



DLG-Trendmonitor[®] Europe

Fact Sheet – Autumn 2016

Business expectations – farmers remain sceptical

- **Business situation:** low satisfaction level
- **Expectations** of business development remain modest
- **Investments** are being cut back
- **United Kingdom:** Brexit decision leaves farmers cautiously optimistic

Scepticism regarding business developments prevails, mood in the United Kingdom improves following Brexit decision

The expectations of farmers in Germany and Poland regarding business development remain reserved with little or no change since spring 2016. The price situation for pork and milk is brightening, but the trends will need to gain a firmer footing in order to improve business prospects. Farm managers in France are again more sceptical regarding further business development. The mood has only lightened in the United Kingdom. As a consequence of the Brexit decision, farmers are hoping for fewer regulations and enhanced profitability.

This business climate is slowing down investments. In Germany 32 per cent of the farmers plan to invest in the coming 12 months (-7 percentage points compared with the spring survey in 2016), while in Poland 38 per cent of those questioned stated that they want to invest (-1 percentage point compared with spring 2016). In France, readiness to invest has dipped to 13 per cent, the lowest point since the start of the Trendmonitor in 2003. The situation in the United Kingdom is different – there readiness to invest has increased by seven percentage points.

Farmers remain dissatisfied with the current business situation.

Farmers in **Germany** remain dissatisfied with the current business situation, showing no change by comparison with the survey in spring 2016 (Fig. 1). The sustained low prices for livestock farmers and cash crop producers have a detrimental effect on the operating results. The prime goal of the farm managers is still to ensure their solvency. In addition, the continuing discussions on farming methods in the agricultural centre Germany are depressing the mood.

Farm managers in **Poland** are also dissatisfied with the current business situation. The consequences of the African swine fever, the sanctions against Russia and weather-related harvest losses are depressing the mood of farmers in Poland. Although exports of meat have increased, it was mainly live cattle imports which were accountable for the rise.

Fig. 1: Assessment of the current business situation

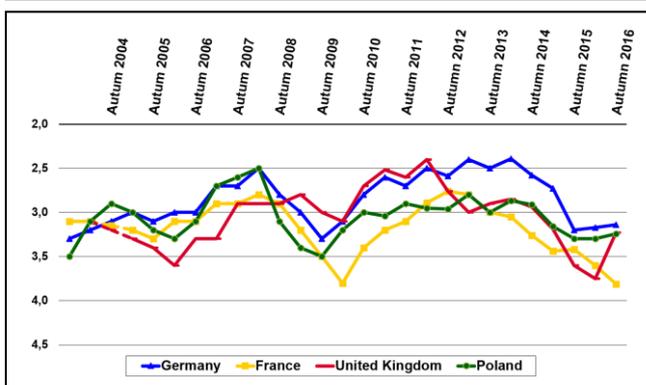
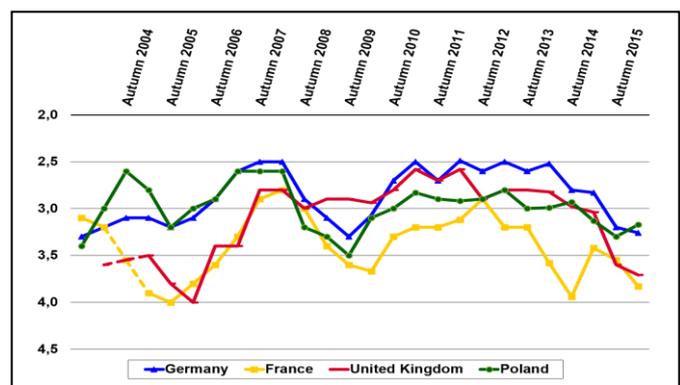


Fig. 2: Expectations of business development



Farmers in **France** are just as dissatisfied with the current business situation as they were in autumn 2010. The sustained low prices for livestock farmers and poor harvest for arable farmers are aggravating the economic situation. The lack of grain exports means that the operating results of cash crop producers will now also decline. Farmers in the **United Kingdom** on the other hand are distinctly more satisfied with the current business situation than they were in the spring. The Brexit vote caused the Pound to tumble. This will probably boost agricultural exports from the United Kingdom and

improve the economic results for farmers. Furthermore, as a result of the exchange rate situation, farmers in the United Kingdom are expecting higher direct payments.

Confidence in business development diminishes

A similar picture has emerged for expectations of business development. Farmers in **Germany** and **Poland** continue to view the coming 12 months with scepticism (Fig. 2). The cash crop producers are expecting pressure on prices due to the good harvest worldwide. The high harvest in Russia is also leading to uncertainty concerning the development of EU grain exports. Those farmers who have harvested quality grain can hope for price increases. In dairy farming, the signs look good for a turnaround on the market, as both price agreements in the food retail trade in Germany and the price developments on the Global Dairy Trade platform have moved upwards since July. The first dairies have increased their payment prices and are breaking the 30 Cent mark. In order to relieve the economic strain, the dairy producers need a relatively long phase of better prices. Prices for pig farmers have recovered distinctly since June. At present, however, the market is well supplied so that renewed pressure on prices cannot be ruled out.

In the **United Kingdom** the farmers are distinctly more confident regarding business development in the coming 12 months. In response to the question about the effects of the Brexit decision on farms, uncertainty admittedly prevails, as around 20 per cent of the farmers questioned expect positive effects and 20 per cent negative effects. This ambivalence is not reflected in the question about business expectations, as these are assessed distinctly more confidently than they were in spring 2016. As a result of the clear devaluation of the Pound, exports by British farmers are more competitive. At the same time imports are becoming more expensive, so that farmers are hoping for better market conditions. Furthermore, together with Brexit they hope that there will be fewer rules and regulations so that they can work with greater freedom of decision.

