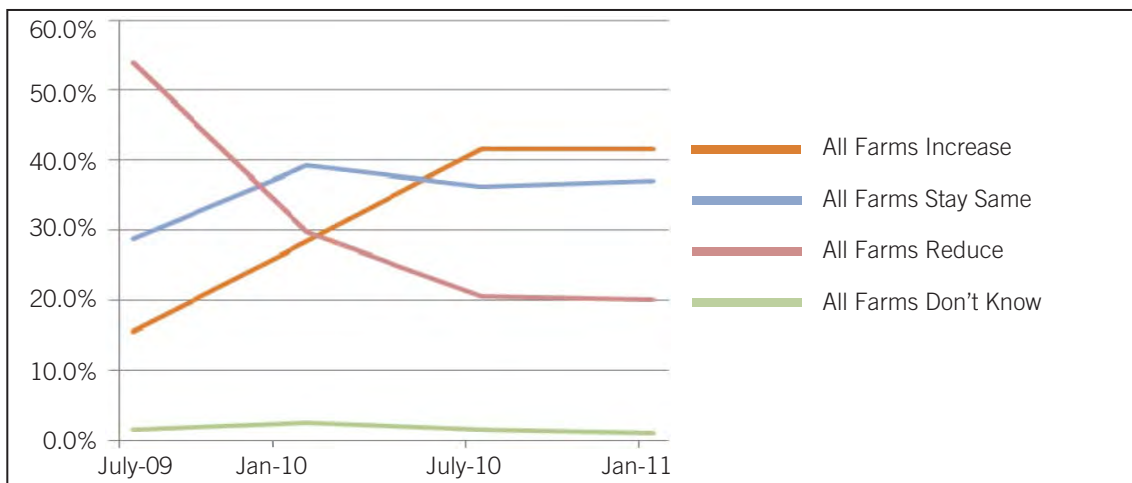


FARM SPENDING

Given that farmers collectively spend billions of dollars in their local and regional economies, asking farmers whether they expect to spend more can be an important barometer of economic trends at a regional level.

There has been little change in the proportion of farmers expecting to increase their spending over the next 12 months. **Overall, a net 21.6 percent of respondents expect to lift their spending¹⁰**, a slight increase on last July's net 21.2 percent, and well up on last January's net 1.4 percent who were expecting to cut spending. Figures 13 and 14 show how spending expectations have tracked over the life of the survey.

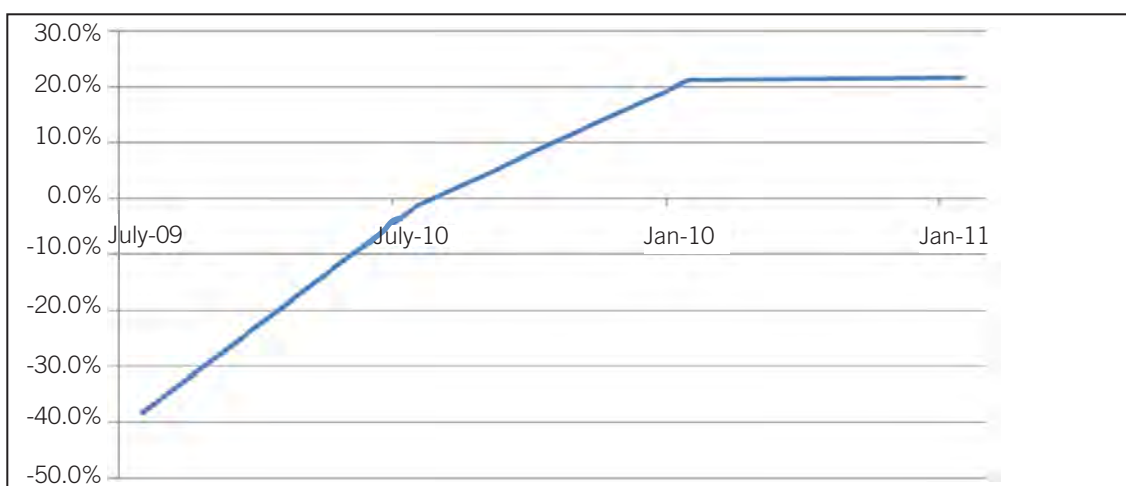
Figure 13: Farm Spending - All Farms (July 2009 - January 2011)



¹⁰ The 'net' figure is the difference between those expecting their spending to increase (41.7%) and those expecting it to reduce (20.1%).



Figure 14: Net Farm Spending - All Farms (July 2009 - January 2011)



It is important to recognise that while some farmers will be increasing their spending to purchase more goods and services, many are simply factoring in the impact of increased prices due to last October's GST increase and the impact of higher local authority rates, ACC levies, and fuel and electricity prices. Farmers across the board are concerned about increasing farm input costs, especially those influenced by local and central government.

Industry Groups

Dairy farmers are still the most likely to open their wallets, with a net 30.7 percent expecting to increase spending. This is down slightly on a net 33.1 percent last July but remains well up on last January's net 1.7 percent. Usually, a reduction in optimism will translate to lower spending, but this not always the case when it is caused by a drought. The La Niña dry weather appears to be forcing many dairy farmers in affected areas to increase spending on supplementary feed in order to maintain production levels.

A net 14.6 percent of meat and fibre farmers expect to increase their spending, up from a net 1.6 percent intending to increase spending last July and this time last year when a net 4.3 percent were expecting to cut spending. Although there will be a confidence effect behind this increase in spending intentions, much of this expected increase in spending will be due to predictions of higher prices rather than buying more goods and services.

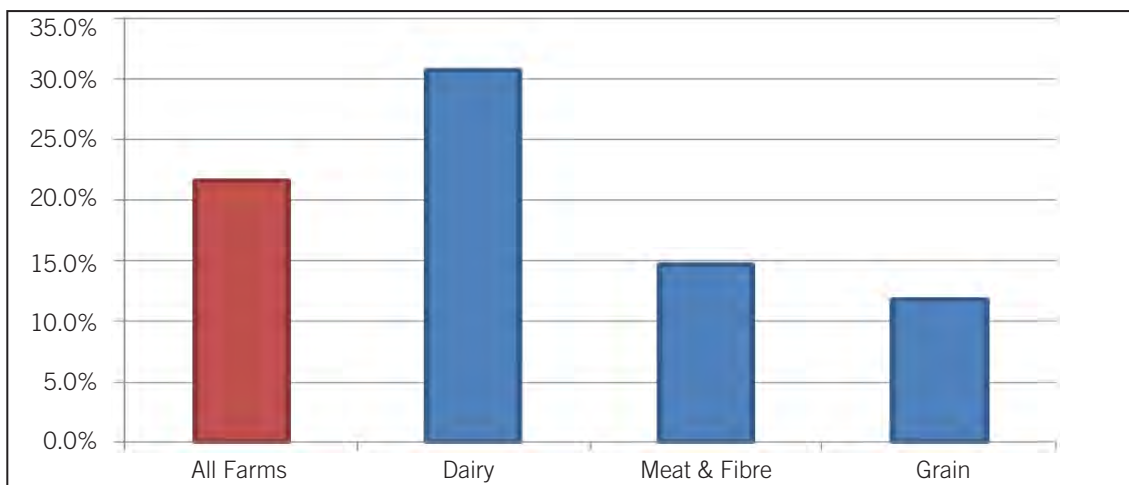
Meanwhile, a net 11.8 percent of grains farmers say they will increase their spending, down from a net 16.4 percent expecting to reduce spending last July but up from a net 2.9 percent expecting to reduce spending this time last year. It is interesting that a smaller proportion of grains farmers are expecting to increase spending despite being relatively more optimistic



