FEDERATED FARMERS

MID SEASON FARM CONFIDENCE SURVEY
January 2012

Farmers remain resilient under Europe's long shadow

CONTENTS

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 six surveys:

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

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

The next survey will be undertaken and published in July 2012.

SUMMARY:

FARMERS REMAINING RESILIENT UNDER EUROPE'S LONG SHADOW

Federated Farmers' January 2012 Farm Confidence Survey shows that while farmers' confidence in the general economy has slid into negative territory for the first time since July 2009, confidence in their own businesses remains strong.

In the six months since the last Farm Confidence Survey, the global economic environment has deteriorated significantly with European developments casting a particularly long shadow. Concerns about sovereign debt in a number of European economies have caused volatility in global financial markets. Economic activity across Europe has weakened with a high likelihood of recession in 2012. Associated declines in international trade and commodity prices, combined with a tightening in global financial conditions, have dampened activity in other regions. Many of New Zealand's major trading partners in the Asia-Pacific region have experienced weaker export growth.

In New Zealand, the domestic economy has been subdued and recent surveys have indicated a decline in business confidence. The Farm Confidence Survey's drop in confidence in the general economy is consistent with this wider decline in sentiment.

The good news is that farmers' confidence in their own profitability, although down on last July's survey, remains strong. The past six months have seen commodity prices come off their peaks but in most parts of the country, mild weather resulted in good spring growing conditions, boding well for production. The exception was Southland and Otago, where very dry conditions weighed heavily on the minds of southern farmers.

Farmers' expectations for spending and for debt both remain similar to last July's survey and there has been a tightening in labour market conditions.

The headline results from the January 2012 Farm Confidence Survey, compared to the last survey undertaken in July, are:

- A net 4.4 percent of respondents expect the general economy to worsen over the coming 12 months, down 20.8 points.
- A net 31.6 percent of respondents expect their profitability to improve over the coming 12 months, down 14.2 points.
- A net 47.7 percent of farmers expect to increase production over the coming 12 months, down 2.7 points.
- A net 33.5 percent of farmers expect to increase spending over the coming 12 months, up 0.2 points.
- A net 44.3 percent of farmers expect to reduce debt over the coming 12 months, down 1.3 points.
- A net 11.2 percent of respondents reported it harder to find skilled and motivated staff over the past six months, up 5.5 points.
- Regulation and compliance costs has become the biggest concern for farmers, with 17.1 percent of respondents citing it has their biggest issue, up 5.1 points on July.
- Farmers continue to believe that the Government's highest priority should be fiscal policy (i.e., reducing government spending and/or reducing government debt), with 24.7 percent of respondents citing it as their highest priority, down 1.6 points on July.

GENERAL ECONOMIC CONDITIONS

Farmers have become increasingly worried about the state of the global economy and what it means for New Zealand. The global economy is facing enormous challenges with a long period of deleveraging required. In many countries this means austerity, savings and major structural reform. The news has been almost uniformly negative in recent months and this is understandably weighed heavily on sentiment.

A net 4.4 percent of respondents expect general economic conditions to worsen over the coming 12 months[1]. This is 20.8 points down on the July survey, in which a net 16.4 percent expected conditions to improve. It is also down on this time last year, when a net 4.8 percent expected the economy to improve. Net confidence in the general economy is in negative territory for the first time since the July 2009 survey.

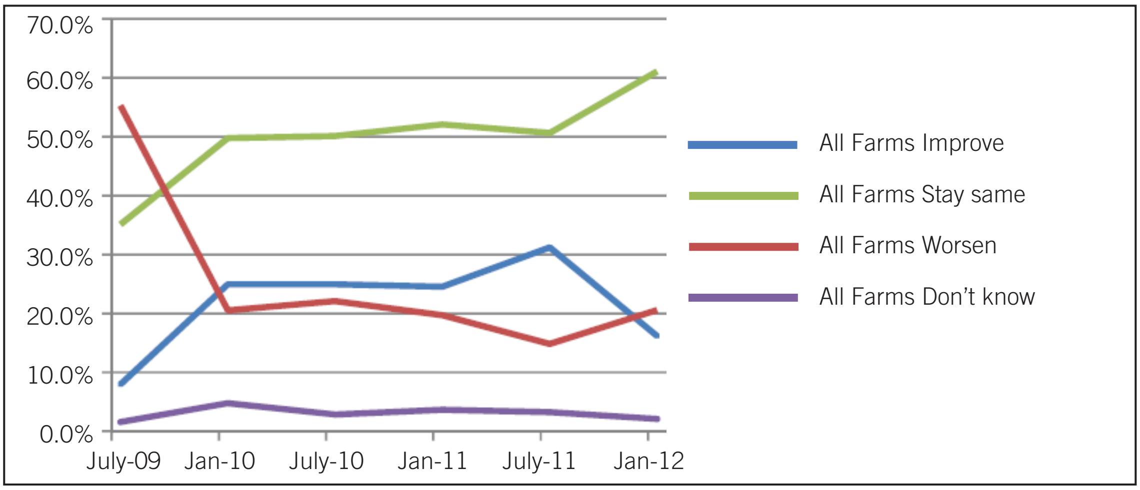
There was a near halving in the proportion of farmers expecting the economy to improve (down 15.0 points) but there was a much smaller increase in the proportion of farmers expecting the economy to worsen (up 5.8 points), returning it to a similar level from the three preceding surveys. There was a bigger increase in those expecting the economy to stay the same (up 10.5 points) and overall, this appears to be consistent with economic forecasts that growth will remain sluggish in 2012 rather than falling into recession.

The fall in confidence in general economic conditions coincides with a 12.1 point increase in the proportion of respondents who cited the economic situation as their biggest issue of concern (up from 4.1 percent to 16.3 percent). Analysing comments more closely, most of these respondents specifically mentioned the global economy or Europe in particular.

It also coincides with a 5.6 point increase in the proportion of respondents who cited 'the economy and better business environment' as the highest priority for the government (up from 8.7 percent to 14.3 percent), although fiscal policy (reducing government spending and reducing government debt) remains the highest priority issue.

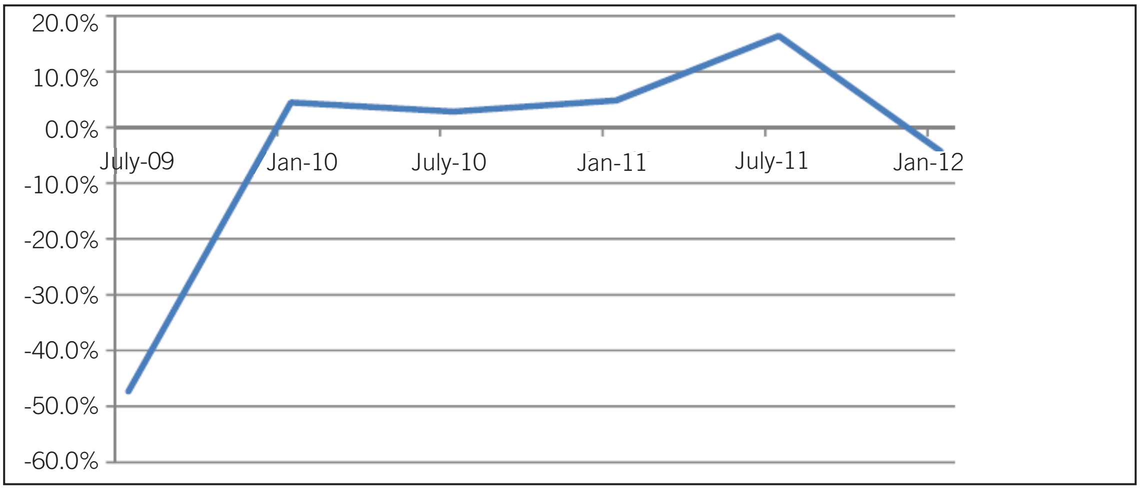
Figures 1 and 2 show how confidence in general economic confidence has tracked over the life of the survey.

Figure 1: General Economic Conditions - All Farms (July 2009 - January 2012)



[1] The 'net' figure is the difference between those expecting their profitability to improve (16.2%) and those expecting it to worsen (20.6%).

Figure 2: Net General Economic Conditions - All Farms (July 2009 - January 2012)



Industry Groups

Dairy farmers are now the least pessimistic of the main Federated Farmers industry groups, with an even balance between those expecting the economy to improve versus those expecting it to worsen. Overall, a net 0.6 percent of dairy farmers expect a worsening in the economy, down 13.8 points on July's survey.

Grains farmers had previously been the most optimistic of the main industry groups, but this sentiment has changed dramatically. There has been a very large 32.5 point drop to a net 7.1 percent now expecting a worsening in the economy.

Meat and fibre farmers had also been optimistic in July and like grains farmers, they took a large 27.0 point drop in confidence. A net 8.6 percent now expect a worsening in the economy, making them the most pessimistic of the industry groups.

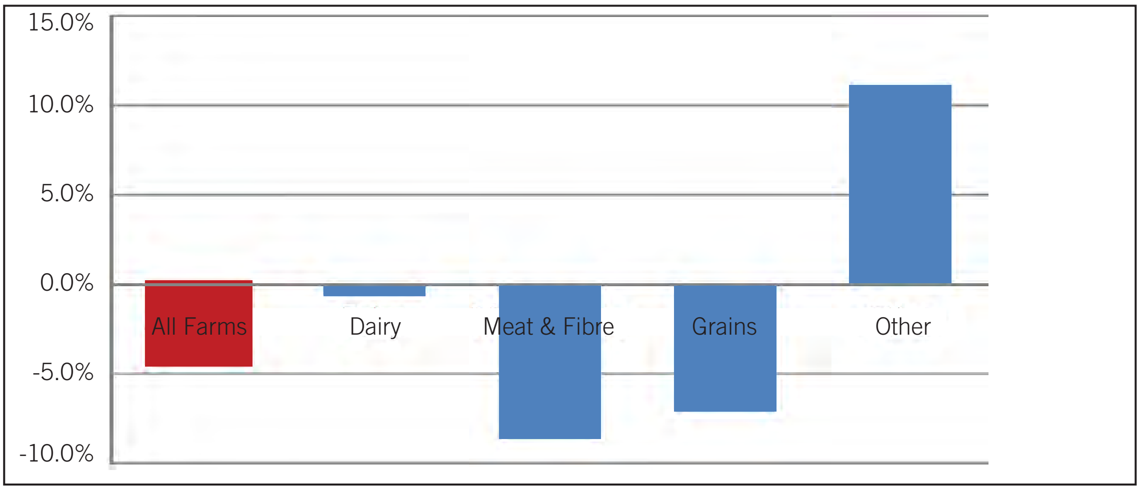
The 'other' farming groups (i.e., bees, goats, rural butchers, and South Island High Country) bucked the wider trend with confidence unchanged at a net 11.1 percent expecting an improvement in the economy. The relatively small number of 'other' responses (36) means that this outlier result needs to be treated with some caution.

TABLE ONE: General Economic Conditions by Industry Group

	Jan 2012 Improve	Jan 2012 Stay the Same	Jan 2012 Worsen	Jan 2012 Don't Know	Jan 2012 Net	July 2011 Net	
All Farms	**16.2%**	**61.1%**	**20.6%**	**2.1%**	**-4.4%**	**+16.4%**	↓
Dairy	16.9%	62.2%	17.5%	3.4%	-0.6%	+13.2%	↓
Meat & Fibre	14.6%	61.2%	23.2%	1.1%	-8.6%	+18.4%	↓
Grains	15.7%	61.4%	22.9%	0.0%	-7.1%	+25.4%	↓
Other	27.8%	50.0%	16.7%	5.6%	+11.1%	+11.1%	↔

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 2012)



Regions

Only two of the seven regions are in positive territory. The most positive region is Taranaki-Manawatu, with a net 3.3 percent expecting the economy to improve, followed by Waikato-Bay of Plenty with a net 1.1 percent. Auckland-Northland was the most pessimistic region, with a net 31.9 percent expecting the economy to worsen, followed by West Coast-Tasman-Marlborough with a net 17.0 percent.

