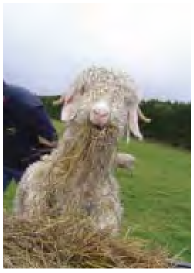
FEDERATED FARMERS OF NEW ZEALAND

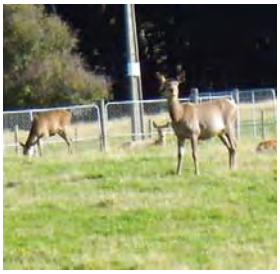



FEDERATED FARMERS

MID SEASON FARM CONFIDENCE SURVEY

Confidence improving at the middle of the 2009/2010 season

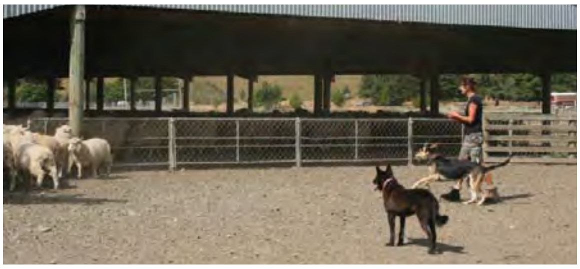
CONTENTS



THE FEDERATED FARMERS FARM CONFIDENCE SURVEY

The Federated Farmers Farm Confidence Survey is a new 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.

The first survey was undertaken in July 2009 and showed low confidence at the start of the 2009/10 season.



FARMER CONFIDENCE IMPROVING

Farmer confidence in the economy has significantly improved from the depths recorded last July. While farmers are still not overly optimistic about either general economic conditions or the profitability of their own farms, the overwhelming depression recorded in the last survey has receded.

Instead, farmer sentiment is now ambivalent about whether the economy will improve or deteriorate over the next 12 months, with equal numbers of farmers expecting improvements as expecting worse conditions.

In a big turnaround from the last survey, dairy farmers are now the most optimistic, with significant majorities expecting improvements both in general economic conditions and their own farms' profitability. They also expect to increase production and on-farm spending and reduce debt. Sheep and beef farmers and grains farmers are less optimistic and by some measures many remain pessimistic.

The biggest issues on farmers' minds are the prices they are receiving for their produce and the effect the high exchange rate is having on their returns and financial viability. This is particularly the case for sheep and beef farmers and grains farmers. The weather and drought conditions in some parts of the country are also of concern (but mainly for dairy farmers), along with perennial worries about interest rates and other on-farm costs (again more of a concern for dairy farmers than others).

The exchange rate and the weather were not such significant concerns in last July's survey. Six months ago commodity prices, debt and interest costs, and financial viability were the three biggest concerns.

Farmers want the Government to focus on the economy, in particular by getting government spending under control. A number of farmers continue to want the Government to do what it can about the persistently high exchange rate. Farmers also want the Government to get its climate change policies right, with the ETS/ climate change the third highest priority for all farmers and the highest for dairy farmers. A large number of grains farmers want the Government to prioritise water storage and irrigation projects – their second highest priority.

These responses on what the Government should be focusing on are very similar to those from the July 2009 survey.

GENERAL ECONOMIC CONDITIONS

A net 4.5 percent of respondents expect general economic conditions to improve over the coming 12 months. This is a significant improvement from the previous survey run in July 2009 in which a net 45 percent of respondents expected conditions to worsen. This represents a 49 percent improvement in sentiment about general economic conditions.

The dairy sector now leads the optimists, with a net 24 percent expecting an improvement in the economy, a huge turnaround from last July, when a net 53 percent expected worse to come – a 77 percent improvement.

Sheep and beef farmers are now the most pessimistic sector, after being the least pessimistic last July. A net 13.5 percent expect economic conditions to worsen, a more modest improvement of 27 percent on the previous survey.

Grains farmers are optimistic overall, with a net 11.8 percent expecting improvement, an improvement of 59 percent on last July.

The relative sentiment of the sectors reflects, to some extent, how farmers are feeling about their own prospects.