TABLE SEVEN: Farm Spending by Industry Group

	Jan 2011 Increase	Jan 2011 Stay the Same	Jan 2011 Reduce	Jan 2011 Don't Know	Jan 2011 Net	July 2010 Net
All Farms ¹¹	41.7%	37.2%	20.1%	1.1%	+21.6%	+21.2%
Dairy	47.9%	34.4%	17.2%	0.6%	+30.7%	+33.1%
Meat & Fibre	36.6%	39.8%	22.0%	1.6%	+14.6%	+1.6%
Grains	36.8%	36.8%	25.0%	1.3%	+11.8%	+16.4%

Figure 15: Net Expectations of Farm Spending by Industry Group (January 2011)



Regions

As with confidence indicators from other surveys, there was a very different story between north and south. The two North Island regions had falls in net spending expectations compared to last July, while the two South Island regions had increases. The region with the most net responders expecting to increase spending is upper South Island (34.7 percent) while lower North Island has the lowest net figure (10.5 percent). However, all four regions remain in positive territory.

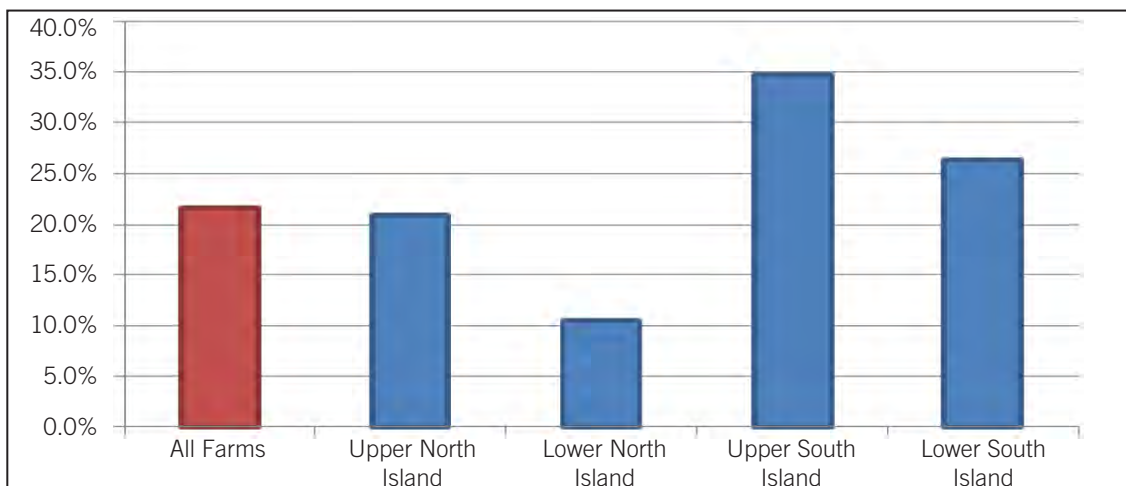
¹¹ See the section 'About the Survey' for an explanation of the industry groups.



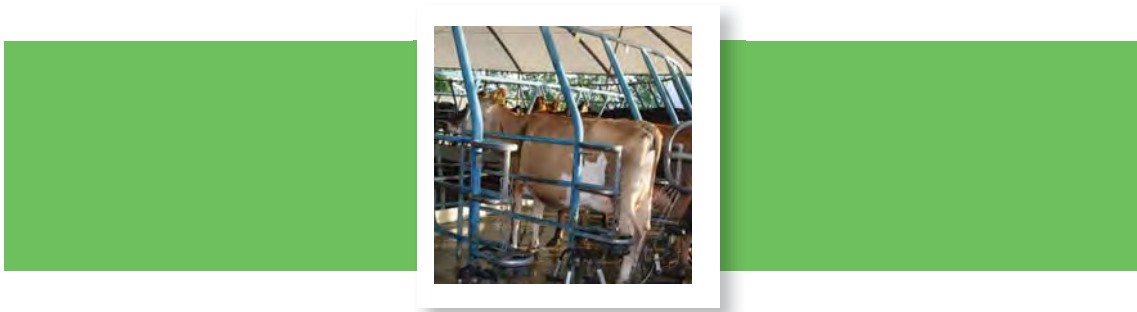
TABLE EIGHT: Farm Spending by Region

	Jan 2011 Increase	Jan 2011 Stay the Same	Jan 2011 Reduce	Jan 2011 Don't Know	Jan 2011 Net	July 2010 Net
All Farms¹²	41.7%	37.2%	20.1%	1.1%	+21.6%	+21.2%
Upper North Island	44.9%	29.9%	23.9%	1.3%	+20.9%	+27.9%
Lower North Island	33.1%	42.5%	22.6%	1.9%	+10.5%	+15.0%
Upper South Island	49.4%	35.2%	14.8%	0.6%	+34.7%	+26.8%
Lower South Island	42.7%	40.9%	16.4%	0.0%	+26.3%	+14.0%

Figure 16: Net Expectations of Farm Spending by Region (January 2011)



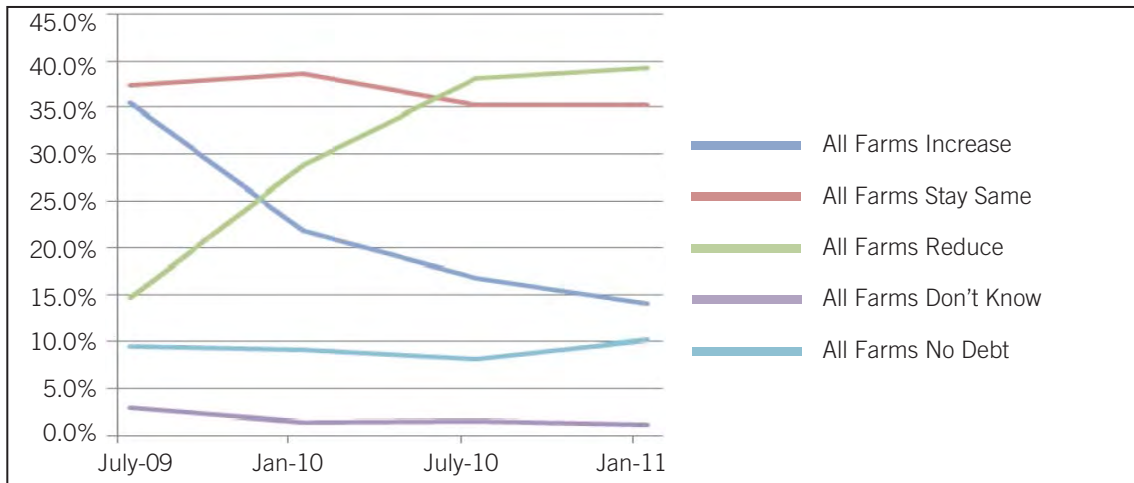
¹² See the section 'About the Survey' for a description of each region.