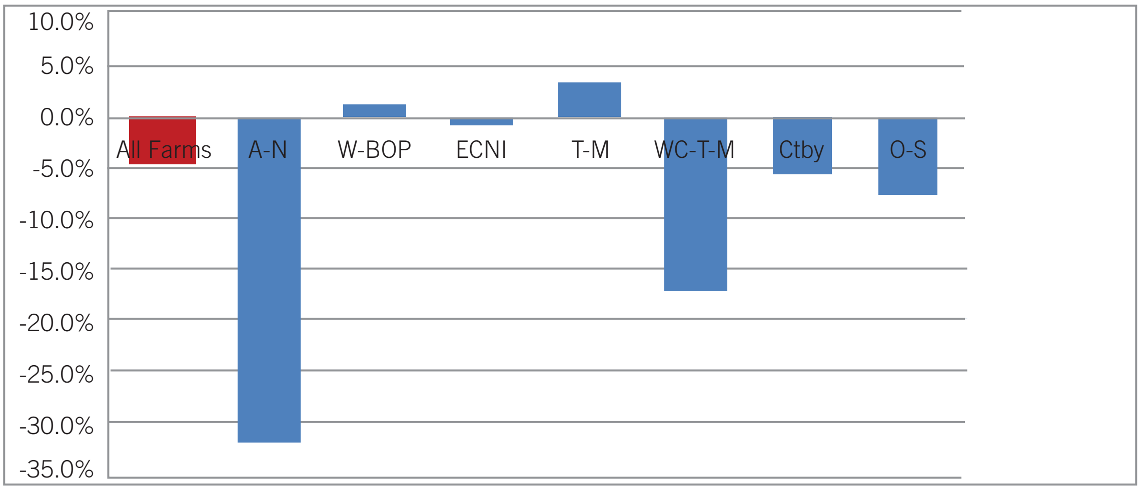
All regions suffered large drops in confidence. The biggest drops were experienced by Auckland-Northland (down 35.7 points) and West Coast-Tasman-Marlborough (down 31.3 points). Taranaki-Manawatu had the smallest drop in confidence (down 8.8 points).

TABLE TWO: General Economic Conditions by Region

	Jan 2012 Improve	Jan 2012 Stay the Same	Jan 2012 Worsen	Jan 2012 Don't Know	Jan 2012 Net	July 2011 Net	
All Farms	**16.2%**	**61.1%**	**20.6%**	**2.1%**	**-4.4%**	**+16.4%**	↓
Auckland-Northland	8.5%	51.1%	40.4%	0.0%	-31.9%	+3.8%	↓
Waikato-BOP	14.7%	67.9%	13.7%	3.7%	+1.1%	+22.1%	↓
East Coast North Is	18.9%	59.8%	19.7%	1.6%	-0.8%	+17.1%	↓
Taranaki-Manawatu	19.5%	61.0%	16.3%	3.3%	+3.3%	+12.1%	↓
WC-Tasman-Marl	8.5%	63.8%	25.5%	2.1%	-17.0%	+14.3%	↓
Canterbury	19.3%	55.9%	24.8%	0.0%	-5.6%	+17.3%	↓
Otago-Southland	14.0%	61.7%	21.5%	2.8%	-7.5%	+16.3%	↓

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

Figure 4: Net Confidence in General Economic Conditions by Region (January 2012)



FARM PROFITABILITY

Perhaps a more accurate reflection of farmer sentiment is the prospects for their own businesses, **where a net 31.6 percent of respondents expect their profitability to improve over the coming 12 months[2]**. This is down 14.2 points on last July's survey, where a net 45.8 percent expected their profitability to improve. Yet it is up from this time last year, when a net 25.5 percent expected their profitability to improve.

The drop in optimism should be no surprise considering the fall in commodity prices since mid-2011; the ANZ World Commodity Price Index is down 9.7 percent since its peak last May. Given most economists expect further falls in commodity prices over 2012, it is perhaps surprising that sentiment remains so positive. However, weather conditions throughout most of 2011 have been largely favourable for pasture and crops. This is good news for production as we enter 2012.

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 2012)

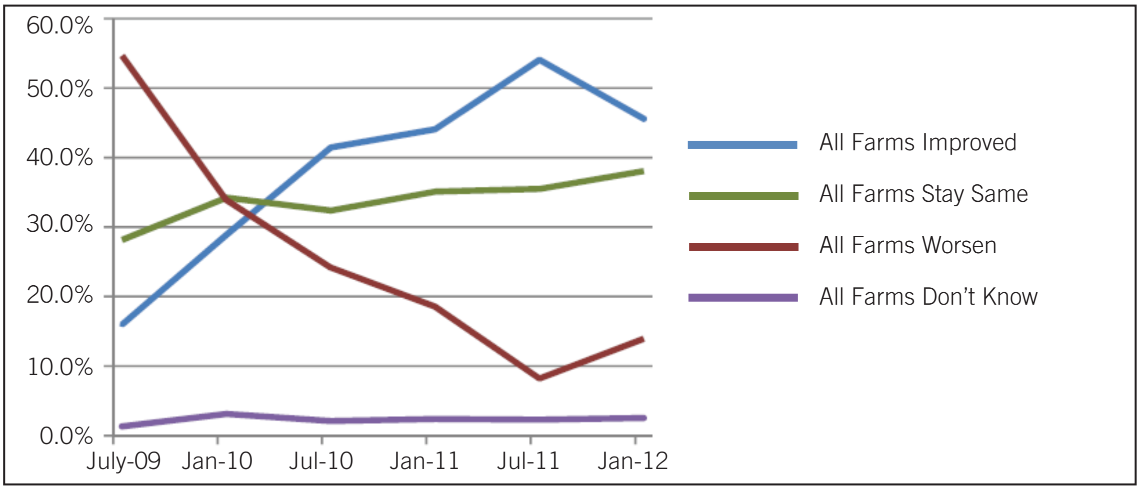
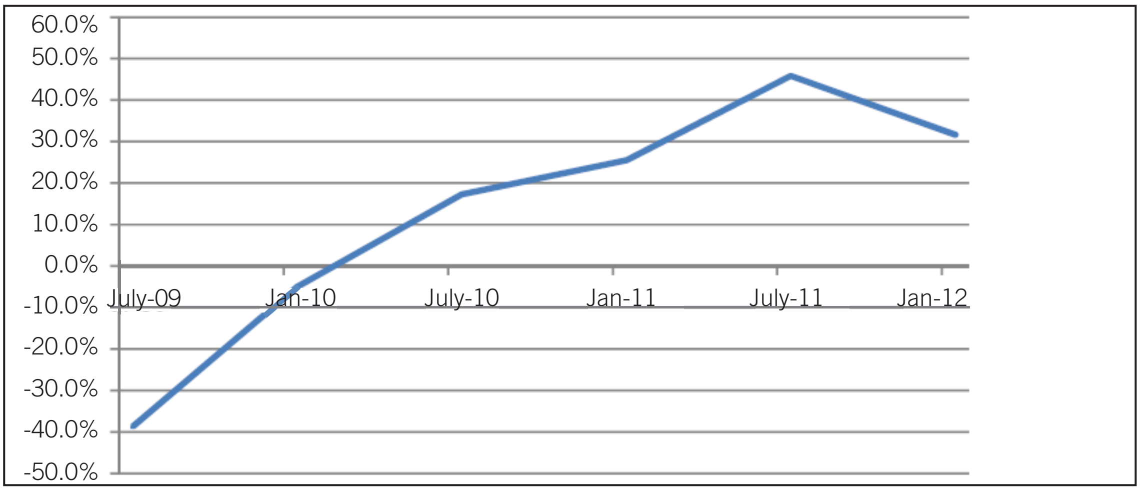


Figure 6: Net Farm Profitability - All Farms (July 2009 - January 2012)



2 The 'net' figure is the difference between those expecting their profitability to improve (45.5%) and those expecting it to worsen (13.9%).

Industry Groups

Grains farmers remain the most optimistic of Federated Farmers' industry groups, with a net 44.3 percent expecting to be more profitable over the coming 12 months. This is down 14.4 points on last July's survey but is still up 28.5 points on this time last year, when a net 15.8 percent expected to be more profitable.

Meat and fibre farmers have also had a fall in profit expectations, with a net 36.1 percent expecting to be more profitable, down 11.5 points on last July. This is still considerably higher than this time last year, when a net 24.1 percent expected to be more profitable.

Dairy farmers remain the least optimistic of the main industry groups but still, a net 25.0 percent expect to be more profitable, down 16.4 points on last July. It is also down 4.2 points on this time last year, when a net 29.2 percent expected to be more profitable.

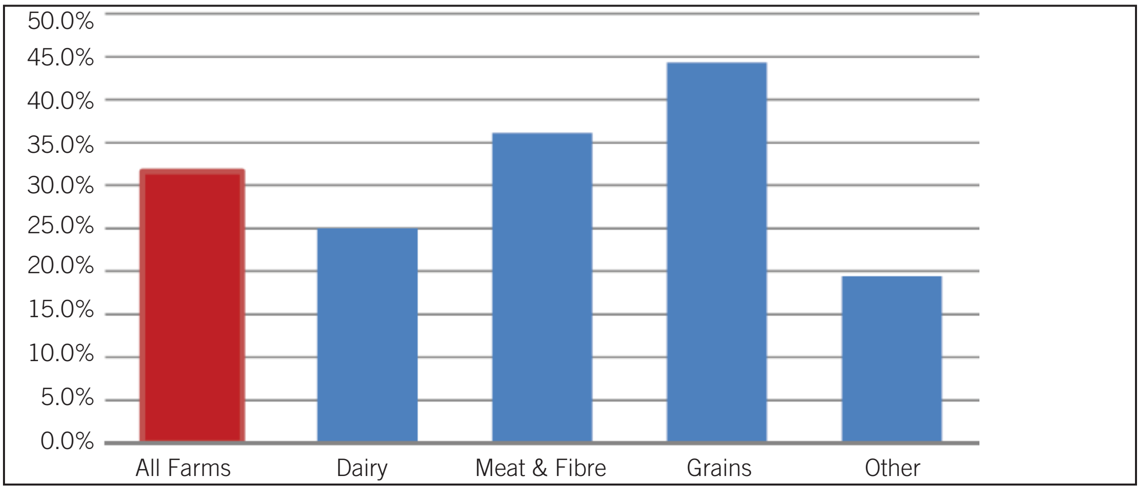
Despite feeling relatively optimistic about the general economy, the 'other' farming groups (i.e., bees, goats, rural butchers and South Island High Country) combined, had a large decline in those expecting to increase their profits, down 27.3 points to a net 19.4 percent expecting to be more profitable.

TABLE THREE: Own Farm Profitability by Industry Group

	Jan 2012 Improve	Jan 2012 Stay the Same	Jan 2012 Worsen	Jan 2012 Don't Know	Jan 2012 Net	July 2011 Net	
All Farms	**45.5%**	**38.0%**	**13.9%**	**2.5%**	**+31.6%**	**+45.8%**	↓
Dairy	41.6%	39.4%	16.6%	2.5%	+25.0%	+41.4%	↓
Meat & Fibre	47.7%	38.0%	11.6%	2.7%	+36.1%	+47.6%	↓
Grains	57.1%	28.6%	12.9%	1.4%	+44.3%	+58.7%	↓
Other	36.1%	44.4%	16.7%	2.8%	+19.4%	+46.7%	↓

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 2012)



Regions

All seven regions had more respondents that expect their profitability to increase rather than decrease, with East Coast North Island the most optimistic region, with a net 47.5 percent expecting their profits to increase. This was followed by Taranaki-Manawatu with a net 37.4 percent. Auckland-Northland and Otago-Southland are the least optimistic regions, but in each, there were more respondents expecting profits to improve than to worsen (net 12.8 percent and net 12.1 percent respectively).

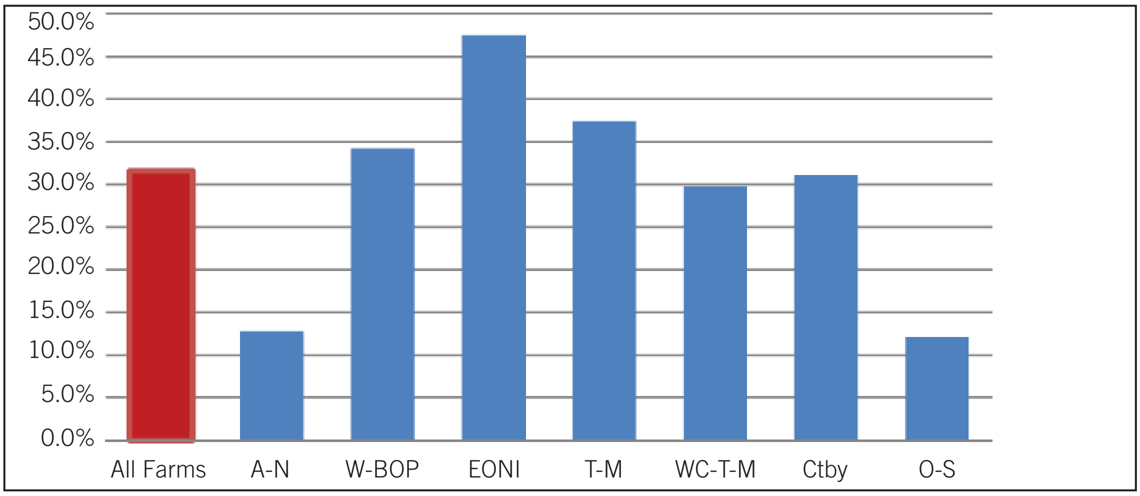
However, while profitability prospects remain mostly strong, all seven regions had net reductions in those expecting their profitability to improve. The decreases varied by region, with the four North Island regions having considerably smaller decreases than the three South Island regions. Otago-Southland had the biggest drop in profit expectations (down 34.2 points), due mainly to concerns about the impact of very dry weather in that region when the survey was in the field. Waikato-Bay of Plenty has the smallest decrease (down 3.7 points).

