

For Release: 18 March 2026

Higher costs are the new normal – top farms lift productivity

New research from ANZ Bank New Zealand (ANZ NZ) has found the cost of running a New Zealand farm is now 27 per cent higher than before COVID, marking a permanent shift in the economics of farming.

The finding comes from ANZ's latest *Agri Insights* report, which analysed financial performance across more than 4000 dairy, red meat, kiwifruit, arable and pipfruit customers, comparing the 2020-24 period with the previous five years.

Key findings include:

- Farm operating costs are more than a quarter higher than pre-COVID, driven by labour, fertiliser and other core inputs, while cost inflation has become structural - farms must lift productivity just to stand still.
- The gap between average farms and the top performers continues to widen, pointing to significant untapped productivity potential on New Zealand farms.
- Productivity, not scale, is the defining separator between average and top-performing farms, with leading operators consistently generating materially higher earnings per hectare through system optimisation rather than expansion.
- Across all major sectors, the strongest financial outcomes were linked to disciplined reinvestment through the cycle, with top farms maintaining cash generation and balance-sheet capacity even as cost pressures rose.

Lorraine Mapu, ANZ NZ's Managing Director of Business and Agri, said events playing out in the Middle East are a reminder that global uncertainty - from geopolitical tensions to fuel supply and input volatility - add another layer of complexity for farmers.

"While we're not currently receiving customer requests seeking specific support for issues linked to the conflict, we're staying close to our customers and remain focused on supporting them through any emerging challenges," Mapu said.

"What this research shows, though, is that the businesses best placed to navigate that uncertainty are the ones with strong fundamentals, good visibility over their costs, and the ability to keep investing in productivity through the cycle.

"Farming is now a higher-cost business than it was five years ago, and that's not something that unwinds when inflation cools.

"The standout performers aren't necessarily expanding or taking bigger risks - they're the ones who know their system well, time their spending carefully, and keep finding small productivity gains year after year."

The report found that rising costs have not been even across the sector - kiwifruit and dairy recorded the largest increases, reflecting their labour-intensive nature and the impact of wage pressure during and after COVID.

Despite this, both sectors were able to offset higher costs through strong revenue growth and productivity improvements. Kiwifruit delivered the strongest revenue growth of all sectors, with total farm income rising 59 per cent between the two periods, driven largely by maturing post-PSA plantings and higher orchard productivity.

"The kiwifruit story shows what's possible when productivity improvements line up with a strong underlying system," Mapu said. "In the top orchards, the lift in earnings per hectare was substantial, and it came down to execution rather than variety alone."

Dairy farms also delivered solid gains, with higher earnings per hectare achieved through improved milk production per cow and better herd performance, rather than expansion.

Red meat farms saw more modest income growth, with rising costs largely offsetting revenue gains and leaving median earnings slightly lower than pre-COVID levels. The gap between average and top-performing red meat farms remained pronounced, with leading operators earning around 80 per cent more per hectare.

"That spread between the middle and the top is one of the most consistent themes in the data," Mapu said. "It suggests there's still a lot of opportunity sitting inside existing farm boundaries."

Pipfruit faced the most challenging conditions, with total income falling over the period amid labour shortages and repeated weather events in Hawke's Bay and Nelson, which constrained volumes and squeezed margins.

Across all sectors, the report found that cost cutting on its own was not enough to drive long-term performance. The strongest businesses were those able to align spending with production cycles and price movements, and generate enough cash to invest through the cycle.

“Lifting productivity isn’t about one big silver bullet,” Mapu said. “It’s about understanding the farm system in detail and making a series of well-judged decisions over time. That’s where good information, planning and the right support really matter.”

“From a banking perspective, we’re seeing strong appetite from farmers to invest where it makes sense,” she said. “Our role is to work alongside them - combining finance with practical insight and advice - to help back improvements that strengthen productivity and resilience, not just this season but over the long term.”

The report is the first in a three-part *Agri Insights* series, with future papers set to examine farm system optimisation through technology and long-term succession planning.

The full *Building a profitable farming business* report can be found here:

<https://www.anz.co.nz/business/bizhub/agribusiness/agri-insights/building-a-profitable-farming-business/>

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