

The Rural Contracting Industry

for Rural Contractors New Zealand

March 2019

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Executive summary

- This report updates a report on the rural contracting industry prepared by Infometrics in 2013. It presents estimates of the contribution of the rural contracting industry to the New Zealand economy and how this has changed over time.
- In this report we have defined the rural contracting industry in terms of the category Other Agriculture and Fishing Support Services (code A052900 in the 2006 Australia New Zealand Standard Industrial Classification).
- The rural contracting industry contributed \$1,507million¹ to New Zealand's GDP in 2018.
- The rural contracting industry experienced rapid growth in economic output between 2000 and 2008, expanding by 5.5%per annum (pa) compared with 3.5%pa in the national economy. During, the financial crisis (2008-10) output declined, but, saw a significant turnaround in the latter period (2010-18), rising on average by 5.8%pa.
- An average of 22,763 persons were employed in the rural contracting industry in the year to March 2018. Employment in the rural contracting sector grew by 4.3%pa for the period 2000-18. It grew at a much faster rate during the pre-GFC period (2000-08) when compared to the GFC and the post-GFC period.
- Bay of Plenty and Waikato were the regions with highest employment in the rural contracting industry. Together they accounted for nearly 38% of rural contracting employment in 2018.
- In 2018 there were 6,822 registered business units in the rural contracting industry. The number increased rapidly between 2001 and 2004 and thereafter remained more-or-less stable until 2011. Since then, the number of business units grew by an average of 4.2%pa.
- In 2018 the average number of employees per business unit was 3.3. This was up from 2.8 in 2000.

¹ All GDP values are measured in 2018 prices.

Introduction

This report updates a report on the rural contracting industry prepared by Infometrics in 2013. It presents estimates of the contribution of the rural contracting industry to the New Zealand economy and how this has changed over time. The industry's contribution is measured in terms of gross domestic product (GDP), employment, and business units.

Definition of rural contracting

Rural contracting is a service industry containing a number of diverse activities related to the primary production sector. As such, it is not focused on the production of commodities and we have no direct measures of production for the industry as we have for many other industries, such as the dairy industry. We are forced to define rural contracting in terms of individual industries contained in the Australia New Zealand Standard Industry Classification (ANZSIC). Using this approach, we are able to utilise various official data sources that report on the various industries.

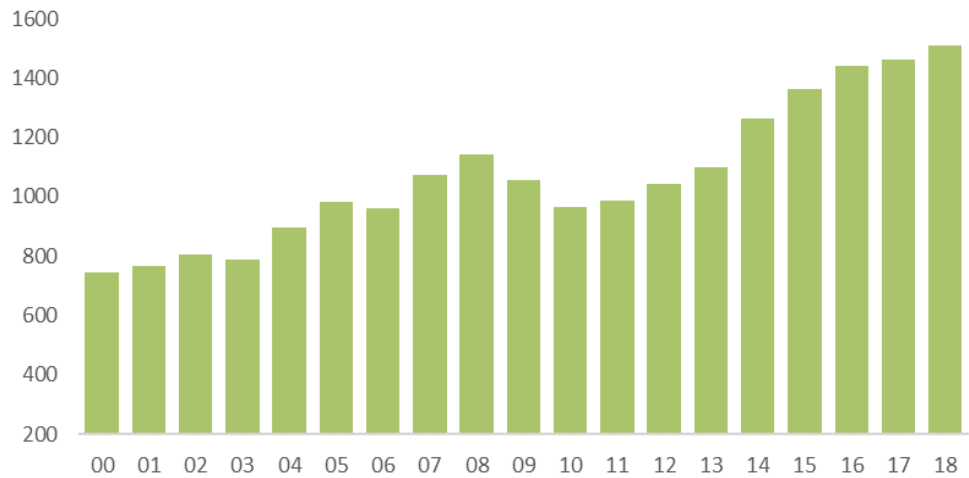
Through a process of elimination we have identified *Other Agriculture and Fishing Support Services* (code A052900) as the closest match to rural contracting services among the approximately 500 industry categories of the 2006 ANZSIC. This is a category which includes a variety of activities such as crop harvesting, farm irrigation service and livestock dipping. A full list of activities included in the category is provided in the appendix. The definition of rural contracting used in this report is same as the one in the 2013 report.