TABLE FOUR: Own Farm Profitability by Region

	Jan 2012 Improve	Jan 2012 Stay the Same	Jan 2012 Worsen	Jan 2012 Don't Know	Jan 2012 Net	July 2011 Net	
All Farms	**45.5%**	**38.0%**	**13.9%**	**2.5%**	**+31.6%**	**+45.8%**	↓
Auckland-Northland	29.8%	53.2%	17.0%	0.0%	+12.8%	+24.5%	↓
Waikato-BOP	48.9%	34.2%	14.7%	2.1%	+34.2%	+37.9%	↓
East Coast North Is	55.7%	32.8%	8.2%	3.3%	+47.5%	+53.9%	↓
Taranaki-Manawatu	46.3%	40.7%	8.9%	4.1%	+37.4%	+42.2%	↓
WC-Tasman-Marl	44.7%	40.4%	14.9%	0.0%	+29.8%	+43.2%	↓
Canterbury	46.6%	36.6%	15.5%	1.2%	+31.1%	+55.8%	↓
Otago-Southland	32.7%	42.1%	20.6%	4.7%	+12.1%	+46.3%	↓

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

Figure 8: Net Expectations of Own Farm Profitability by Region (January 2012)



FARM PRODUCTION

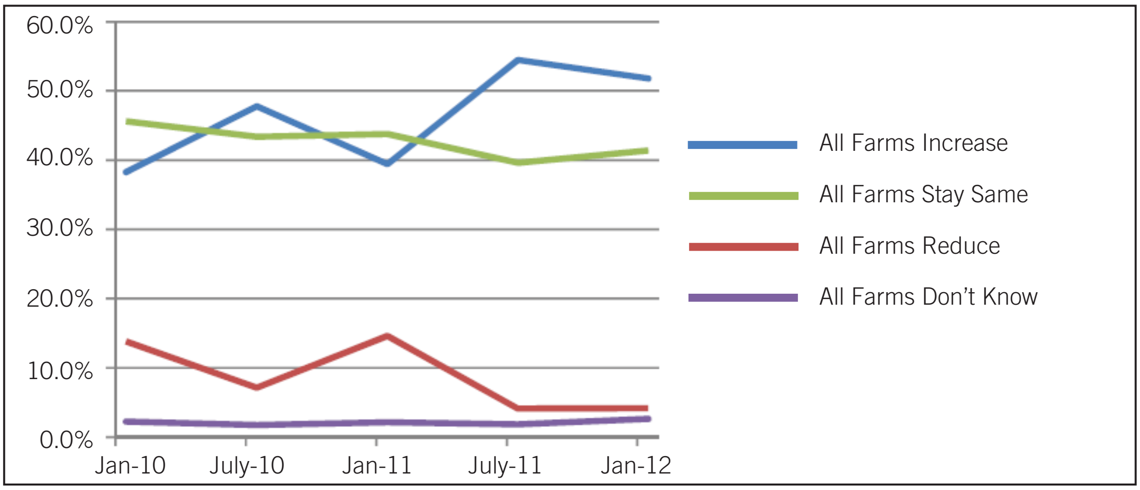
There has been a slight pull-back in the proportion of farmers expecting to increase production, with **a net 47.7 percent expecting to increase production over the coming 12 months**[3]. This is down from a net 50.4 percent in last July's survey but compares favourably with the sentiment prevailing this time last year, when a net 24.8 percent expected to increase production.

Continued strong expectations for production reflect good weather conditions throughout 2011 in most areas which have been favourable for pasture and crops. Although very dry conditions in Otago-Southland caused concern during the survey period, most farmers are feeling more confident about increasing production than they were this time last year, when much of the country was gripped by dry La Niña conditions.

Farmers are conscious that 2012 may not be a repeat of 2011. There is awareness among farmers that dry weather can impact production and highlights the need for water harvesting and storage. This is illustrated by the high priority that many farmers place upon the government advancing water storage projects.

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

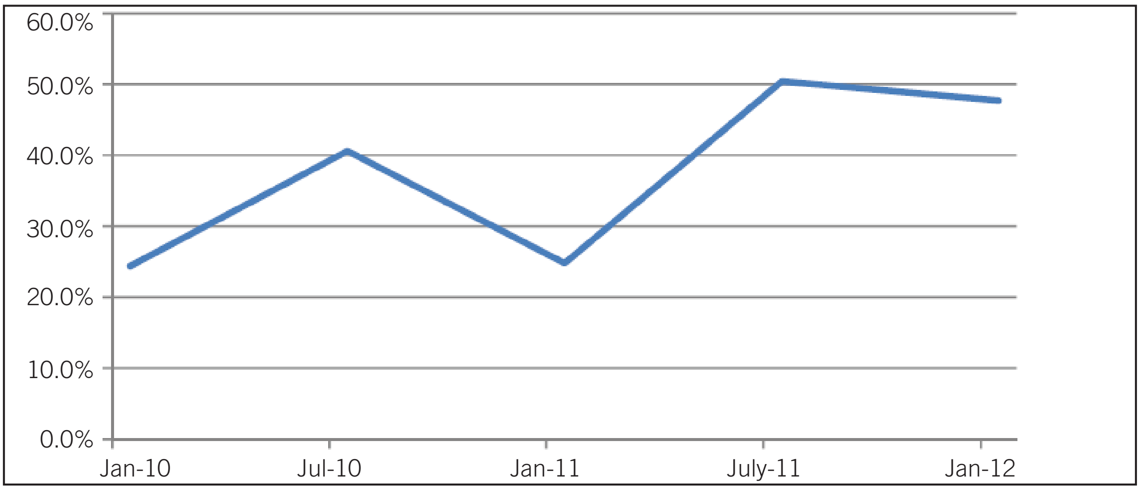
Figure 9: Farm Production - All Farms (January 2010 - January 2012)



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

[3] The 'net' figure is the difference between those expecting their production to increase (51.8%) and those expecting it to reduce (4.1%).

Figure 10: Net Farm Production - All Farms (January 2010 - January 2012)



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

Industry Groups

A net 54.7 percent of dairy farmers expect to produce more, the highest for any of Federated Farmers' industry groups. This is down 7.6 points on last July's survey but it is up 28.9 points on this time last year, when La Niña conditions impacted traditional dairying areas which usually have good rainfall and less need for irrigation. The very high expectations last July reflected a rebound after tough conditions in 2010/11.

A net 41.8 percent of meat and fibre farmers expect to produce more. This up 0.5 points on last July's survey and is also up 21.4 points on this time last year. This is encouraging but after years of decline, it will take time to rebuild sheep and beef cattle numbers even if there is no further change in land-use to dairy and forestry.

A net 52.9 percent of grains farmers expect to increase production. This is up 2.1 points on last July's survey and is also up 20.0 points on this time last year. At the time of the survey weather had been good for harvesting and yields were looking favourable.

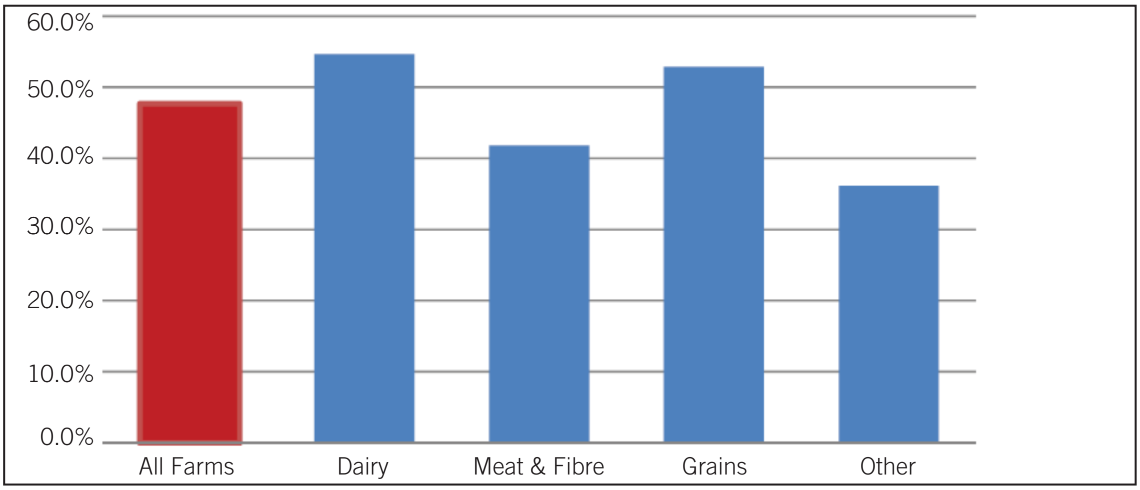
The 'other' farming groups (i.e., bees, goats, rural butchers and South Island High Country) had a small decline in production expectations compared to last July, down 3.9 points to a net 36.1 percent expecting to increase production.

TABLE FIVE: Farm Production by Industry Group

	Jan 2012 Increase	Jan 2012 Stay the Same	Jan 2012 Reduce	Jan 2012 Don't Know	Jan 2012 Net	July 2011 Net	
All Farms	**51.8%**	**41.4%**	**4.1%**	**2.6%**	**+47.7%**	**+50.4%**	↓
Dairy	59.1%	33.8%	4.4%	2.8%	+54.7%	+62.3%	↓
Meat & Fibre	45.0%	48.5%	3.2%	3.2%	+41.8%	+41.3%	↔
Grains	55.7%	41.4%	2.9%	0.0%	+52.9%	+50.8%	↑
Other	50.0%	36.1%	13.9%	0.0%	+36.1%	+40.0%	↓

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

Figure 11: Net Expectations of Farm Production by Industry Group (January 2012)



Regions

All seven regions have large majorities of farmers expecting to increase production, with East Coast North Island being the most optimistic region with a net 55.7 percent expecting to increase production, followed by Waikato-Bay of Plenty with a net 53.7 percent. Unsurprisingly, given the dry weather conditions, Otago-Southland is the least optimistic region for production but still has a net 26.2 percent expecting to increase production.

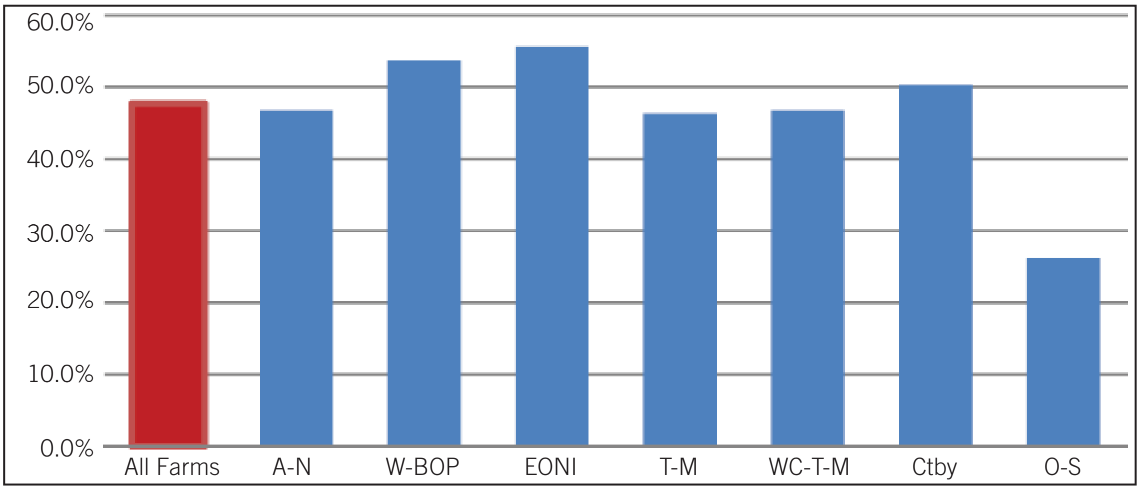
East Coast North Island (up 9.6 points) had the largest increase in production forecasts compared to last July's survey, followed by West Coast-Tasman-Marlborough (up 5.5 points). Again, unsurprisingly, Otago-Southland had the largest decline, down 30.9 points. It was this fall that dragged the national result down.