FARM DEBT

Overall, more farmers expect to reduce their debt over the coming 12 months, with a net 25.3 percent expecting to do so¹³. This consolidates on the findings from last July, when a net 21.3 percent were expecting to reduce debt and is higher than this time last year when a net 7.0 percent of farmers were expecting to reduce debt. Figures 17 and 18 show how debt expectations have tracked over the life of the survey.

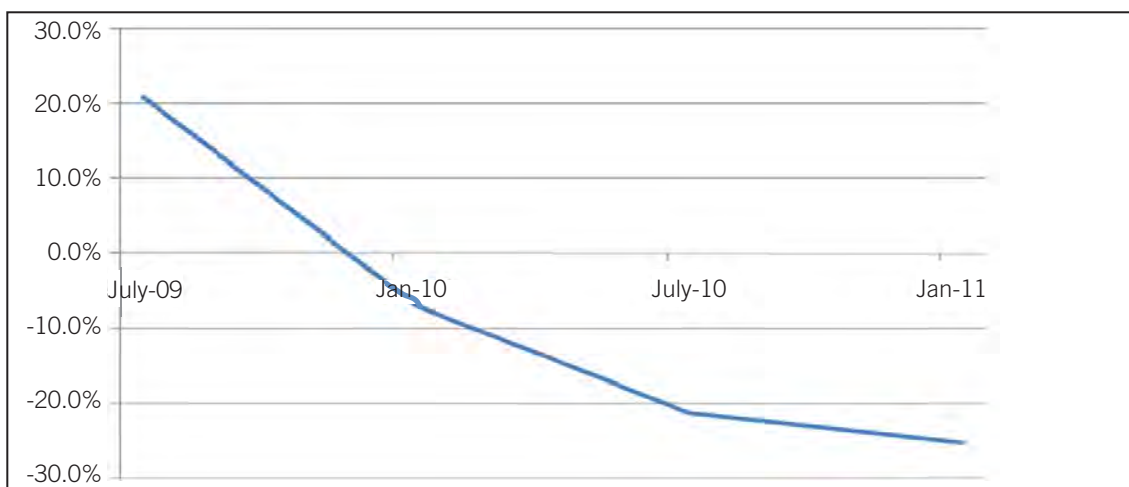
Figure 17: Farm Debt - All Farms (July 2009 - January 2011)



¹² The 'net' figure is the difference between those expecting their debt to increase (14.0%) and those expecting it to reduce (39.3%).



Figure 18: Net Farm Debt - All Farms (July 2009 - January 2011)



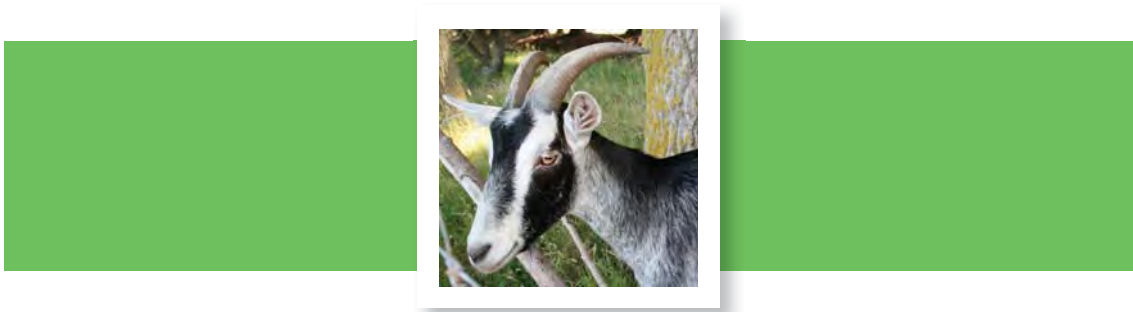
Industry Groups

Much has been written about the levels of dairy farm debt and that some dairy farmers have 'unsustainable' levels. This survey indicates that dairy farmers remain particularly focused on taking advantage of higher milk prices to pay down debt. A net 35.5 percent expect to reduce debt over the next 12 months. This is down from last July's net 42.4 percent but is higher than this time last year when a net 26.8 percent expected to reduce debt. The drop in dairy farmers planning to reduce debt is likely to be a reflection of the impact of the La Niña weather pattern on production and profitability.

In line with an improvement in profit expectations, a net 19.4 percent of sheep and beef farmers now expect to reduce their debt. This compares to last July when a net 10.4 percent expected to reduce debt and a turnaround from this time last year when a net 4.6 percent expected to increase debt.

Grains farmers are also expecting to reduce debt, with a net 13.2 percent expecting to do so, up from a net 0 percent last July. This compares with last January's net 8.8 percent expecting to increase debt.

For the 14 percent of respondents expecting to increase debt, it is notable that as a group they tend to be more pessimistic about their own profitability than overall respondents. This is particularly true for meat and fibre farmers, where almost half of those expecting to increase their debt are also expecting their profits to worsen. This indicates that not so much of the new debt is being used for growth; rather more of it could be better described as 'survival debt'. The ongoing weakness of the rural property market is a further indication that debt is not being used so much to finance growth.

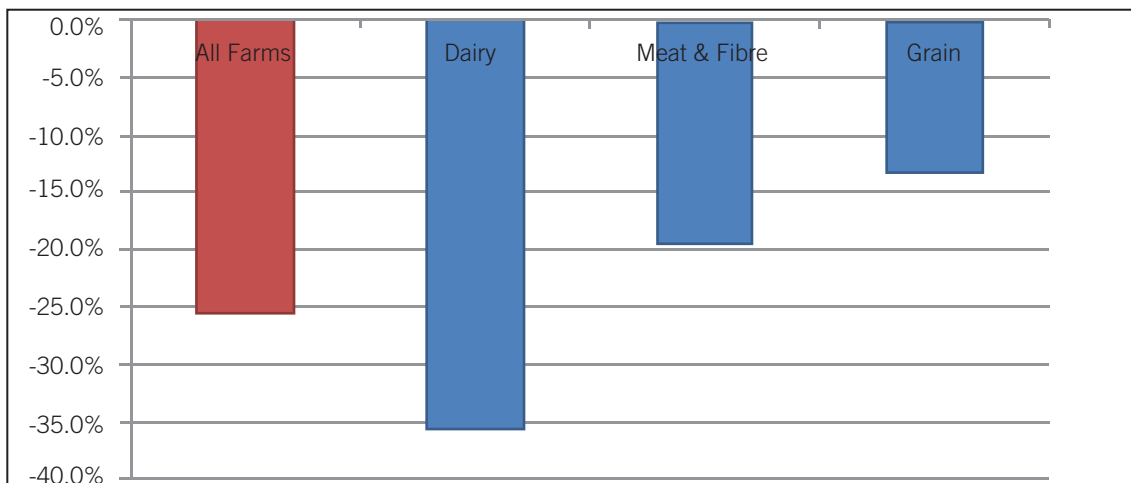


After years of double digit annual growth, agricultural debt peaked at \$47 billion in July 2009 and has remained relatively flat since. Interest on that debt is estimated to be around \$3 billion per annum and it is the largest expense for many farms. Federated Farmers is keen to ensure that banks continue to support viable businesses and sound propositions as well as refrain from unreasonable increases in interest rates.