Economic output

The rural contracting industry contributed \$1,507 million² to New Zealand's GDP in 2018. GDP measures the value companies add to their inputs. It should not be confused with revenue, turnover or gross output. A company's value adding is equivalent to its sales revenue less the cost of materials (e.g. steel for making motor cars) and services (e.g. telecommunications) purchased from other firms.

² All GDP values are measured in 2018 prices. GDP was measured in 2013 prices in the 2013 report.

Figure 1. Rural contracting GDP(\$m), 2000-2018



Source: Infometrics

The rural contracting industry grew by around 4%pa for the last eighteen years. In contrast, the agriculture industry (excluding rural contracting) and the national economy grew by 0.8%pa and 2.7%pa respectively.

The rural contracting industry experienced rapid growth in economic output between 2000 and 2008, expanding by 5.5%pa (Table 1 and Figure 1). This was significantly higher than the agriculture industry (-1.1%pa) and the national economy (3.5 %pa) over the same period.

During the financial crisis (2008-10), economic output slowed down considerably for the rural contracting industry declining by 8.2%pa, whereas the agriculture industry (excluding rural contracting) recorded a growth of 5.7%pa.

Economic output from the rural contracting industry saw a significant turnaround between 2010 and 2018, rising on average by 5.8% pa as against 1.5%pa from the agriculture industry (excluding rural contracting) and 2.8% from the national economy.

Table 1. Contribution to GDP (\$m)

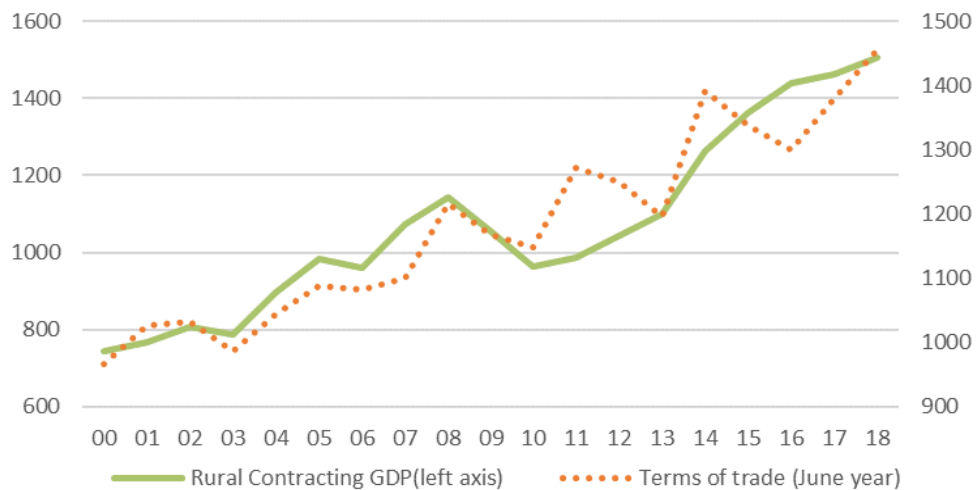
Industry	Annual average % change			
	00-08	08-10	10-18	00-18
Rural contracting	5.5%	-8.2%	5.8%	4.0%
Agriculture (excluding Rural contracting)	-1.1%	5.7%	1.5%	0.8%
All industries	3.5%	-0.7%	2.8%	2.7%

Source: Infometrics

Activity levels in the rural contracting industry have a pronounced cyclical pattern and up until 2010 appeared to follow movements in the terms of trade index (ratio of export to import prices). This pattern can be seen in Figure 2. It seems that, during this period, the agricultural sector contracted out a greater share of its inputs to contractors as returns in the agricultural sector increased (as measured by the terms of trade).

However, since 2010 in the aftermath of the global financial crisis, the relationship between economic activity in the rural contracting industry and the terms of trade has been less close. However, the overall trend of rising output in the rural contracting sector with rising terms of trade has remained. Output peaked in 2018 which coincided with a peak in the terms of trade.