TABLE SIX: Farm Production by Region

	Jan 2012 Increase	Jan 2012 Stay the Same	Jan 2012 Reduce	Jan 2012 Don't Know	Jan 2012 Net	July 2011 Net	
All Farms	**51.8%**	**41.4%**	**4.1%**	**2.6%**	**+47.7%**	**+50.4%**	↓
Auckland-Northland	51.1%	42.6%	4.3%	2.1%	+46.8%	+47.2%	↔
Waikato-BOP	55.8%	38.4%	2.1%	3.7%	+53.7%	+51.1%	↑
East Coast North Is	57.4%	39.3%	1.6%	1.6%	+55.7%	+46.1%	↑
Taranaki-Manawatu	48.8%	45.5%	2.4%	3.3%	+46.3%	+44.0%	↑
WC-Tasman-Marl	48.9%	46.8%	2.1%	2.1%	+46.8%	+41.3%	↑
Canterbury	54.7%	41.0%	4.3%	0.0%	+50.3%	+57.1%	↓
Otago-Southland	39.3%	42.1%	13.1%	5.6%	+26.2%	+57.1%	↓

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

Figure 12: Net Expectations of Farm Production by Region (January 2012)



FARM SPENDING

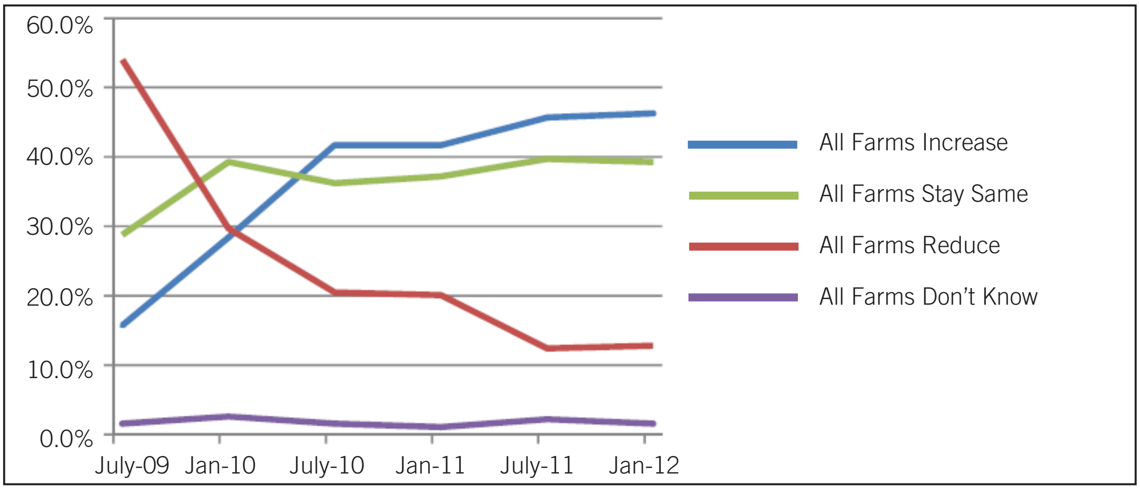
According to MAF data, in recent years farmers have spent around $11-13 billion annually in their local and regional economies[4]. Asking farmers whether they expect to spend more or less can be an important barometer of economic trends in the provinces and ultimately, for New Zealand as a whole.

The proportion of farmers expecting to increase their spending over the next 12 months is largely unchanged compared to last July's survey. **Overall, a net 33.5 percent of respondents expect to lift their spending[5]**, up 0.2 points. This is up on this time last year when a net 21.6 percent expected to increase spending.

It is 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. High and increasing input costs has consistently been in the top five 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 2012)



Industry Groups

Dairy farmers are a little less likely to increase spending compared to the last survey. A net 28.8 percent expect to increase spending, down 3.3 points on last July and is also a little lower than this time last year, when 30.7 percent expected to increase spending. This is consistent with dairy farmers being relatively more cautious about whether their profitability will increase. This could also be a reflection that less will need to be spent on supplementary feed due to good weather in most parts of the country.

A net 39.6 percent of meat and fibre farmers expect to increase their spending, up 5.5 points on last July. This is also much higher than this time last year, when a net 14.6 percent intended to increase spending. As with last July's survey, there will be a confidence effect behind this increase in spending intentions, but another important factor is concern about high and increasing input costs, which is higher among meat and fibre farmers than it is for the other industry groups.

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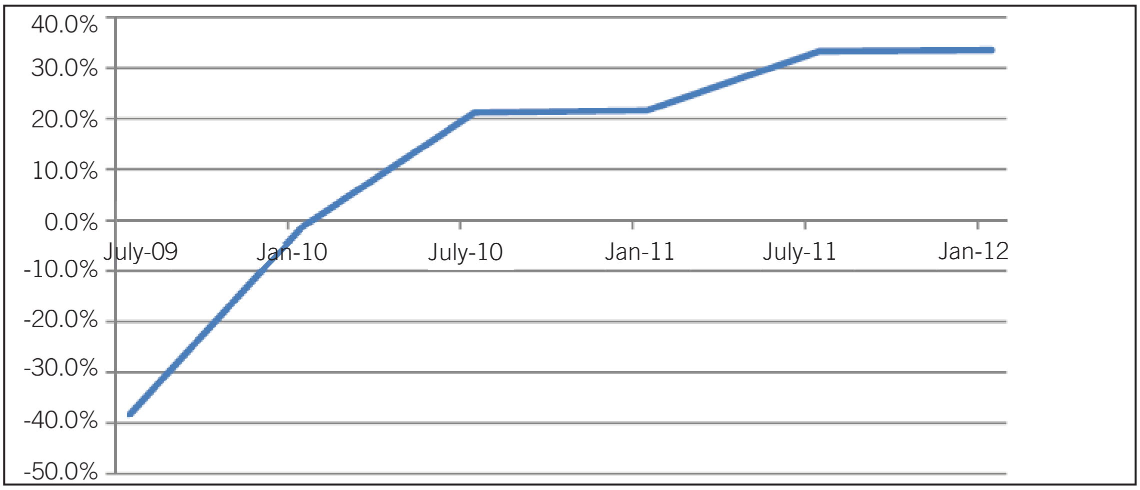
4 *Situation & Outlook for New Zealand Agriculture & Forestry 2011*, Ministry of Agriculture & Forestry, June 2011.

5 The 'net' figure is the difference between those expecting their spending to increase (46.3%) and those expecting it to reduce (12.8%).

Figure 14: Net Farm Spending - All Farms (July 2009 - January 2012)



A net 27.1 percent of grains farmers say they will increase their spending. This is down 11.0 points on last July but is still considerably higher than this time last year, when a net 11.8 percent expected to increase spending.

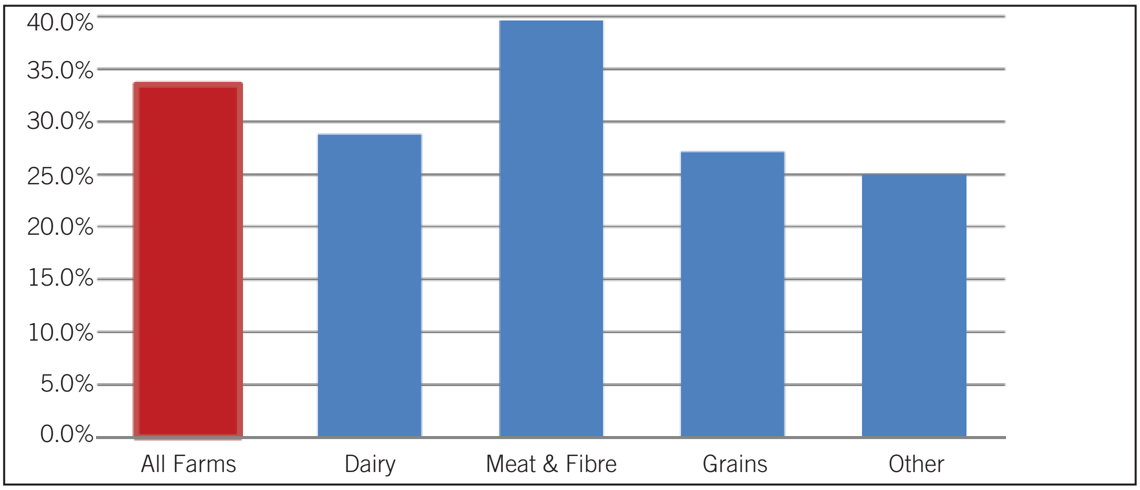
There was a small decline in the net proportion of 'other' farmers (i.e., bees, goats, rural butchers and South Island High Country) expecting to increase their spending, down 3.9 points to a net 25.0 percent expecting to increase spending.

TABLE SEVEN: Farm Spending by Industry Group

	Jan 2012 Increase	Jan 2012 Stay the Same	Jan 2012 Reduce	Jan 2012 Don't Know	Jan 2012 Net	July 2011 Net	
All Farms	**46.3%**	**39.3%**	**12.8%**	**1.6%**	**+33.5%**	**+33.3%**	↔
Dairy	43.4%	40.0%	14.7%	1.9%	+28.8%	+32.1%	↓
Meat & Fibre	49.9%	38.3%	10.2%	1.6%	+39.6%	+34.1%	↑
Grains	40.0%	45.7%	12.9%	1.4%	+27.1%	+38.1%	↓
Other	47.2%	30.6%	22.2%	0.0%	+25.0%	+28.9%	↓

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

Figure 15: Net Expectations of Farm Spending by Industry Group (January 2012)



Regions

All seven regions have more respondents expecting to increase rather than reduce their on-farm spending over the next 12 months. East Coast North Island is the region with the highest proportion, with a net 46.7 percent expecting to increase spending. Auckland-Northland is the region with the lowest proportion, with a net 8.5 percent expecting to increase spending.

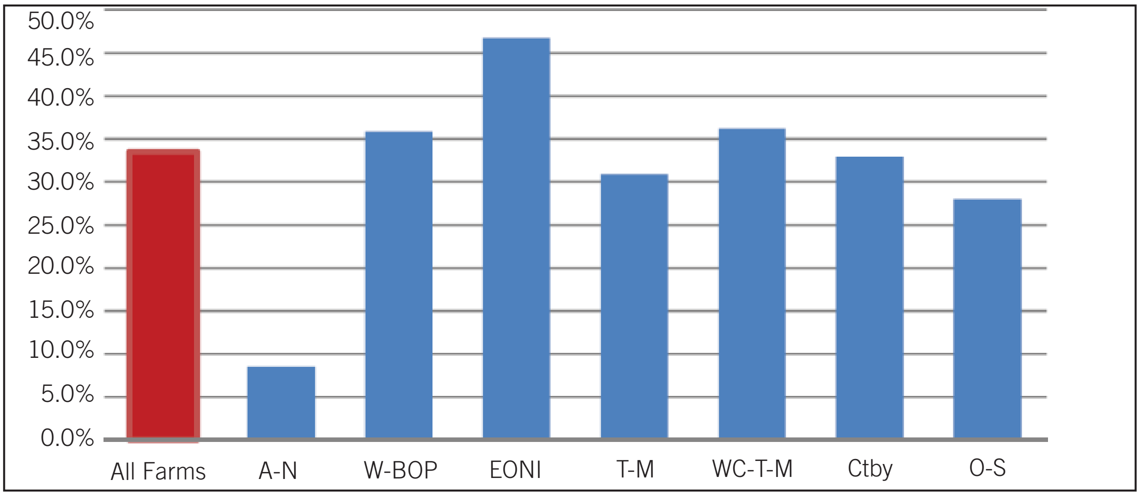
Four regions had increases in their net proportions compared to last July, with the largest increase for East Coast North Island (up 16.4 points). Auckland-Northland had the biggest decline (down 23.6 points).