TABLE TEN: Farm Debt by Industry Group

	Jan 2011 Increase	Jan 2011 Stay the Same	Jan 2011 Reduce	Jan 2011 Don't Know	Jan 2011 No Debt	Jan 2011 Net	July 2010 Net
All Farms ¹⁴	14.0%	35.3%	39.3%	1.2%	10.2%	-25.3%	-21.3%
Dairy	12.3%	32.4%	47.9%	1.1%	6.3%	-35.5%	-42.4%
Meat & Fibre	14.1%	37.7%	33.4%	1.1%	13.8%	-19.4%	-10.4%
Grains	19.7%	42.1%	32.9%	0.0%	5.3%	-13.2%	+0.0%

Figure 19: Net Expectations of Farm Debt by Industry Group (January 2011)



¹⁴ See the section 'About the Survey' for an explanation of the industry groups.



Regions

Compared to last July, three of the four regions saw increases in the net proportions of respondents expecting to reduce debt, with Upper South Island having a turnaround from a net 0.6 percent expecting to increase debt in July to a net 15.3 percent expecting to reduce debt in January. Despite a decrease in the proportion of respondents expecting to reduce debt, Upper North Island is still the region with the highest proportion of debt reducers, at net a 30.8 percent (down from a net 42.2 percent last July). This drop probably reflects farmers' weather concerns and the need to increase debt to fund higher feed expenses, for example.

TABLE ELEVEN: Farm Debt by Region

	Jan 2011 Increase	Jan 2011 Stay the Same	Jan 2011 Reduce	Jan 2011 Don't Know	Jan 2011 No Debt	Jan 2011 Net	July 2010 Net
All Farms ¹⁵	14.0%	35.3%	39.3%	1.2%	10.2%	-25.3%	-21.3%
Upper North Island	10.7%	39.3%	41.5%	1.3%	7.3%	-30.8%	-42.2%
Lower North Island	10.9%	36.5%	40.2%	1.5%	10.9%	-29.3%	-26.1%
Upper South Island	21.0%	32.4%	36.4%	0.0%	10.2%	-15.3%	+0.6%
Lower South Island	16.4%	31.0%	38.0%	1.8%	12.9%	-21.6%	-10.2%

Figure 20: Net Expectations of Farm Debt by Region (January 2011)



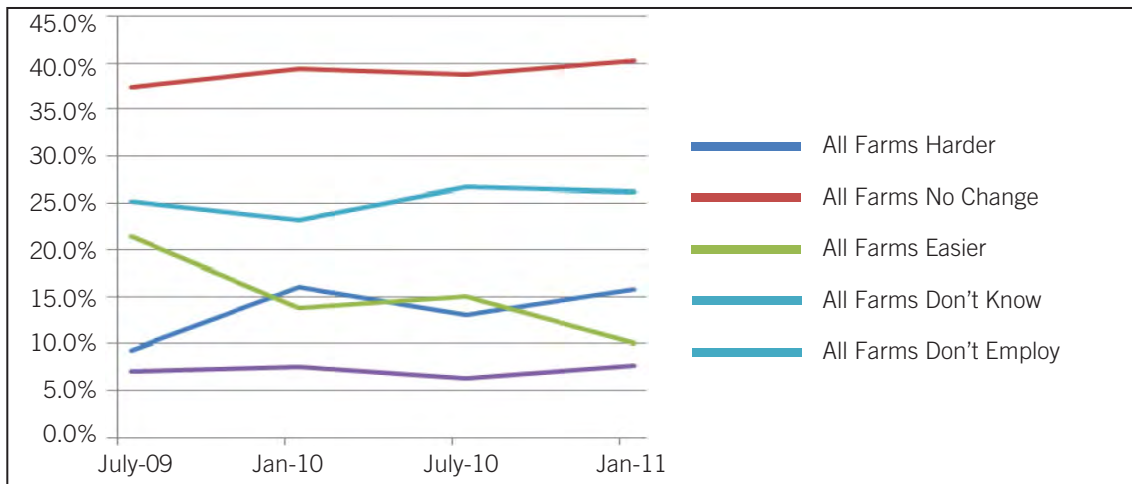
¹⁵ See the section 'About the Survey' for a description of each region.



RECRUITMENT

Overall, there has been a tightening in perceptions on labour availability, with a net **5.8 percent of farmers reporting it was harder to find skilled and motivated staff over the preceding six months**¹⁶. This compares to last July when a net 1.9 percent reported finding it easier and is also tighter than this time last year, when a net 2.2 percent reported it being harder to find staff. Figures 21 and 22 show how recruitment experience has tracked over the life of the survey.

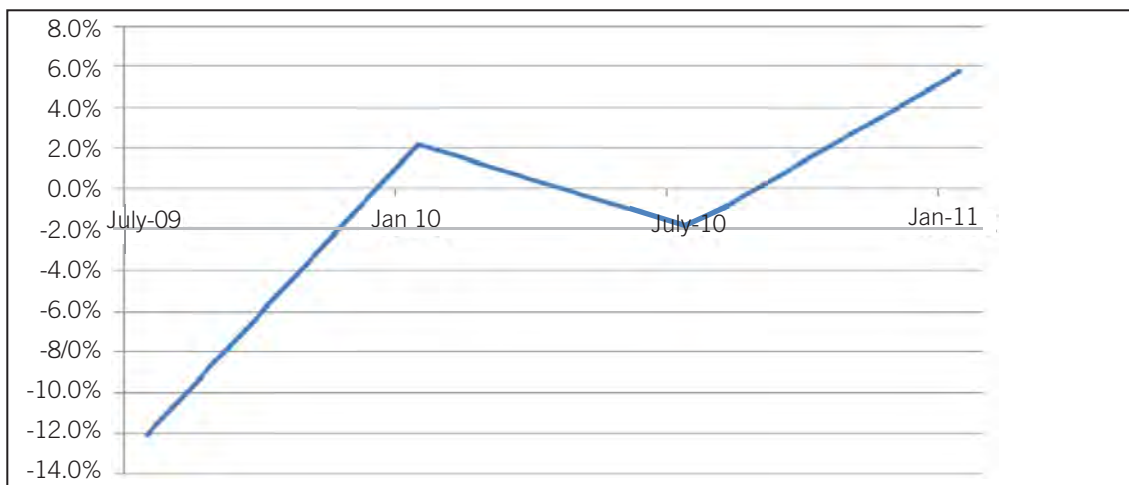
Figure 21: Recruitment - All Farms (July 2009 - January 2011)



¹⁶ The 'net' figure is the difference between those reporting it being harder to find staff (15.8%) and those reporting it being easier (10.0%).



Figure 22: Net Recruitment - All Farms (July 2009 - January 2011)



Industry Group

The dairy sector has seen a large turnaround in perceptions of labour availability. In this survey a net 7.7 percent of dairy respondents reported finding it harder to find staff, compared to last July's net 4.6 percent finding it easier. Last January a net 5.2 percent of dairy farmers had found it harder.

The meat and fibre sector experienced a slight tightening, with a net 2.9 percent finding it harder to find staff. This compares to a net 1.9 percent last July and this time last year when the figure was exactly balanced at a net 0 percent.

For grains farmers, a net 11.8 percent reported finding it harder to find staff. This compares to last July's net 7.5 percent finding it easier, and a net 2.9 percent finding it harder this time last year.

There is likely to be an element of seasonality in these results, with the spring and summer period (the period measured in January) tending to be the busiest times on farm, 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, it does appear that the farm labour market is tighter compared to this time last year.