Figure 2. Rural contracting GDP (\$m), and the terms of trade index, 2000-2018



Source: Infometrics, Statistics NZ

Employment

An average of 22,763 persons were employed in the rural contracting industry in the year to March 2018. For the period 2000-18, employment in the rural contracting industry grew by 4.3%pa, as against 1.9%pa for the national economy. The agriculture industry (excluding rural contractors) experienced a decline of -0.5%pa during the same period.

Employment in the rural contracting industry grew at a great pace of 5.5%pa during the period 2000-2008 (Figure 3 and Table 2), considerably ahead of the agriculture industry (excluding rural contracting, -1.2%pa) and the national economy (2.6%pa). The decline in employment in the agriculture industry and the rapid growth in rural contracting are probably linked as farmers became increasingly specialised and outsourced non-core work to contractors.

Figure 3. Employment in the rural contracting industry, 2000-2018



Employment declined slightly (-1.1%pa) between 2010 and 2012 following the decline in economic activity in the rural contracting industry during Global Financial Crisis and domestic recession. It is often the case that decline in employment lags behind a decline in employment, as employers hold on to staff for as long as possible, and the self-employed persevere before leaving an industry.

Employment in rural contracting industry recovered from 2012, growing on average 4.4%pa for the period 2012-18.

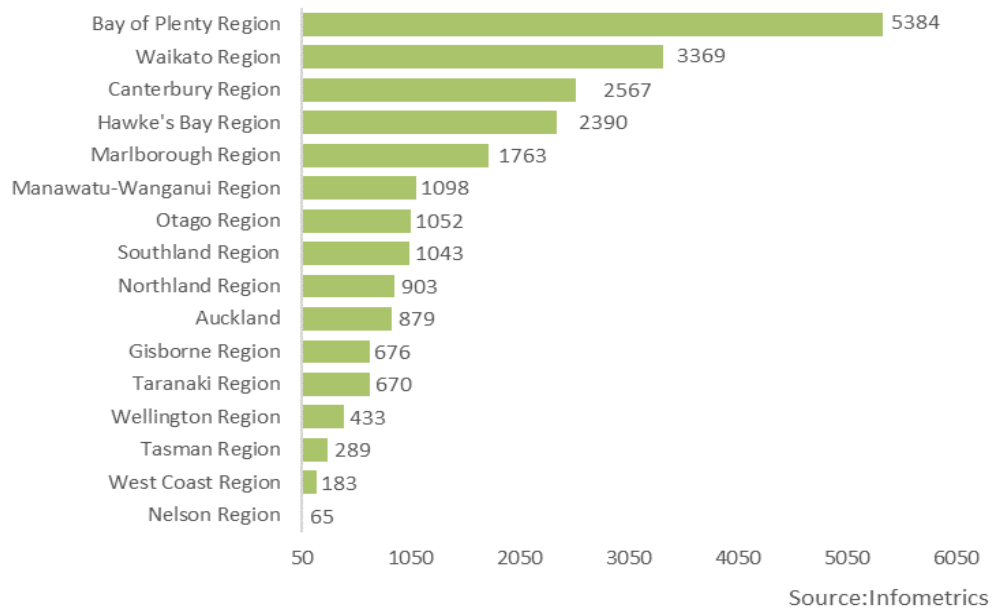
Table 2. Employment in rural contracting

Industry	Average annual growth rate				
	00-08	08-10	10-12	12-18	00-18
Rural contracting	5.5%	5.0%	-1.1%	4.4%	4.3%
Agriculture (excluding Rural contracting)	-1.2%	-1.2%	0.9%	0.2%	-0.5%
All industries	2.6%	-0.9%	0.7%	2.3%	1.9%

Source: Infometrics

Figure 4 shows that Bay of Plenty and Waikato were the regions with highest employment in the rural contracting industry in 2018. Together they accounted for nearly 38% of rural contracting employment.