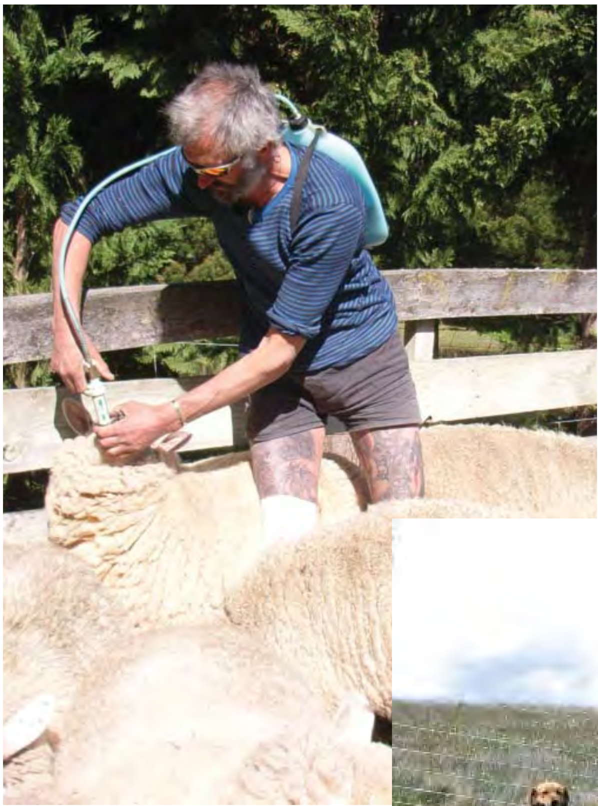
TABLE EIGHT: Farm Spending by Region

	Jan 2012 Increase	Jan 2012 Stay the Same	Jan 2012 Reduce	Jan 2012 Don't Know	Jan 2012 Net	July 2011 Net	
All Farms	**46.3%**	**39.3%**	**12.8%**	**1.6%**	**+33.5%**	**+33.3%**	↔
Auckland-Northland	27.7%	48.9%	19.1%	4.3%	+8.5%	+32.1%	↓
Waikato-BOP	46.3%	40.5%	10.5%	2.6%	+35.8%	+30.0%	↑
East Coast North Is	51.6%	43.4%	4.9%	0.0%	+46.7%	+30.3%	↑
Taranaki-Manawatu	43.1%	43.1%	12.2%	1.6%	+30.9%	+37.1%	↓
WC-Tasman-Marl	53.2%	27.7%	17.0%	2.1%	+36.2%	+31.7%	↑
Canterbury	49.1%	33.5%	16.1%	1.2%	+32.9%	+44.9%	↓
Otago-Southland	44.9%	37.4%	16.8%	0.9%	+28.0%	+26.5%	↑

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

Figure 16: Net Expectations of Farm Spending by Region (January 2012)





FARM DEBT

Interest on the $47 billion agriculture sector debt is estimated to be around $2.3 billion per annum and interest is the largest expense for many farms. Federated Farmers is keen to ensure that banks continue to support viable businesses and sound propositions. They should also be transparent in setting interest rates.

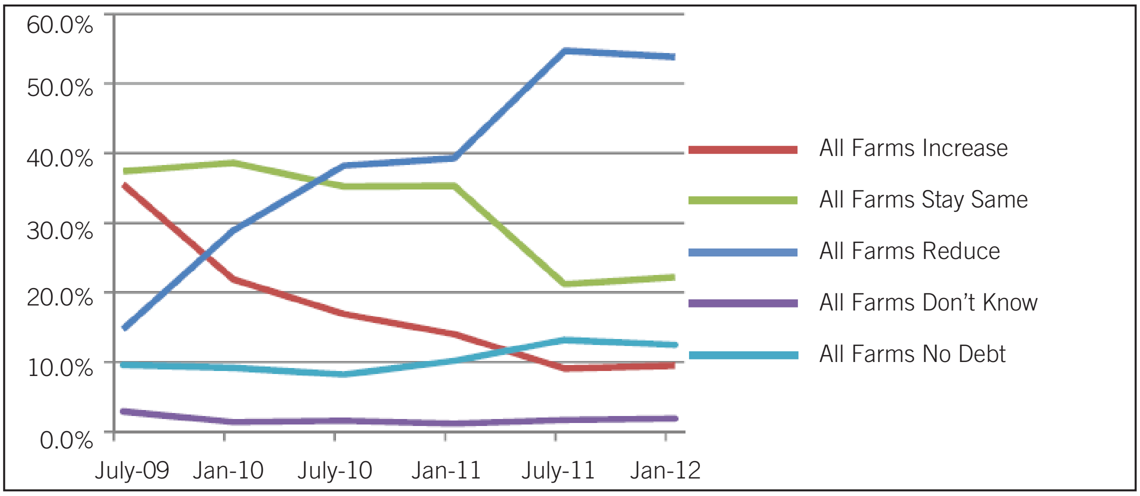
After huge growth in farm debt during the past decade, the 2008/09 Global Financial Crisis saw banks become much more conservative in their lending. This is likely to continue with the Reserve Bank recently imposing new capital requirements on banks for rural lending and more recent stresses experienced by the global financial system.

With this in mind, farmers have become more cautious about debt levels and many are proactively choosing to reduce debt. This is reflected in these survey results, **with a net 44.3 percent of respondents expecting to reduce their debt over the coming 12 months**[6]. This is down 1.3 points on last July's survey but is 19.0 points higher than this time last year, when a net 25.3 percent expected to reduce debt. It is a far cry from the first survey, in July 2009, when a net 20.8 percent expected to increase debt.

According to Reserve Bank sector credit statistics, growth in farm debt began to flatten out from mid-2009 after peaking at $48.0 billion in September 2010. Since then it has fallen, albeit in fits and starts, to $47.4 billion at the end of November 2011.

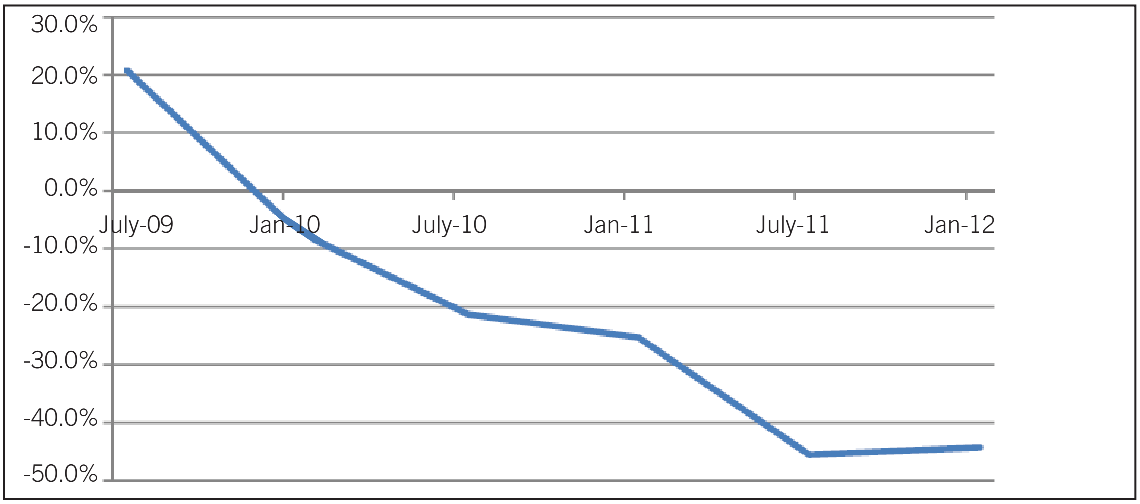
Figures 17 and 18 show how debt expectations have tracked over the life of the survey.

Figure 17: Farm Debt - All Farms (July 2009 - January 2012)



[6] The 'net' figure is the difference between those expecting their debt to increase (9.5%) and those expecting it to reduce (53.8%).

Figure 18: Net Farm Debt - All Farms (July 2009 - January 2012)



Industry Groups

Dairy farmers remain particularly focused on taking advantage of higher milk prices to pay down debt, with a net -46.9 percent expecting to increase their debt over the next 12 months. This is up 2.1 points from last July's survey but is down on this time last year, when a net -35.5 percent expected to increase debt.

A net -43.1 percent of meat and fibre farmers expect to increase their debt, up 1.6 points on last July's survey. This is still down considerably on this last year, when a net -19.4 percent expected to increase their debt.

A net -42.9 percent of grains farmers are expecting to increase their debt, down 6.4 points on last July's survey. As with meat and fibre farmers, this is also a large decrease on this time last year, when a net -13.2 percent expected to increase their debt.

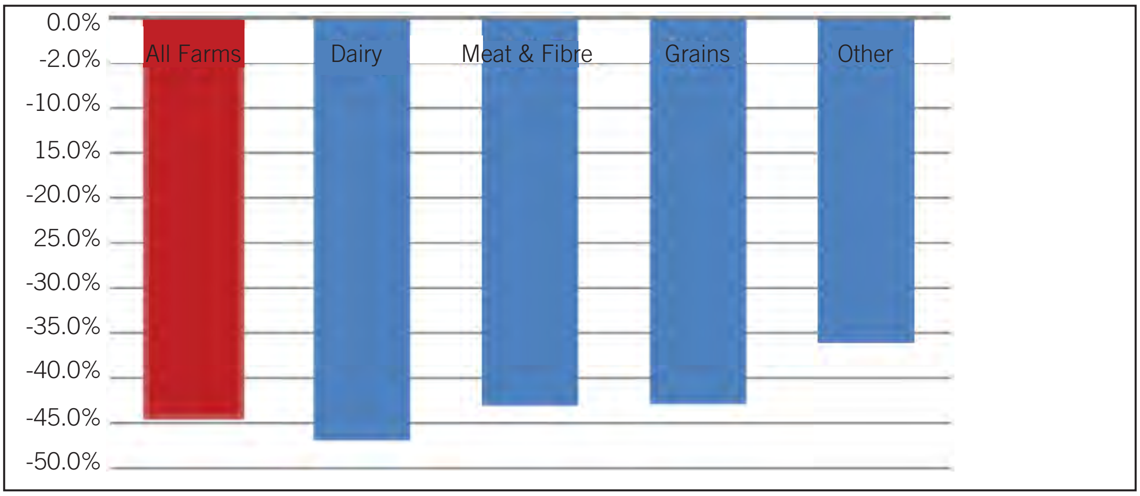
There was also a small increase in net debt expectations for 'other' farmers (i.e., bees, goats, rural butchers and South Island High Country), up 3.9 points to a net -36.1 percent expecting to increase their debt.

TABLE TEN: Farm Debt by Industry Group

	Jan 2012 Increase	Jan 2012 Stay the Same	Jan 2012 Reduce	Jan 2012 Don't Know	Jan 2012 No Debt	Jan 2012 Net	July 2011 Net	
All Farms	**9.5%**	**22.2%**	**53.8%**	**1.9%**	**12.5%**	**-44.3%**	**-45.6%**	↑
Dairy	11.3%	20.6%	58.1%	1.9%	8.1%	-46.9%	-49.0%	↑
Meat & Fibre	7.8%	22.9%	50.9%	1.6%	16.7%	-43.1%	-44.7%	↑
Grains	10.0%	24.3%	52.9%	2.9%	10.0%	-42.9%	-36.5%	↓
Other	11.1%	25.0%	47.2%	2.8%	13.9%	-36.1%	-40.0%	↑

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

Figure 19: Net Expectations of Farm Debt by Industry Group (January 2012)



Regions

All seven regions have significantly more respondents expecting to reduce their debt than increase their debt. East Coast North Island, with a net -53.3 percent expecting to increase their debt, is the region with the highest net figure. This is followed closely by Waikato-Bay of Plenty with a net -52.6 percent. West Coast-Tasman-Marlborough is the region with the lowest net figure, with a net -27.7 percent expecting to increase their debt.

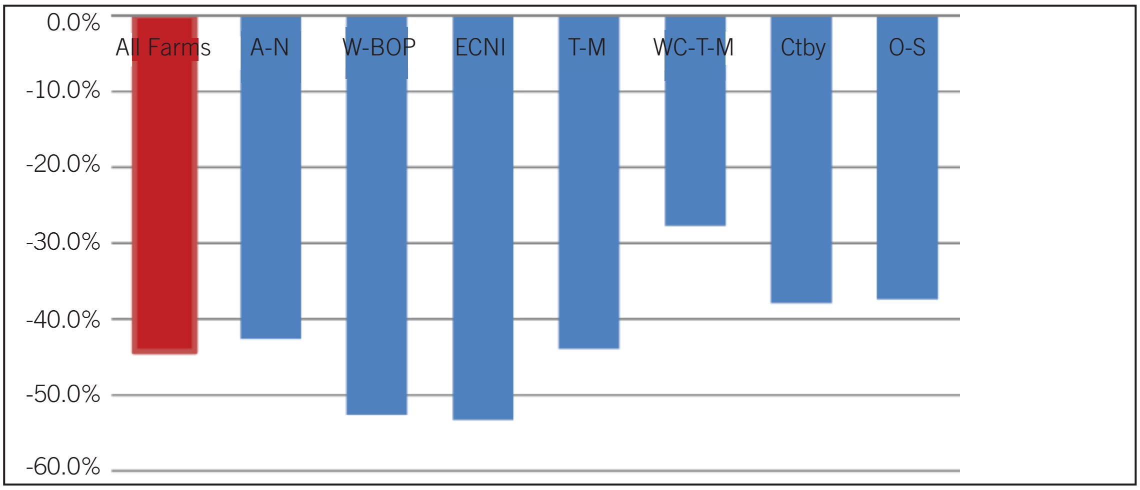
Auckland-Northland is the region with the largest decrease compared to last July's survey, down 14.3 points to a net -42.6 percent. Otago-Southland is the region with the largest increase compared to last July's survey, up 11.6 points to a net -37.4 percent. This may be due to concern that the dry weather and its impact on production will impede the ability of some farmers to reduce debt or for some, give cause to increase debt.