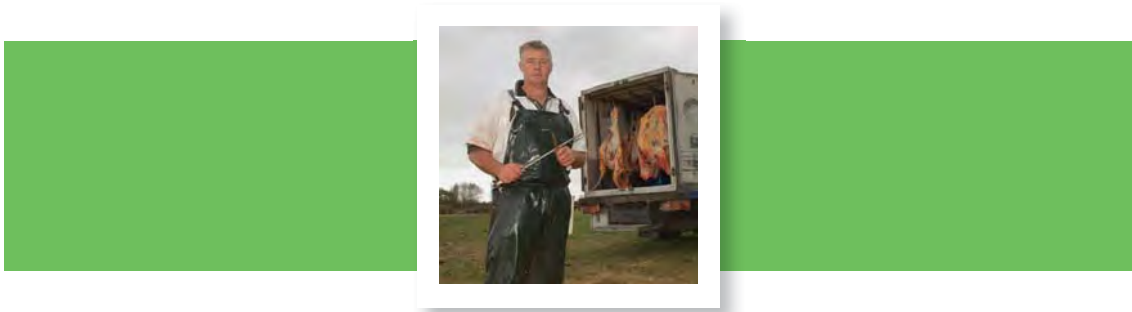
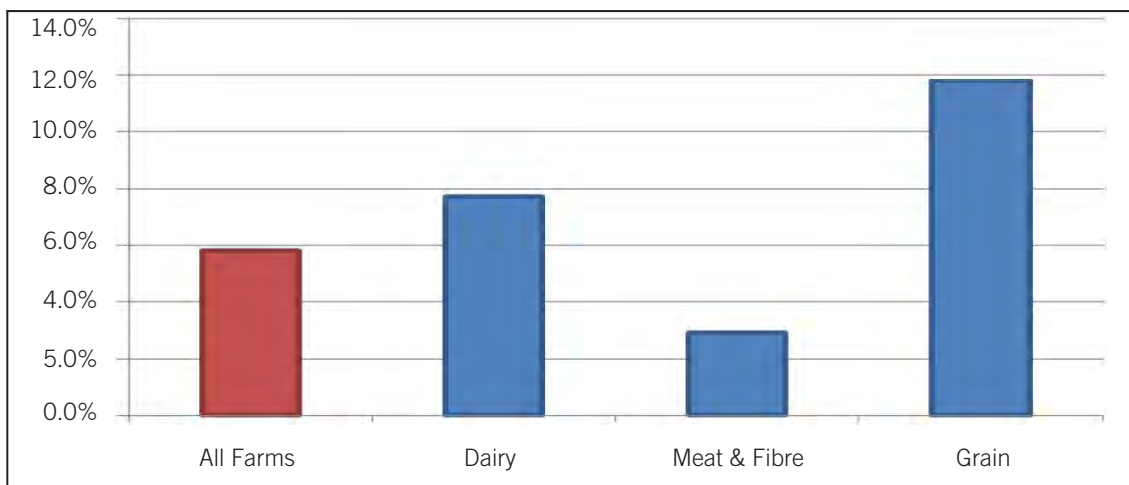


TABLE TWELVE: Recruitment by Industry Group

	Jan 2011 Harder	Jan 2011 No Change	Jan 2011 Easier	Jan 2011 Don't Know	Jan 2011 Don't Employ	Jan 2011 Net	July 2010 Net
All Farms ¹⁷	15.8%	40.3%	10.0%	7.7%	26.2%	+5.8%	-1.9%
Dairy	20.9%	39.8%	13.2%	6.9%	19.2%	+7.7%	-4.6%
Meat & Fibre	11.4%	40.8%	8.5%	7.7%	31.6%	+2.9%	+1.9%
Grains	18.4%	38.2%	6.6%	13.2%	23.7%	+11.8%	-7.5%

Figure 23: Net Experience on Recruitment by Industry Group (January 2011)



Regions

All four regions had more respondents reporting finding it harder to find skilled and motivated staff, with the two South Island regions having the highest net figures. Consistent with other indicators in this survey, this perhaps reflects a more buoyant rural economy in the South Island.

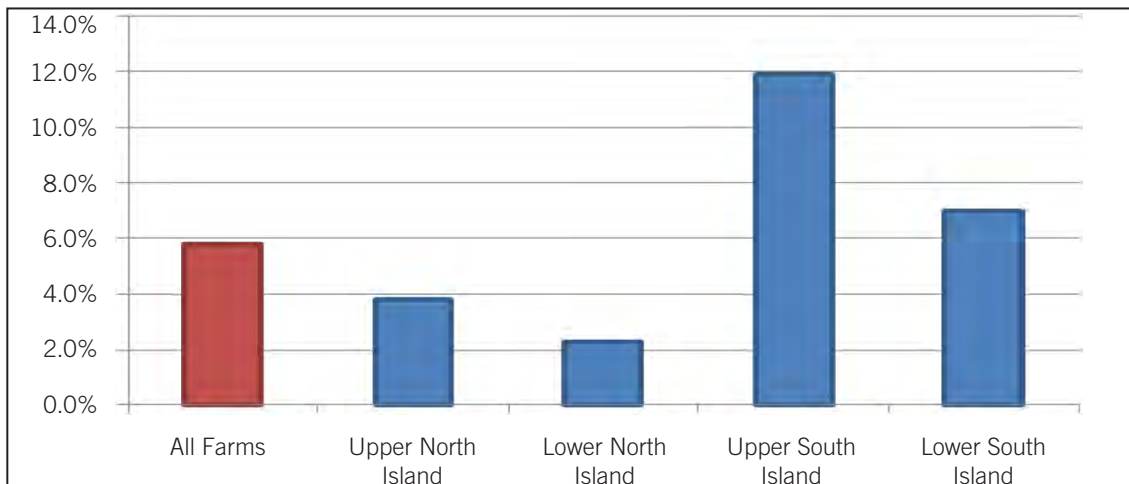
¹⁷ See the section 'About the Survey' for an explanation of the industry groups.



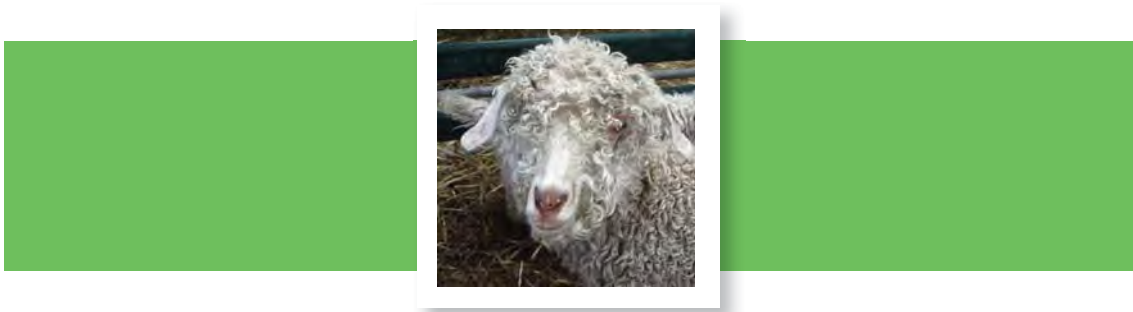
TABLE THIRTEEN: Recruitment by Region

	Jan 2011 Harder	Jan 2011 No Change	Jan 2011 Easier	Jan 2011 Don't Know	Jan 2011 Don't Employ	Jan 2011 Net	July 2010 Net
All Farms¹⁸	15.8%	40.3%	10.0%	7.7%	26.2%	+5.8%	-1.9%
Upper North Island	17.9%	29.9%	14.1%	9.8%	27.8%	+3.8%	-3.9%
Lower North Island	12.0%	48.5%	9.8%	7.9%	21.8%	+2.3%	+4.0%
Upper South Island	19.9%	30.7%	8.0%	7.4%	34.1%	+11.9%	-6.1%
Lower South Island	14.0%	51.5%	7.0%	4.7%	22.8%	+7.0%	-1.9%

Figure 24: Net Experience on Recruitment by Region (January 2011)



¹⁸ See the section 'About the Survey' for a description of each region.