Figure 4. Employment by region, 2018

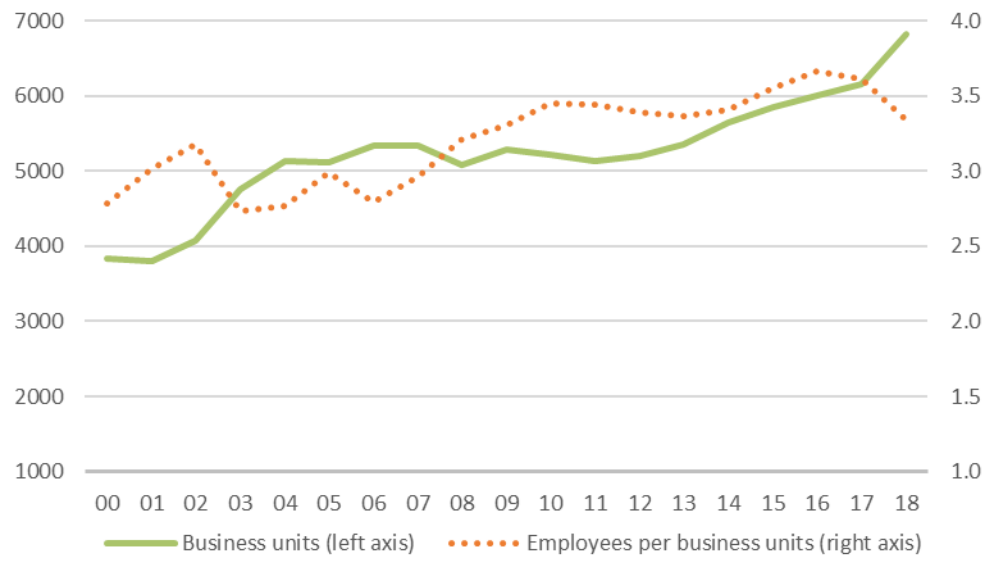


Businesses

In 2018 there were 6,822 registered business units in the rural contracting industry. The number increased rapidly between 2001 and 2004 and thereafter remained more-or-less stable until 2011. Since then, the number of business units have consistently shown an upward trend, and growing rapidly between 2017-2018 (see figure 5). The number of business units increased from 5,124 in 2011 to 6822 in 2018, growing by an average of 4.2%pa.

In 2018, the average number of employees per business unit was 3.3. This was up from 2.8 in 2000. Since 2011 the average size of business units increased as employment grew at a relatively faster rate than the number of business. However, this trend ended in 2016 with the average business size dropping sharply in 2018.

Figure 5. Business units and average size of business units, 2000-2018



Source: Infometrics

Appendix A. Data table

Table 3. Summary statistics for the rural contracting industry

Year	GDP (\$m)	Employment	Business Units	Average employment per business unit
2000	639	10,666	3,834	2.8
2001	659	11,462	3,798	3.0
2002	693	12,937	4,077	3.2
2003	677	13,028	4,761	2.7
2004	769	14,190	5,136	2.8
2005	846	15,306	5,118	3.0
2006	825	14,906	5,337	2.8
2007	922	15,795	5,337	3.0
2008	982	16,317	5,088	3.2
2009	908	17,451	5,280	3.3
2010	828	17,996	5,217	3.4
2011	848	17,646	5,124	3.4
2012	896	17,598	5,196	3.4
2013	946	17,962	5,346	3.4
2014	1,084	19,225	5,637	3.4
2015	1,171	20,787	5,850	3.6
2016	1,238	21,988	6,003	3.7
2017	1,256	22,230	6,153	3.6
2018	1,295	22,763	6,822	3.3

Source: Infometrics

Appendix B. Definition of rural contracting industry

In this report we have defined the rural contracting industry in terms of the category *Other Agriculture and Fishing Support Services* (code A052900 in the 2006 Australia New Zealand Industrial Classification). This category includes the following activities:

- Aerial crop spraying or dusting*
- Aerial mustering
- Aerial pest control or baiting
- Aerial seeding service
- Aerial topdressing
- Agricultural support service n.e.c.*
- Aquaculture support service
- Artificial insemination service
- Crop harvesting*
- Dairy herd testing
- Farm irrigation service*
- Fertiliser spreading (including aerial)*
- Fishing support service
- Fruit or vegetable picking
- Hay or silage baling or pressing*
- Livestock dipping*
- Livestock drafting or droving
- Seed grading or cleaning
- Wool classing (including reclassing and bulk classing)

* denotes those activities normally provided by rural contractors