TABLE ONE: General Economic Conditions

	Improve	Stay the Same	Worsen	Don't Know	Jan 2010 Net	Jul 2009 Net
All Farms	**25.0%**	**49.7%**	**20.5%**	**4.8%**	**+4.5%**	**-45.2%**
Dairy	34.2%	51.9%	10.4%	3.5%	+23.8%	-53.3%
Meat & Fibre	16.4%	48.8%	29.9%	5.0%	-13.5%	-40.3%
Grains	26.5%	50.0%	14.7%	8.8%	+11.8%	-47.0%

FARM PROFITABILITY

Perhaps a more accurate reflection of farmer sentiment is the prospects for their own business, where a net 4.9 percent are expecting their profitability to worsen over the coming 12 months. Again this is a significant improvement from the last survey where a net 38 percent expected their profitability to worsen.

Dairy farmers are by far the most optimistic with a net 33.3 percent expecting to be more profitable over the coming 12 months. Again, as with the previous question, this is a huge turnaround from last July when a net 72 percent were expecting a lower profit. This change in sentiment can be explained by the large increases in Fonterra's 2009/10 forecast payout since the last survey (up from $4.55 per kg MS at the time of the last survey to $6.05 per kg MS) thanks to improved dairy commodity prices which, to date, have more than offset the higher exchange rate.

Sheep and beef farmers have gone from the least pessimistic to the most pessimistic with a net 31.3 percent expecting their profitability to worsen. This compares to a net two percent who were expecting a lower profit last July. World meat prices have not increased anything like those for dairy products and for sheep and beef farmers the higher exchange rate has been a major factor behind constrained farm gate returns.

There has been a small improvement in grains farmers' prospects, but they still remain relatively pessimistic, with a net 23.4 percent expecting their profitability to deteriorate.

TABLE TWO: Own Farm Profitability

	Improve	Stay the Same	Worsen	Don't Know	Jan 2010 Net	Jul 2009 Net
All Farms	**28.9%**	**34.2%**	**33.8%**	**3.1%**	**-4.9%**	**-38.3%**
Dairy	47.2%	35.5%	13.9%	3.5%	+33.3%	-72.0%
Meat & Fibre	15.3%	35.9%	46.6%	1.8%	-31.3%	-2.3%
Grains	22.1%	25.0%	45.5%	7.4%	-23.4%	-29.5%

FARM PRODUCTION

Data for on-farm production was not gathered in the last survey. The results from this survey show that a net 24.5 percent of farmers expect to increase their production over the coming 12 months.

Grains farmers expect their production to increase the most, with 33.7 percent expecting to produce more, this is followed by dairy farmers (29.9 percent) and sheep and beef farmers (17.8 percent).

Farmers will be watching the weather closely over the coming weeks and months. With drought conditions threatening in some parts of the country these intentions may not come to pass, hence the need for better water storage in drought prone areas.

TABLE THREE: Farm Production

	Increase	Stay the Same	Reduce	Don't Know	Jan 2010 Net	Jul 2009 Net
All Farms	**38.3%**	**45.6%**	**13.8%**	**2.2%**	**+24.5%**	**N/A**
Dairy	42.9%	42.4%	13.0%	1.7%	+29.9%	N/A
Meat & Fibre	33.8%	47.7%	16.0%	2.5%	+17.8%	N/A
Grains	41.1%	48.5%	7.4%	2.9%	+33.7%	N/A

Note: question on production not asked in July 2009 survey.

ON-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.

Farmers remain cautious and on average they expect their on farm spending over the next 12 months to stay at about the same level or perhaps reduce marginally. However, this is an improvement on last July when a net 36 percent of farmers were expecting to spend less.

Dairy farmers are now most likely to open their wallets, with a net 1.7 percent expecting to increase spending. This is a big turnaround of intentions compared to last July, when a net 70 percent said they would be cutting spending.

A net 4.2 percent of sheep and beef farmers expect to reduce their spending, an intention that has barely changed since last July. This reflects the tough times they are continuing to face.

Meanwhile a net 3.0 percent of grains farmers say they will reduce their spending, a 20 percent improvement on last July.