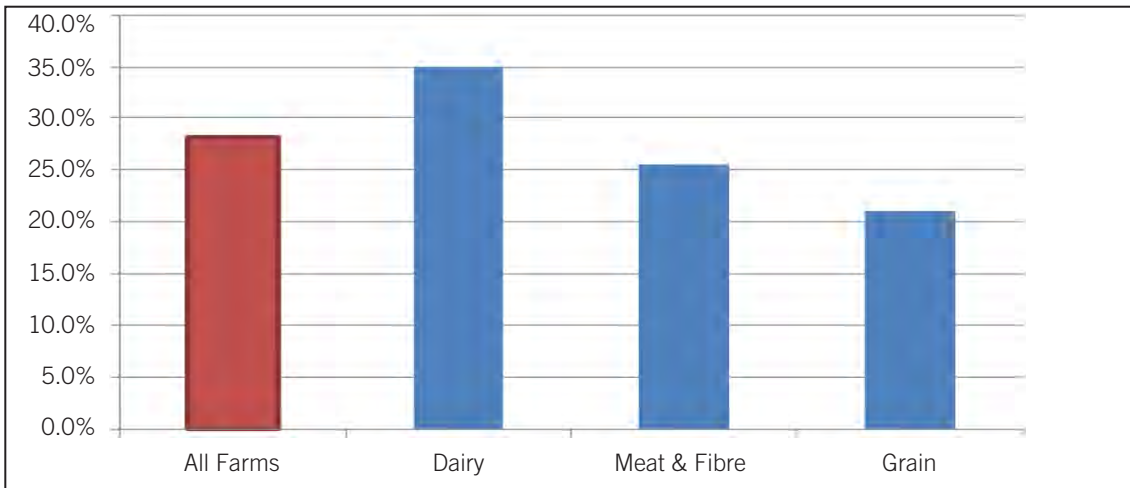


BIGGEST ISSUES FOR FARMERS

In this survey the single biggest issue on farmers' minds was the weather with 28.2 percent of respondents citing it as their biggest concern, up from 6.9 percent last July and 10.3 percent this time last year. This dramatic spike in concern can be explained by the current La Niña weather pattern resulting in dry conditions in many parts of the country which usually have sufficient rainfall during this period. Concern about the weather was particularly strong among dairy farmers and by farmers in upper North Island (but also parts of lower North Island).

Figures 19 and 20 show how the concern about the weather varies by industry group and by region.

Figure 25: Weather as Concern by Industry Group (January 2011)



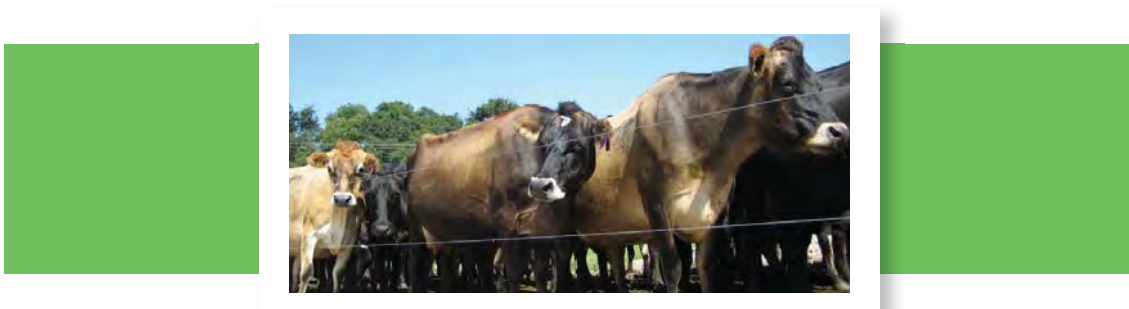
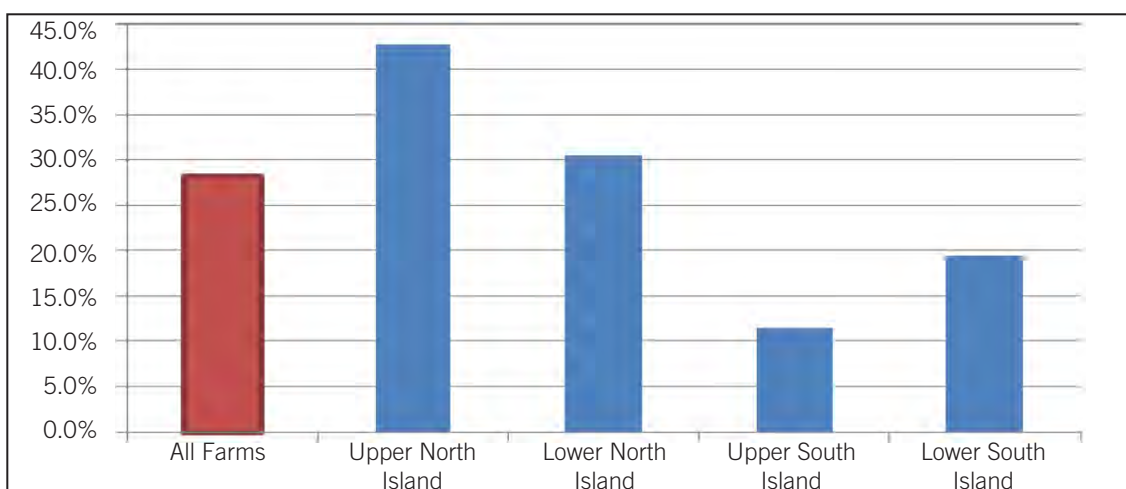


Figure 26: Weather as Concern by Region (January 2011)



Also of prominence for farmers, but well below that of the weather, were the following issues (listed in order of concern):