TABLE ELEVEN: Farm Debt by Region

	Jan 2012 Increase	Jan 2012 Stay the Same	Jan 2012 Reduce	Jan 2012 Don't Know	Jan 2012 No Debt	Jan 2012 Net	July 2011 Net	
All Farms	**9.5%**	**22.2%**	**53.8%**	**1.9%**	**12.5%**	**-44.3%**	**-45.6%**	↑
Auckland-Northland	6.4%	27.7%	48.9%	0.0%	17.0%	-42.6%	-28.3%	↓
Waikato-BOP	4.7%	23.2%	57.4%	2.6%	12.1%	-52.6%	-48.4%	↓
East Coast North Is	6.6%	23.0%	59.8%	0.0%	10.7%	-53.3%	-53.9%	↔
Taranaki-Manawatu	8.1%	19.5%	52.0%	0.8%	19.5%	-43.9%	-51.7%	↑
WC-Tasman-Marl	19.1%	21.3%	46.8%	4.3%	8.5%	-27.7%	-36.5%	↑
Canterbury	16.8%	21.7%	54.7%	1.9%	5.0%	-37.9%	-35.9%	↓
Otago-Southland	9.3%	21.5%	46.7%	3.7%	18.7%	-37.4%	-49.0%	↑

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

Figure 20: Net Expectations of Farm Debt by Region (January 2012)



RECRUITMENT

The farm labour market appears to have become tighter, with **a net 11.2 percent of farmers reporting it harder to find skilled and motivated staff over the preceding six months**[7]. This is up 5.5 points on last July's survey. This time last year, a net 5.8 percent had reported finding it harder.

There is likely to be 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 and January 2011, it does appear that the farm labour market is noticeably tighter.

Over time there has also been a steady increase in the proportion of respondents citing 'staffing issues' as their biggest concern; from zero in July 2009 to 4.1 percent in this survey. This coincides with a steady increase in recruitment perceptions as shown in figure 22.

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

Figure 21: Recruitment - All Farms (July 2009 - January 2012)

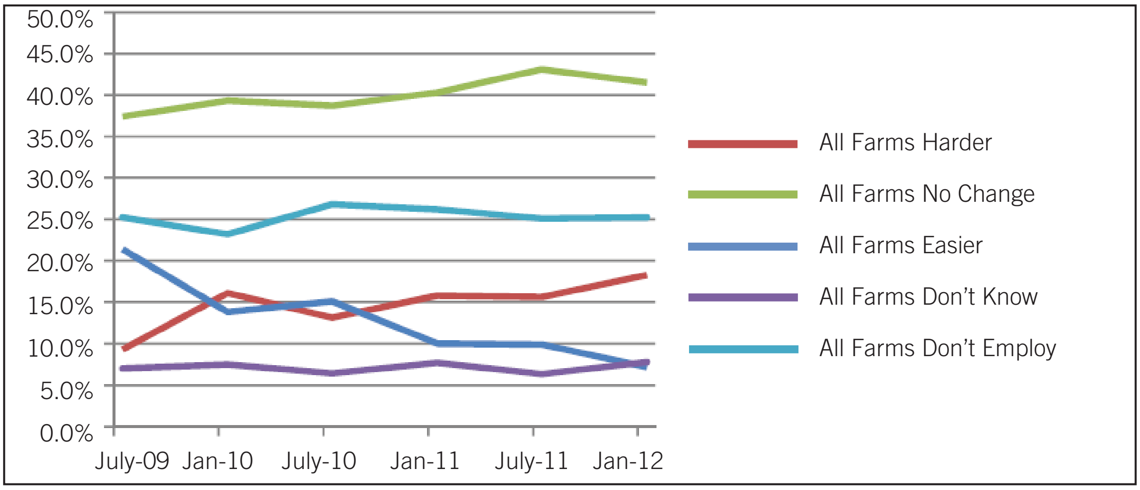
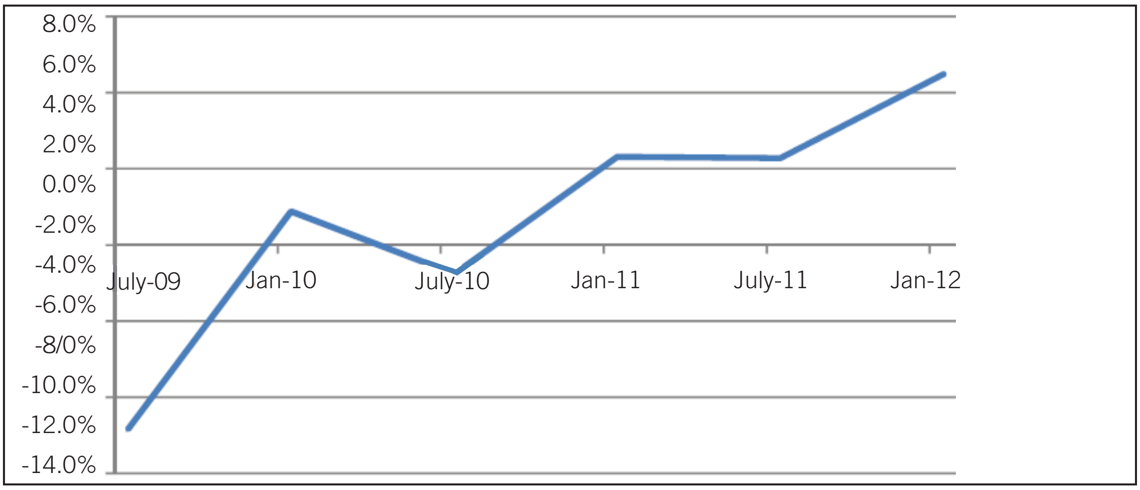


Figure 22: Recruitment - All Farms (July 2009 - January 2012)



7 The 'net' figure is the difference between those reporting it being harder to find staff (18.3%) and those reporting it being easier (7.2%).

Industry Groups

The tightening in the farm labour market was felt by all Federated Farmers industry groups, with it being particularly noticeable for grains and dairy farmers.

A net 12.5 percent of dairy farmers reported that it was harder to find skilled and motivated staff. This is up 3.2 points on last July's survey and is also up 4.8 points on this time last year, when a net 7.7 percent reported it having been harder.

A net 9.7 percent of meat and fibre farmers reported it had been harder. This is up 5.4 points on last July's survey and is also up 6.8 points on this time last year, when a net 2.9 percent reported it having been harder.

A net 15.7 percent of grains farmers reported it had been harder. This is up 9.4 points on last July's survey but up a more modest 3.9 points, on this time last year, when a net 11.8 percent reported it having been harder.

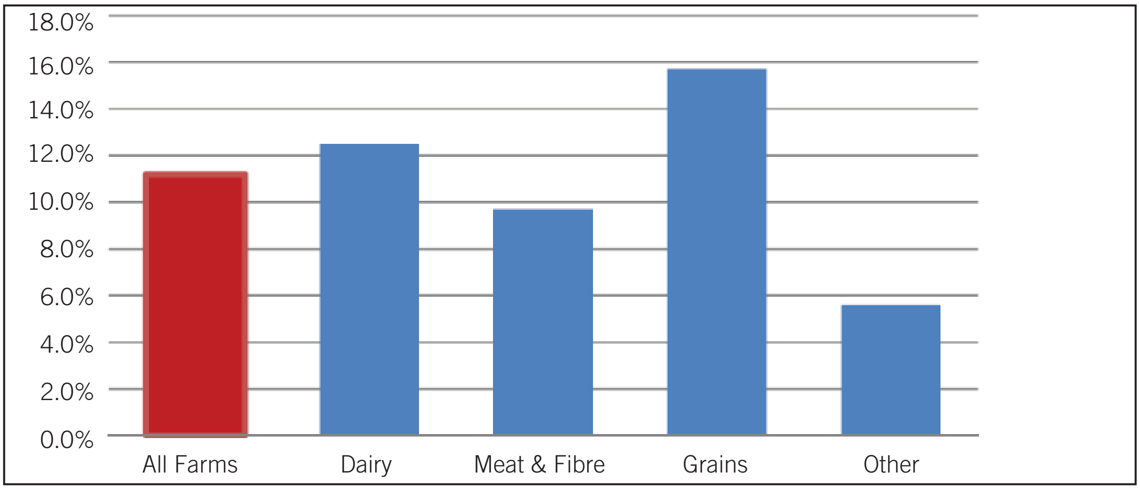
For 'other' farmers (i.e., bees, goats, rural butchers, and South Island High Country) a net 5.6 percent of farmers reported it having been harder. This is up 16.7 percent on last July's survey but up only 1.2 points on this time last year when a net 4.4 percent reported it having been harder.

TABLE TWELVE: Recruitment by Industry Group

	Jan 2012 Harder	Jan 2012 No Change	Jan 2012 Easier	Jan 2012 Don't Know	Jan 2012 Don't Employ	Jan 2012 Net	July 2011 Net	
All Farms	**18.3%**	**41.5%**	**7.2%**	**7.8%**	**25.2%**	**+11.2%**	**+5.7%**	↑
Dairy	20.0%	45.6%	7.5%	8.8%	18.1%	+12.5%	+9.3%	↑
Meat & Fibre	16.2%	39.1%	6.5%	6.7%	31.5%	+9.7%	+4.3%	↑
Grains	25.7%	37.1%	10.0%	7.1%	20.0%	+15.7%	+6.3%	↑
Other	11.1%	38.9%	5.6%	11.1%	33.3%	+5.6%	-11.1%	↑

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

Figure 23: Net Experience on Recruitment by Industry Group (January 2012)



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. Otago-Southland is the region with the highest net figure of 25.2 percent while Taranaki-Manawatu is the region with the lowest net figure of 4.1 percent.

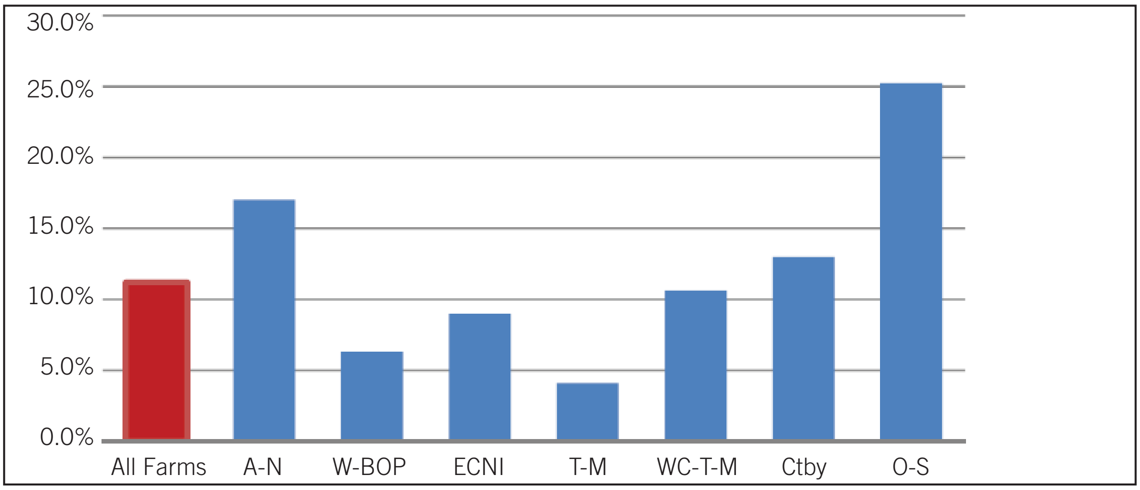
Five regions experienced increases for their net figures, with the largest increase being for Otago-Southland; it was up 19.8 points to a net 25.2 percent reporting it harder to find skilled and motivated staff. However, there were decreases for West Coast-Tasman-Marlborough (down 2.1 points) and Taranaki-Manawatu (down 1.9 points).