TABLE FOUR: On-Farm Spending

	Increase	Stay the Same	Reduce	Don't Know	Jan 2010 Net	Jul 2009 Net
All Farms	**28.4%**	**39.3%**	**29.7%**	**2.6%**	**-1.3%**	**-36.4%**
Dairy	27.7%	42.4%	26.0%	3.9%	+1.7%	-70.0%
Meat & Fibre	28.5%	37.0%	32.7%	1.8%	-4.2%	-5.4%
Grains	27.9%	39.7%	30.9%	1.5%	-3.0%	-23.5%

FARM DEBT

On average farmers expect to marginally reduce their debt over the coming 12 months. This compares with last July where farmers were expecting to increase their debt. However, comparison between sectors is particularly interesting.

When asked last July, a net 36 percent of dairy farmers were expecting to increase debt but in January this intention has been reversed, with a next 26.8 percent now expecting to reduce debt – a significant turnaround. A segment of dairy farmers have unsustainable amounts of debt and it appears that many will be taking advantage of the higher Fonterra payout to reduce their debt.

A net 4.7 percent of sheep and beef farmers expect to increase debt, an intention barely changed from last July. Again, it reflects the tough times for the sheep and beef sector.

Grains farmers also expect to increase their debt, with 8.8 percent expecting to increase debt, a slight reduction on last July.

With agricultural debt hitting $47 billion last November and interest costs estimated to be around $4 billion, Federated Farmers is keen to ensure that banks continue to support viable businesses and pass-on cuts in interest rates.

TABLE FIVE: Farm Debt

	Increase	Stay the Same	Reduce	Don't Know	No Debt	Jan 2010 Net	Jul 2009 Net
All Farms	**21.9%**	**38.6%**	**28.9%**	**1.4%**	**9.2%**	**-7.0%**	**+22.4%**
Dairy	15.6%	35.1%	42.4%	2.6%	4.3%	-26.8%	+36.0%
Meat & Fibre	24.6%	40.2%	19.9%	0.7%	14.6%	+4.7%	+5.4%
Grains	30.9%	44.1%	22.1%	0.0%	2.9%	+8.8%	+11.8%

FINDING STAFF

Many farmers commented that it is still difficult to find appropriately skilled and motivated staff. Farmers have, on average, not found any improvement in the ease at which they can obtain skilled staff and if anything they have found it marginally harder, with a net 2.3 percent finding it harder over the past six months. This compares to a net 14 percent finding it easier when asked last July.

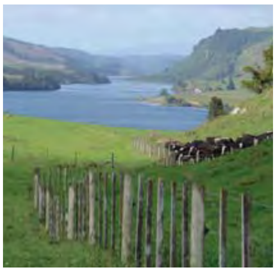
The dairy sector has had the biggest turnaround, with a net 5.2 percent reporting that they found it harder to find staff over the past six months. This compares to a net 21 percent finding it easier during the first half of 2009.

The sheep and beef sector experienced a smaller change to now be evenly matched – a net 0.0 percent finding it harder.

Grains farmers on average reported no change in difficulty compared to the first half of 2009 – a net 3.0 percent finding it harder.

TABLE SIX: Finding Staff

	Harder	No Change	Easier	Don't Know	Don't Employ	Jan 2010 Net	Jul 2009 Net
All Farms	**16.1%**	**39.3%**	**13.8%**	**7.5%**	**23.2%**	**+2.3%**	**-14.0%**
Dairy	22.5%	37.2%	17.3%	9.1%	13.9%	+5.2%	-20.6%
Meat & Fibre	11.0%	41.3%	11.0%	6.0%	30.6%	0.0%	-6.9%
Grains	16.2%	39.7%	13.2%	8.8%	22.1%	+3.0%	+2.9%



ABOUT THE SURVEY

Federated Farmers Farm Confidence Survey is an email based member survey held during the first few weeks of January 2010. There were 585 respondents. The survey is run on a six monthly basis, with the next survey to be held in July 2010.

Federated Farmers thanks those farmers who took the time to complete the survey.