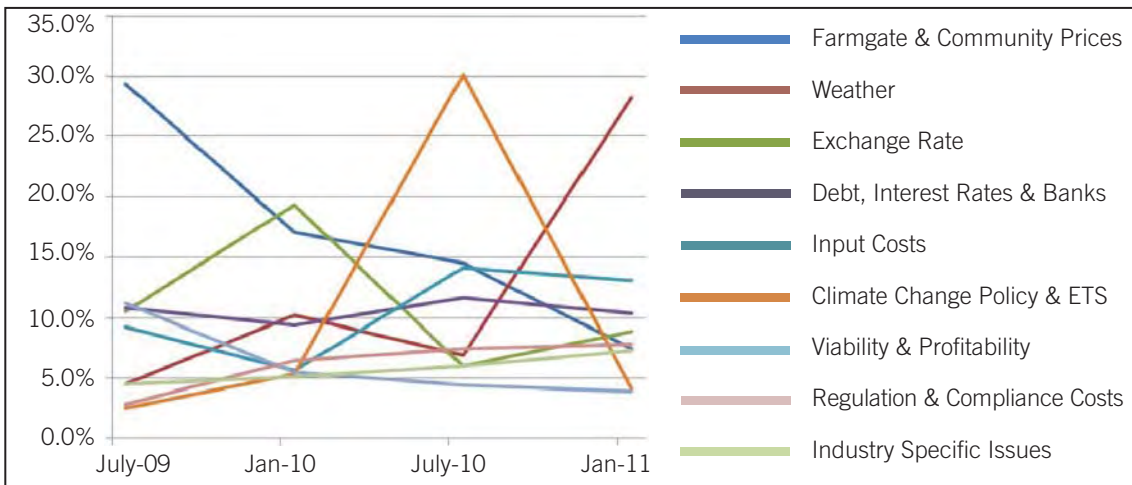
- High and increasing farm input costs (13.4 percent).
- Interest rates, debt, and banking (10.4 percent).
- High and volatile exchange rate (8.9 percent).
- Regulation and compliance costs (7.8 percent).
- Level and volatility of farm-gate and commodity prices (7.4 percent)
- Industry-specific issues (7.3 percent), especially the state of the meat and wool industries, but also the Dairy Industry Restructuring Act and Fonterra having to sell 'cheap' milk to competitor processors.

Last July, the main concern of farmers was climate change policy and the ETS, with 30.1 percent of respondents citing it as their biggest concern, followed by the volatility of farm-gate and commodity prices and by increasing input costs. The prominence of the Emissions Trading Scheme (ETS) in last July's survey was due to it being in the field when the ETS came into effect on 1 July 2010. In this survey, climate change policy and the ETS fell back to 4.1 percent, similar to levels from the July 2009 and January 2010 surveys.

Figure 27 shows how farmers' views on issues of concern have tracked over the life of the survey.



Figure 27: Single Biggest Concern - All Farms





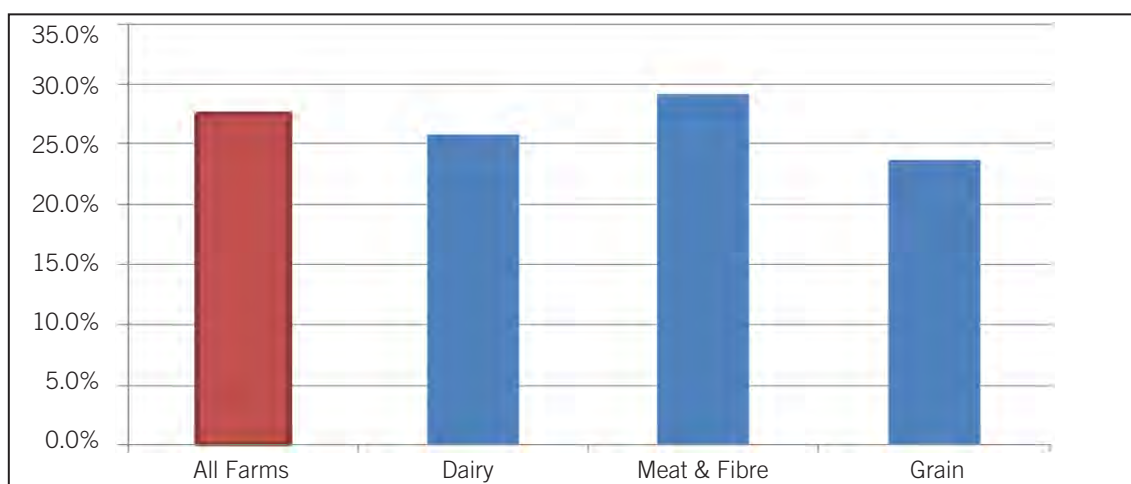
HIGHEST PRIORITY FOR GOVERNMENT

When asked what they think should be the highest priority for the Government, most respondents were focused on the economy. This is not surprising given the economic slow down experienced in the second half of 2010 and the deteriorating government finances and rapidly growing government debt. The most cited responses were:

- Reduce government spending (16.8 percent).
- Lower and more stable exchange rate and interest rates, and encourage banks to lend (13.7 percent).
- Economy and better business environment (11.5 percent).
- Reduce compliance costs (11.0 percent)
- Reduce government debt (10.7 percent).
- Support agriculture and exporters (7.8 percent).
- Scrap or reduce the costs from the ETS (7.3 percent).

Fiscal policy is of particular concern to farmers with a combined 27.5 percent stating that government spending and government debt should be the Government's highest priority. Figures 22 and 23 show how the fiscal policy priority varies by industry group and by region. There is not a huge variation either by industry group or region

Figure 28: Fiscal Policy as Highest Priority by Industry Group



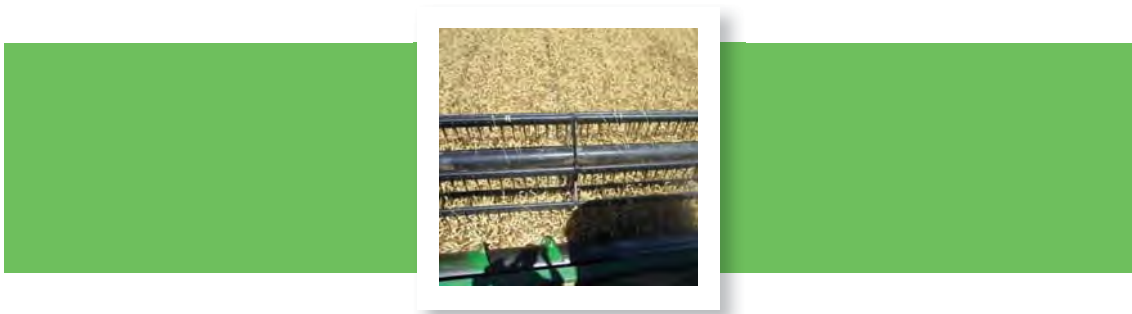
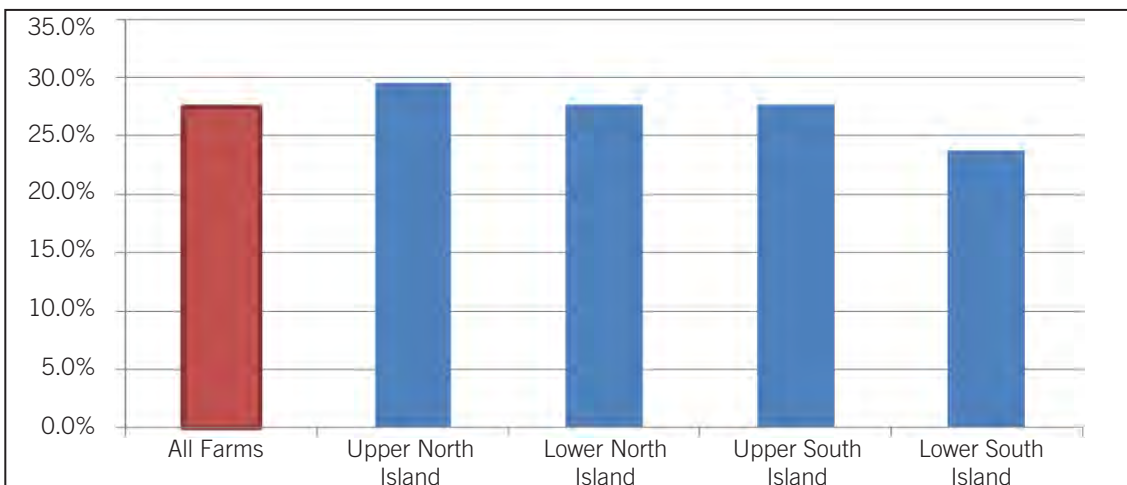