TABLE THIRTEEN: Recruitment by Region

	Jan 2012 Harder	No Change	Jan 2012 Easier	Jan 2012 Don't Know	Jan 2012 Don't Employ	Jan 2012 Net	July 2011 Net	
All Farms	**18.3%**	**41.5%**	**7.2%**	**7.8%**	**25.2%**	**+11.2%**	**+5.7%**	↑
Auckland-Northland	19.1%	40.4%	2.1%	0.0%	28.3%	+17.0%	+9.4%	↑
Waikato-BOP	14.7%	43.2%	8.4%	10.0%	23.7%	+6.3%	+4.7%	↑
East Coast North Is	18.9%	44.3%	9.8%	9.0%	18.0%	+9.0%	+5.9%	↑
Taranaki-Manawatu	13.0%	40.7%	8.9%	5.7%	31.7%	+4.1%	+6.0%	↓
WC-Tasman-Marl	19.1%	51.1%	8.5%	4.3%	17.0%	+10.6%	+12.7%	↓
Canterbury	19.9%	41.0%	6.8%	8.7%	23.6%	+13.0%	+2.6%	↑
Otago-Southland	27.1%	33.6%	1.9%	8.4%	29.0%	+25.2%	+5.4%	↑

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

Figure 24: Net Experience on Recruitment by Region (January 2012)



BIGGEST ISSUES FOR FARMERS

In this survey the biggest issue on the minds of farmers was **regulation and compliance costs**; 17.1 percent of respondents cited it as their biggest concern. This is up 5.1 points on last July's survey. Much of the comments about regulation and compliance costs were general and not specific. However, of those that were more specific, a number mentioned the impact of regional and district plans, resource consents and effluent compliance. Other compliance issues mentioned included health and safety, ACC, animal welfare and NAIT (the National Animal Identification and Tracing scheme that commences for cattle on 1 July 2012).

Closely behind regulation and compliance was the **economic situation**, with 16.3 percent of respondents citing it as their biggest concern. This is up 12.1 points on last July's survey. Most of these respondents were specific that their concern was about the global economy and the impact of any further slowdown on commodity prices and farm incomes.

Also of prominence for farmers, but below that of regulation and compliance costs as well as the economic situation, were the following issues (listed in order of concern):

- Weather (10.2 percent) ↑
- High and increasing input costs (9.4 percent) ↓
- Level and volatility of farm-gate and commodity prices (7.4 percent) ↔
- Interest rates, debt, and banking (7.0 percent) ↓
- Climate change policy and emissions trading scheme (5.9 percent) ↓
- High and volatile exchange rate (4.4 percent) ↓
- Negative public perceptions of farming (4.3 percent) ↔
- Staffing issues (4.1 percent) ↑

Last July, the main concern of farmers was climate **change policy and the emissions trading scheme (ETS)**, with 14.5 percent of respondents citing it as their biggest concern. The prominence of climate change policy and the ETS was mainly because of concern about the Labour Party's election policy to bring agricultural biological emissions into the ETS in 2013. The drop in concern in this survey is probably a response to the election result and commitments by the National-led Government not to include agricultural biological emissions in the ETS, unless there are mitigation technologies available and there is action from trading partners to include these emissions. These commitments have eased some, but not all, farmer concern about climate change policy and the ETS.

Figure 25a and 25b show how the farmers' views on issues of concern have tracked over the life of the survey.

Figure 25a: Single Biggest Concern - All Farms (July 2009 - January 2012)

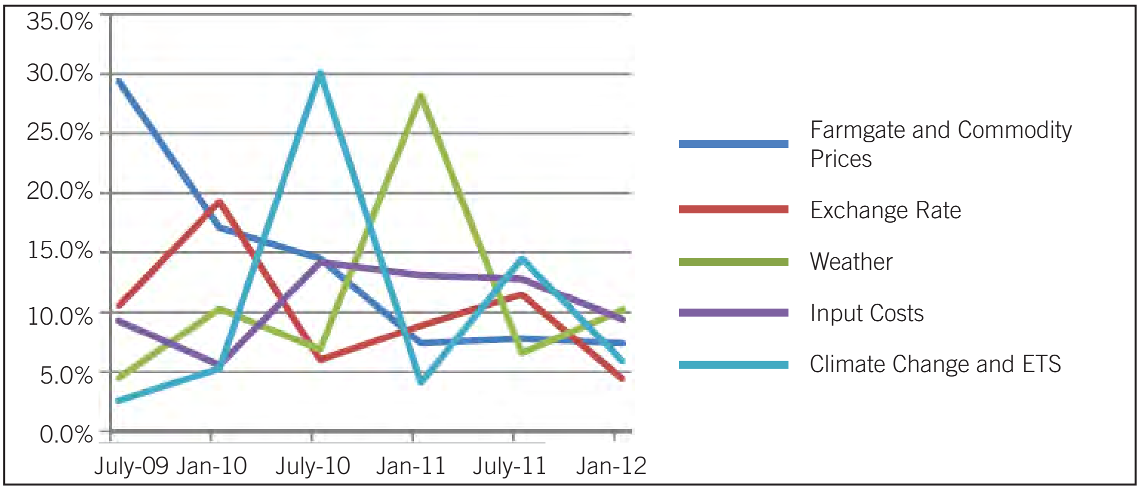
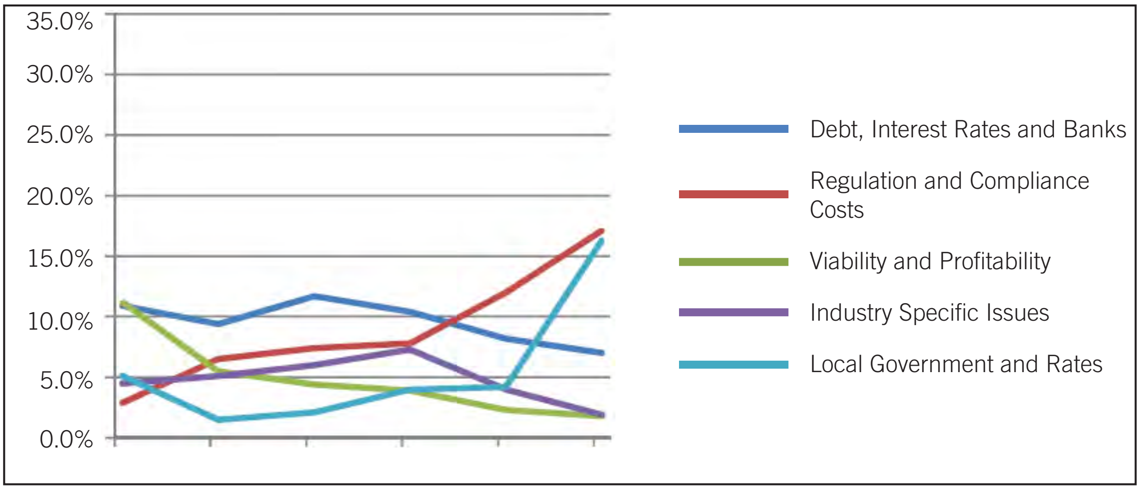


Figure 25b: Single Biggest Concern - All Farms (July 2009 - January 2012)



Industry Groups

For dairy farmers the issues of most concern are:

- Regulation and compliance costs (21.3 percent)
- Economic situation (14.7 percent)
- Debt, interest rates and banks (8.1 percent).

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

- Economic situation (17.5 percent).
- Regulation and compliance costs (14.3 percent)
- Weather (12.1 percent).

For grains farmers the issues of most concern are:

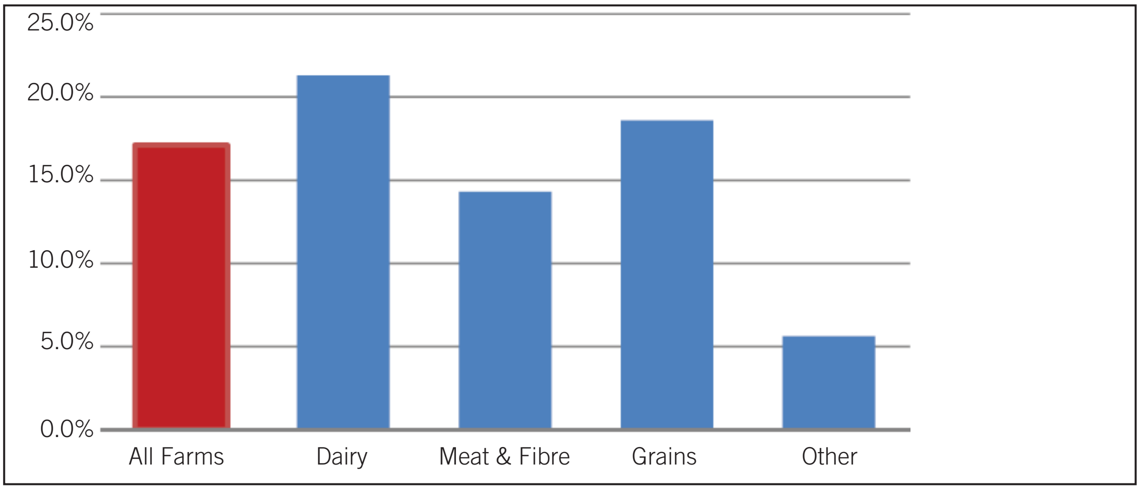
- Regulation and compliance costs (18.6 percent)
- Economic situation (12.9 percent)
- Weather (10.0 percent)
- High and increasing input costs (10.0 percent)

For 'other' farmers (i.e., bees, goats, rural butchers and South Island High Country) the issues of most concern are:

- Economic situation (25.0 percent)
- Input costs (13.9 percent)
- Weather (11.1 percent).

Figure 26 shows how the concern about regulation and compliance costs varied by industry group.

Figure 26: Regulation and Compliance Costs as Concern by Industry Group (January 2012)



Regions

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

- Input costs (21.3 percent)
- Regulation and compliance costs (17.0 percent)
- Economic situation (17.0 percent).

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

- Regulation and compliance costs (24.2 percent)
- Economic situation (15.3 percent)
- Debt, interest rates, and banks (9.5 percent).

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

- Economic situation (20.5 percent)
- Farmgate and commodity prices (13.1 percent)
- Debt, interest rates, and banks (10.7 percent).

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

- Economic situation (13.8 percent)
- Farmgate and commodity prices (13.8 percent)
- Regulation and compliance costs (13.0 percent).

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

- Regulation and compliance costs (23.4 percent)
- Input costs (21.3 percent)
- Economic situation (17.0 percent).

For Canterbury farmers the issues of most concern are:

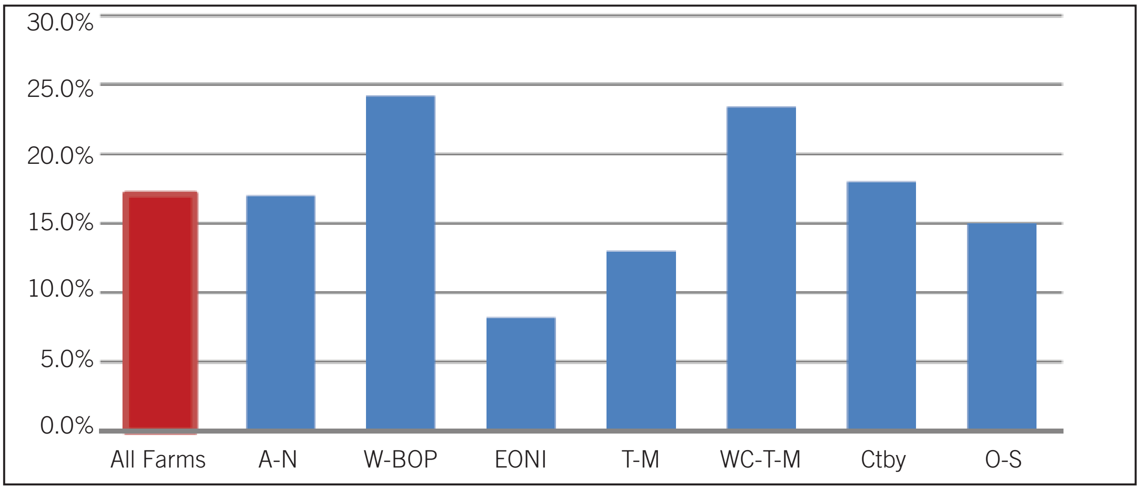
- Economic situation (20.5 percent)
- Regulation and compliance costs (18.0 percent)
- Input costs (12.4 percent).

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

- Weather (41.1 percent)
- Regulation and compliance costs (15.0 percent)
- Economic situation (9.3 percent).

