Farm Incomes: trends and prospects

Standard Note: SN/SC/1040
Last updated: 4 February 2011
Author: Christopher Barclay
Section Science and Environment Section

- This note gives an overview of figures relating to farm income. A more detailed coverage is available in another note: Farm incomes: statistics (SN/SG/2246).
- Several years of low incomes raised concerns about the future of the industry, particularly for livestock farming, including dairy farming. The experience of more recent years has been mixed.
- Incomes are considerably influenced by sterling's movement relative to the euro. Single Farm Payment is calculated in euros, so the sterling level increases when the euro is strong.
- The high grain prices in 2010 and 2011 have boosted incomes of cereal farmers, but some other sectors such as dairy farmers face reduced incomes. Livestock farmers, who use grain for feed, have lost from the high cereals prices.

Contents

1 Farm incomes mostly declining, 2010/11

In January 2011, the Agriculture Departments reported preliminary figures, suggesting higher incomes for cereal and general cropping farms, but lower incomes elsewhere:

> Substantial increases in average Farm Business Incomes are expected on cereal and general cropping farms reflecting much higher prices for cereals, oilseed rape and potatoes. Drilling conditions in the autumn of 2009 enabled a return to winter cropping and, although average yields were lower and input costs higher, the sharp rise in crop prices is expected to lead to a significant increase in output. The strengthening of

Sterling relative to the Euro between September 2009 and September 2010 will however reduce average single farm payments by approximately 8 to 10 percent for these farm types.

On dairy farms, Farm Business Income is forecast to fall by around 25% compared to 2009/10. Although total farm output is expected to increase reflecting a higher average milk price for the year ending February 2011, higher costs, particularly those associated with purchased feed, are forecast to more than offset the increased output. Both prices and quantities of purchased feed are likely to rise due to the lower yields of forage caused by the unfavourable growing conditions in 2010. The high price of straw for bedding is expected to have a further impact on profitability in this sector.

Grazing livestock farms are also expected to see a marked fall in average incomes in 2010/11. Input costs are expected to rise, particularly for purchased concentrate and forage feeds and for fuel, and although output from the sheep enterprise is expected to be higher, a decline is anticipated for the beef enterprise. This results from lower prices for fat and store cattle along with a fall in the closing valuation compared to the previous year.

Average Farm Business Income is forecast to fall on specialist pig and poultry farms in 2010/11. This is primarily a result of higher feed costs combined with lower prices for eggs and pigmeat reducing output. For specialist pig farms the falling value of trading livestock towards the end of the accounting year is also expected to lead to a considerable change in the year on year closing valuation.

Incomes on mixed farms are also expected to fall by around forty percent in 2010/11. Overall farm output is forecast to increase slightly, largely due to a substantial increase in output from the cereal and dairy enterprises more than offsetting a marked fall in output from the cattle enterprises and a lower single farm payment. However higher costs, notably for feed and fuel, are expected to more than offset this modest increase and lead to an overall fall in income compared to the previous year.[1]

The figures were discussed in oral questions:

Farm Incomes

Miss Anne McIntosh (Thirsk and Malton) (Con): What recent estimate she has made of the level of farm incomes; and if she will make a statement.

The Minister of State, Department for Environment, Food and Rural Affairs (Mr James Paice): The latest forecasts of farm incomes were published on 27 January. They indicate that average incomes are likely to show a marked increase in 2010-11 on arable farms, but to fall on livestock farms. I am sorry to say that the current price for grain is likely to increase that differential.

Miss McIntosh: Is the Minister aware that incomes are expected to drop by 60% for pig farms, 30% for sheep farms, 48% for farms with grazing livestock and 24% for dairy farms, and that the increase for arable farmers that he referred to is due only to the single farm payment? In the context of common agricultural policy reform, will he assure the House, and farmers, that the emphasis will remain on farm production and on ensuring a fair return to our producers?

Mr Paice: I do not think that my hon. Friend is right to attribute the rise in arable income to the single farm payment. It is because the price of wheat today is more than double what it was a year ago. As my right hon. Friend the Secretary of State said

[1] Defra, Farm Business Income by types of farm in England, 27 January 2011

earlier, our approach to the common agricultural policy is about trying to drive up productivity and competitiveness and stop wasting money in areas in which it should not be spent. That is why we want to see a greater proportion of the funding spent on pillar two, in which we can actually aid competitiveness.[2]

[2] HC Deb 3 February 2011 cc1026-7