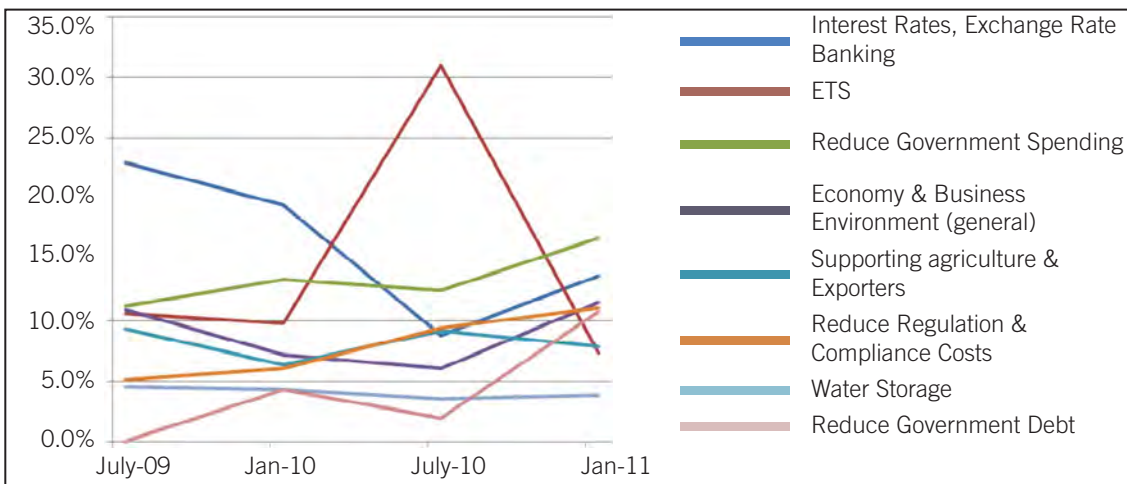
Figure 29: Fiscal Policy as Highest Priority by Region

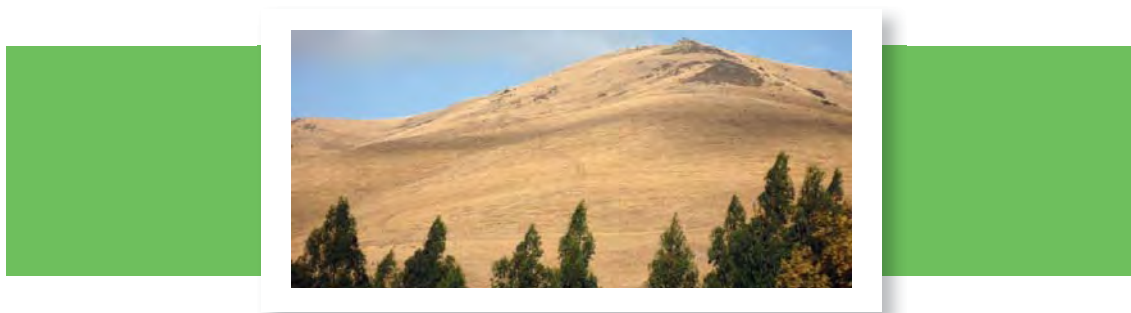


Last July, a large proportion of respondents wanted the Government to scrap or reduce the costs from the ETS, with 31.0 percent citing that as their highest priority, followed by reducing government spending and reducing compliance costs and regulation. The prominence of the ETS in last July's survey was due to it being in the field when ETS came into effect on 1 July.

Figure 24 shows how farmers' views on the priorities for the Government have tracked over the life of the survey.

Figure 30: Highest Priority for Government - All Farms





ABOUT THE SURVEY

Federated Farmers January 2011 Farm Confidence Survey was an email based member survey held from 24 December 2010 to 10 January 2011. The survey is run biannually, with the next survey to be held in July 2011.

The January 2011 survey attracted 847 responses from the following Federated Farmers industry groups:

- Bees: 10
- Dairy: 349
- Goats: 9
- Grain: 76
- Meat & Fibre: 377
- Rural Butchers: 2
- South Island High Country: 24

The 847 responses came from the following regions (see below for the Federated Farmers provinces comprising each region):

- Upper North Island: 234
- Lower North Island: 266
- Upper South Island: 176
- Lower South Island: 171

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 South Island High Country). However, the smaller groups' results are not individually presented in the tables as their response numbers were too small.

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

The four regions listed are comprised as follows:

- 'Upper North Island': Northland, Auckland, Hauraki-Coromandel, Waikato, Rotorua-Taupo, and Bay of Plenty provinces of Federated Farmers.
- 'Lower North Island': Gisborne/Wairoa, Hawke's Bay, Tararua, Wairarapa, Taranaki, Ruapehu, Wanganui, and Manawatu/Rangitikei provinces of Federated Farmers.
- 'Upper South Island': Marlborough, Nelson, Golden Bay, West Coast, North Canterbury, and Mid Canterbury provinces of Federated Farmers.
- 'Lower South Island': South Canterbury, 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.

SURVEY QUESTIONNAIRE

1. What Federated Farmers province do you belong to?

(Choose from: Northland, Auckland, Waikato, Hauraki-Coromandel, Rotorua-Taupo, Bay of Plenty, Gisborne/Wairoa, Hawke's Bay, Taranaki, Ruapehu, Wanganui, Manawatu/Rangitikei, Tararua, Wairarapa, Marlborough, Nelson, Golden Bay, West Coast, North Canterbury, Mid Canterbury, South Canterbury, North Otago, Otago, Southland)
2. What industry group(s) do you belong to (select as many as apply)?
 - Meat & Fibre
 - Dairy
 - Grain & Seed
 - Bees
 - Goats
 - South Island High Country
 - Rural Butchers
3. Thinking about general economic conditions, do you expect them to improve, stay the same or worsen over the next 12 months?
 - Improve
 - Stay the same
 - Worsen
 - Don't know
4. Thinking about your own farm business, do you expect your farm's after tax profit (or loss) to improve, stay the same or worsen over the next 12 months?
 - Improve
 - Stay the same
 - Worsen
 - Don't know
5. Over the next 12 months do you expect your farm's production to increase, stay the same or reduce?
 - Increase
 - Stay the same
 - Reduce
 - Don't know
6. Over the next 12 months do you expect your on-farm spending to increase, stay the same or reduce?
 - Increase
 - Stay the same
 - Reduce
 - Don't know

7. Over the next 12 months do you expect your farm's debt to increase, stay the same or reduce?
 - Increase
 - Stay the same
 - Reduce
 - Don't know
 - My farm has no debt
8. Over the past six months have you been finding it harder or easier to find skilled and/or motivated staff to work on your farm?
 - Harder
 - Easier
 - No change
 - Don't know
 - I don't employ staff
9. At the moment, what is the single biggest concern for you as a farmer?
10. What do you think is the highest priority issue that the Government should focus on?

Thank you very much for your assistance.