



**BDO WELLBEING & BUSINESS
PERFORMANCE INDEX**

AGRIBUSINESS SECTOR

APRIL 2023 REPORT



SECTOR FOCUS: AGRIBUSINESS

This report is part of the biannual BDO Wellbeing & Business Performance Index - Te Rangahau o ngā hauora pai - which monitors both wellbeing and business performance (and the link between the two) among New Zealand's business leaders. The April 2023 Index findings are compiled from our third measure of the survey, undertaken during March 2023 among a nationally representative sample of 504 business leaders and owners who responded to our digital survey.

Agribusinesses were excluded from the third measure of our survey, undertaken during March 2023, due to disruption via recent adverse weather events including Cyclone Gabrielle. Instead, we have taken the opportunity to share sector insights from two of our national BDO Agribusiness team - Rod Hansen, Agribusiness Partner, BDO Christchurch and Charles Rau, Agribusiness Partner, BDO Gisborne. In this special edition of the report, they share their views on the key challenges facing the sector and how business owners and leaders can overcome these.

To view the main April 2023 BDO Wellbeing & Business Performance Index and video insights – providing a whole-of-business lens – along with our other sector-specific commentaries, go to [bdo.co.nz/wellbeing](https://www.bdo.co.nz/wellbeing).

A REGION BY REGION VIEW OF FARMING IN AOTEAROA

Weather and agribusiness performance are intrinsically linked, and the recent weather extremes are having wide-ranging and varied impacts for agribusiness owners and leaders across New Zealand - in some regions and sub-sectors, driving long-term change. Cyclone Gabrielle has caused significant challenges for farmers operating in the upper north and upper east coast of the North Island, many of whom have seen their crops and livestock decrease.

"Pasture and soil loss have become significant issues in the East Coast," explains Charles Rau, Agribusiness Partner, BDO Gisborne. "Stock is ready to be killed, but farmers are unable to get it off-farm due to damaged roading in these areas. In the short term, there are some upfront costs for farmers to address damage to fencing and roading. There's also a much longer-term cost over several years in dealing with loss of pastures and erosion, as well as loss of fertility due to silt, which may never return to normal in the farmer's lifetime."

Meanwhile in Southland, farmers have faced challenges on the other extreme due to drought dry summer months. In the central South Island, despite another poor spring, milk production and stock growth rates have pulled back somewhat after Christmas with reasonable rain, sunshine hours and good growth conditions. Arable harvest in Canterbury was also better than average this year, from both a yield and price perspective.

In Marlborough, vineyard operators have seen sound results, with some pockets facing challenges due to higher-than-average rain and others coming out okay. The West Coast is currently behind in production due to continued challenges with wet weather.

PRESSURES ON PROFITABILITY PERVADE

From a financial perspective, every sector is seeing a profitability compression due to inflationary impacts on costs. In dairying, for example, we have seen a 15-20% year-on-year increase in cost structures in the past 2 years. Prices for key costs such as fertiliser have skyrocketed since the Russia-Ukraine war, and wages have increased across all sectors, including farming.

Inflationary pressures are being compounded by a reduction in forecast prices, particularly in dairy and some late season sheep schedule prices. Prices are dropping due to weaker global confidence and demand. "This is going to prove difficult as farmers in these sectors look to the 2024 season," says Rod Hansen, BDO Agribusiness Sector Leader. "Many dairy farmers, for example, have a break even cost structure above \$8, and we are seeing some bank economists predicting milk prices as low as \$7. This is due to falling commodity markets and decreasing Chinese demand for whole and skimmed milk. That said we have seen store lamb prices start to lift again in the past month on the basis of strong grass markets, which is encouraging."

Many farmers are also seeing some significant tax burdens flow through from the profitable 2022 year. In addition to this many farm businesses are looking at their interest rates being double what they were 12 months ago.

On the more positive side, banks have largely been supportive of the agribusiness market in NZ, and have provided a number of refinancing opportunities – we hope banks and capital markets will continue to offer favourable opportunities even with profitability becoming squeezed in the short term. There is also an expectation that fuel and shipping prices will continue to drop, which will also lead to some of the other costs reducing, though it is unlikely that prices will return to previous levels.

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KNOW YOUR NUMBERS

Farmers may have to rethink their cost structures – and this can pose a key risk to farmers, especially if income stagnates. It's therefore essential that farmers review which costs are necessary and which aren't. Reviewing cash flow regularly is also a key means to manage financial pressures (something we have consistently seen is the greatest cause of negative wellbeing among NZ business owners). It's essential that farmers understand their cash flow position and communicate clearly and early with the banks if they need to – having up-to-date cash flow and financial reports will help you with these conversations.

Forecasting different scenarios around movements in production and market prices will also help you understand your financial position and what levers you can pull as different possibilities arise, while there are also various tools to help you around tax management.

Making a plan for your farm will also be useful. Even if you have to change it, which you will, it will assist in providing direction and a basis on which to make decisions, helping you to avoid stagnation.

Farmers have continued to experience increased regulatory pressures. These are always evolving, and it's important farmers continue to remain informed with current requirements and what is planned so that you are complying and embracing any opportunities that arise from regulatory change. Opportunities will also come from remaining informed.

A POSITIVE LONG-TERM OUTLOOK

"Despite challenges in wellbeing in the rural community, there's also a huge appreciation within the farming community that it's a great industry to be in, with a really good future. It's producing something that the nation and the world wants and since the Free Trade Agreement with China we have seen a sustained increase in commodity prices and profitability. The view that farmers are in the right industry is still held widely. These challenges are not new, but we are in a good position and in a good country to weather the storm and this is creating a really strong long-term belief and outlook for the sector."



CHARLES RAU,
BDO AGRIBUSINESS PARTNER, BDO GISBORNE

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KEY TIPS FOR AGRIBUSINESS LEADERS

- Review your costs and cash flow regularly, ensuring you have up-to-date financials
- Communicate clearly and early with your banks if you need to
- Forecast different scenarios around movements in production and market prices
- Make a plan – this will help provide direction and a basis on which to make decisions
- Keep on top of changing regulations
- Reach out to your community, including your advisers, for support

REACH OUT TO YOUR COMMUNITY FOR SUPPORT

"It's important that farmers don't try and go it alone. Having a skilled team around you to help you understand your numbers and the changing regulatory environment is important, and it's also essential to talk to your community about the challenges you're collectively facing and how others are dealing with them. Fortunately, we have a more heightened awareness of mental health and improved support networks in the rural community compared to what we saw 10 years ago. We've been really proud to sponsor the Rural Support Trust's Time Out Tour, which provides an excellent opportunity for farmers to discuss mental wellbeing, as well as to network and hear from others. Events are continuing to be announced on the RST website and it's well worth a visit to one of these if you haven't already done so."



ROD HANSEN,
BDO AGRIBUSINESS PARTNER, BDO CHRISTCHURCH



FOR MORE TIPS AND VIDEO INSIGHTS,
VISIT [BDO.NZ/WELLBEINGINAGRIBUSINESS](https://www.bdo.co.nz/wellbeinginagribusiness)



WELLBEING SUPPORT
CONTACTS

The Rural Support Trust ([rural-support.org.nz](https://www.rural-support.org.nz))
Xero Assistance Programme (XAP)
[1737.org.nz](https://www.1737.org.nz) – National mental health helpline
Mental Health Foundation ([mentalhealth.org.nz](https://www.mentalhealth.org.nz))

CONTACT OUR SPECIALIST AGRIBUSINESS TEAM AT [BDO.NZ/AGRIBUSINESS](https://www.bdo.co.nz/agribusiness)