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

Figure 27: Regulation and Compliance Costs as Concern by Region (January 2012)



HIGHEST PRIORITY FOR GOVERNMENT

When asked what they think should be the highest priority for the Government, once again, most respondents are focused on the **economy**. This is not surprising given the parlous state of the global economy, the sluggish domestic economy, large government deficits and rapidly growing government debt. The most cited responses were:

- Economy and better business environment – general (14.3 percent) ↑
- Reduce government spending (13.3 percent) ↓
- Reduce government debt (11.4 percent) ↑
- Scrap or reduce the costs from the ETS (9.2 percent) ↓
- Reduce regulation and compliance costs (8.3 percent) ↔
- Support agriculture and exporters (7.7 percent) ↓
- Monetary policy (i.e., exchange rate, interest rates, banking) (4.5%) ↓

The combined proportion of respondents who cited these priorities was 68.7 percent, down 3.1 points on last July's survey. This can largely be explained by 7.0 percent of respondents citing support for water storage and irrigation as the Government's highest priority, up 5.2 points. Adding water storage and irrigation (which would have strong economic benefits) brings the two proportions close to each other.

Despite the New Zealand Dollar remaining high in the lead-up and during the survey period, there was a further fall in the proportion of respondents who cited the exchange rate as the highest priority for the Government. Most farmers seem to accept that there is little the Government can do to directly influence the exchange rate. However, from farmers comments, many believe that reduced government spending and debt will help take pressure off the exchange rate.

It is little surprise then that **fiscal policy** remains of particular concern to farmers with a combined 24.7 percent stating that government spending and government debt should be the Government's highest priority. This is down 1.6 points on last July's survey and is also down 2.8 percent on this time last year when 27.5 percent of respondents cited these two priorities.

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 2012)

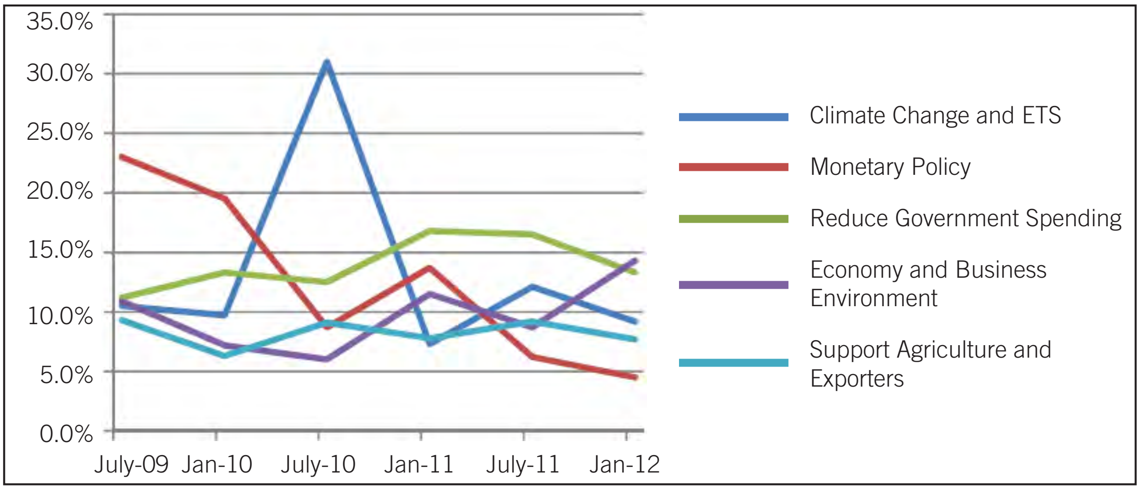
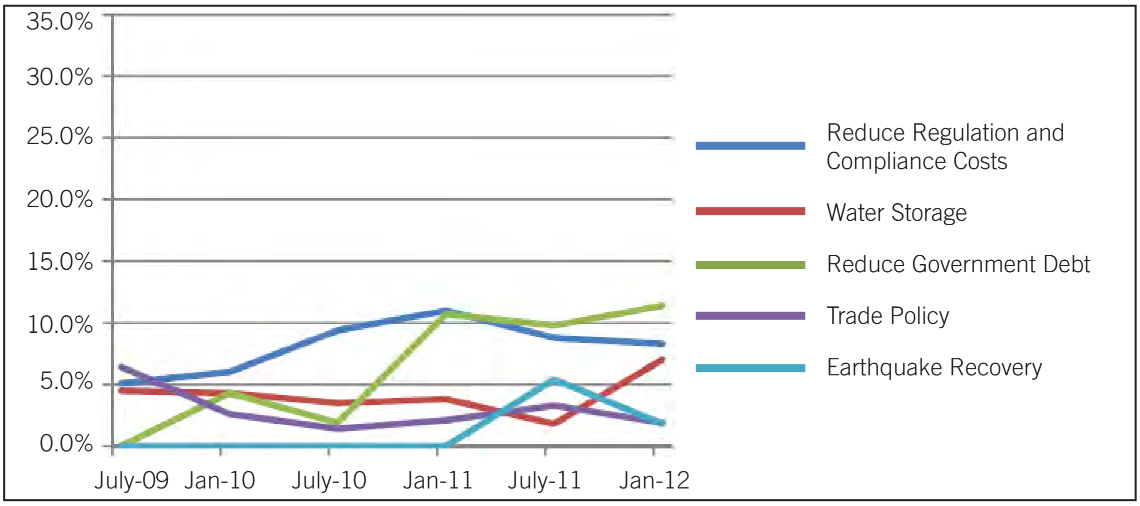


Figure 28b: Highest Priority for Government - All Farms



Industry Groups

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

- Economy and better business environment (15.6 percent)
- Reducing government debt (11.3 percent)
- Reducing government spending (9.7 percent).

The combined total for fiscal policy of 21.0 percent was somewhat lower than for 'all farms'.

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

- Reducing government spending (16.4 percent)
- Economy and better business environment (13.2 percent)
- Climate change policy and ETS (11.1 percent).

The combined total for fiscal policy of 26.6 percent was somewhat higher than for 'all farms'.

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

- Reducing government debt (14.3 percent)
- Water storage and irrigation (14.3 percent)
- Economy and business environment (14.3 percent).

The combined total for fiscal policy of 25.7 percent was slightly higher than for 'all farms'.

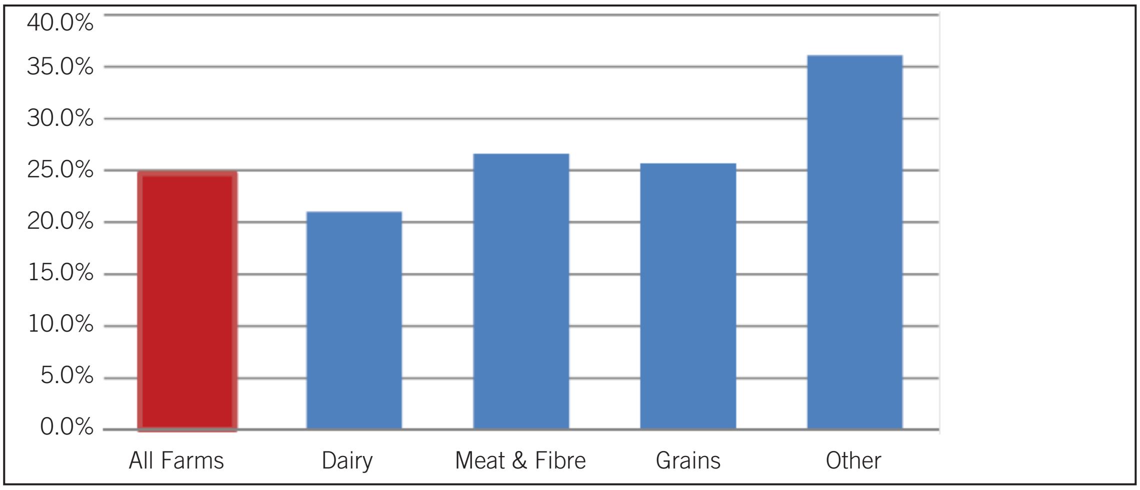
According to 'other' farmers (i.e., bees, goats, rural butchers, and South Island High Country), the highest priorities for government should be:

- Reduce government debt (19.4 percent),
- Reduce government spending (16.7 percent),
- Economy and business environment (11.1 percent)
- Reduce regulation and compliance costs (11.1 percent).

The combined total for fiscal policy of 36.1 percent was considerably higher 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 2012)



Regions

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

- Economy and better business environment (27.7 percent)
- Reduce government spending (12.8 percent)
- Support agriculture and exporters (12.8 percent).

The combined total for fiscal policy of 21.3 percent was somewhat lower than for 'all farms'.

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

- Reduce government debt (14.2 percent)
- Economy and better business environment (12.1 percent)
- Climate change policy and ETS (10.5 percent).

The combined total for fiscal policy of 22.6 percent was somewhat lower than for 'all farms'.

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

- Reduce government spending (23.0 percent)
- Economy and better business environment (13.1 percent)
- Climate change policy and ETS (10.7 percent).

The combined total for fiscal policy of 32.0 percent was considerably higher than for 'all farms'.

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

- Economy and better business environment (17.9 percent)
- Reduce government debt (15.4 percent)
- Reduce government spending (11.4 percent).

The combined total for fiscal policy of 26.8 percent was slightly higher than for 'all farms'.

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

- Reduce government spending (14.9 percent)
- Reduce regulation and compliance costs (12.8 percent)
- Support agriculture and exporters (10.6 percent).

The combined total for fiscal policy of 23.4 percent was slightly lower than for 'all farms'.

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

- Water storage and irrigation (18.0 percent)
- Economy and better business environment (16.8 percent)
- Reduce government spending (11.2 percent)
- Reduce government debt (11.2 percent).

The combined total for fiscal policy of 22.4 percent was somewhat lower than for 'all farms'.

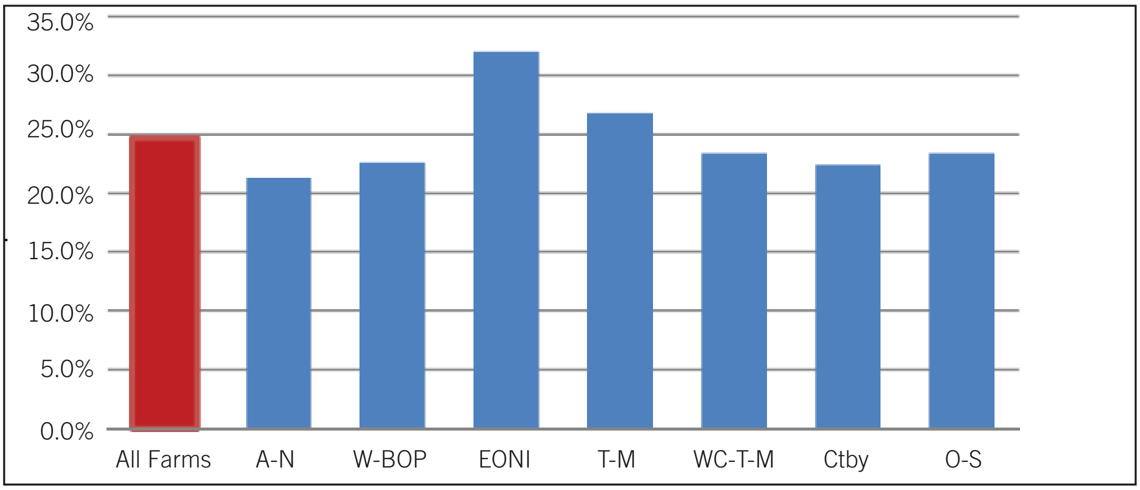
According to Otago-Southland farmers the highest priorities for government should be:

- Reduce government spending (15.9 percent)
- Climate change policy and ETS (13.1 percent)
- Reduce regulation and compliance costs (11.2 percent).

The combined total for fiscal policy of 23.4 percent was 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 2012)



ABOUT THE SURVEY

Federated Farmers' January 2012 Farm Confidence Survey was an email based member survey held from 4-13 January 2012. The survey is run on a six monthly basis, with the next survey to be held in July 2012.

The January 2012 survey attracted 797 responses from the following Federated Farmers industry groups:

- Bees: 7
- Dairy: 320
- Goats: 11
- Grain: 70
- Meat and Fibre: 371
- Rural Butchers: 1
- South Island High Country: 17

The 797 responses came from the following regions (see below for the Federated Farmers provinces comprising each region):

- Auckland-Northland: 47
- Waikato-Bay of Plenty: 190
- East Coast North Island: 122
- Taranaki-Manawatu: 123
- West Coast-Tasman-Marlborough: 47
- Canterbury: 161
- Otago-Southland: 107

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). 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, Hawke's 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.

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 your 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.