With a score of 4.0 points, farmers in **France** assess their business products more pessimistically than ever before. The livestock farmers do not expect any clear turnaround in prices and the economic situation remains tight. Cash crop producers too are gloomy regarding developments in the coming 12 months, as this year's harvest is a third smaller than normal and the qualities harvested will have a difficult task in finding export customers.

Fig.3: Readiness to invest in Europe

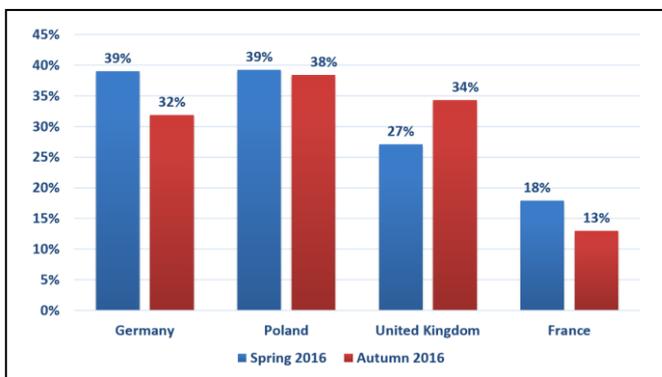
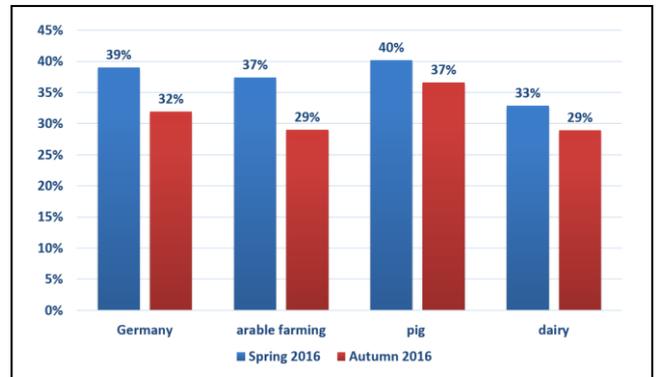


Fig. 4: Readiness to invest in Germany



Readiness to invest declines

In **Germany**, **readiness to invest** has fallen again since the survey six months ago (Figs. 3 + 4). The drop is particularly clear among the cash crop producers (-8 percentage points, new level 29 per cent).

During the last few years cash crop producers have partly invested extensively and modernized their machinery fleets. Moreover in recent years investments were also supported by tax-related contexts. With the now unfavourable price developments, attention is being concentrated on securing solvency and reducing the costs of production. Readiness to invest in dairy farming has now also dropped by -4 percentage points to a score of 29 per cent. As prices rise, the liquidity situation is expected ease, but now first of all liquidity losses will have to be compensated. And the readiness of pig farmers to invest has dropped again as well, by -3 percentage points to now 37 per cent. Pig farmers too need to strengthen their liquidity following the sustained low-price period.

By contrast, in the **United Kingdom** readiness to invest has grown distinctly. While in spring 2016 as many as 27 per cent of the farm managers questioned planned to invest, the figure is now 34 per cent. This growth is based in particular on the increased readiness of livestock farmers to invest. Alongside the hope that market conditions will improve, the low interest rates also provide a favourable investment framework, as after the Brexit vote the Bank of England lowered the base interest rates. Farmers with investment plans are focusing on capacity expansions here too. While in spring 2016 23 per cent of farmers planning to invest were aiming to expand their capacities, the figure is now 31 per cent.

In **Poland**, readiness to invest has remained largely stable. At present 38 per cent of farmers want to invest in the next 12 months (-1 percentage point by comparison with spring 2016). The majority of the farm managers want to expand their existing capacities. By comparison with the other countries, the farmers surveyed remain growth-oriented and are expanding their farms in the course of the structural change in Polish agriculture.

Fig. 5: Fields of innovation in animal husbandry (answers of German Farmers)

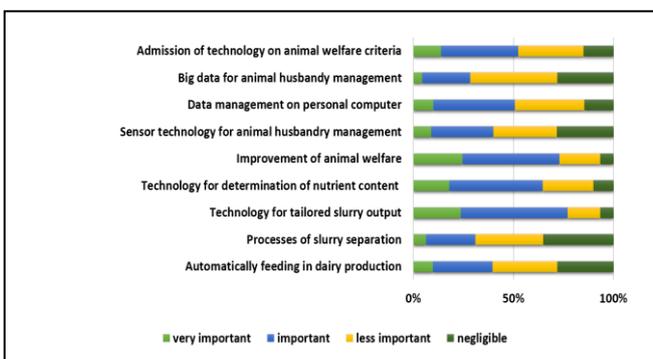
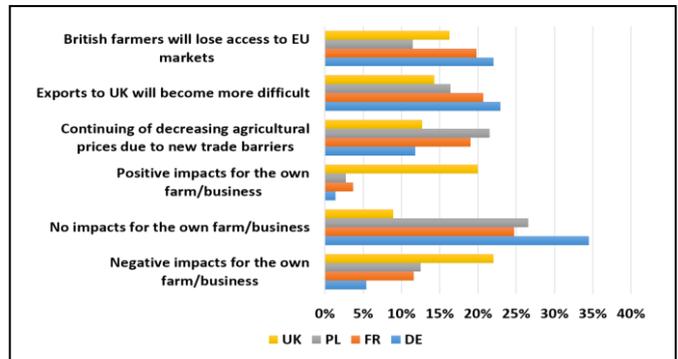


Fig. 6: Impacts of Brexit on farms



Readiness of farmers in **France** to invest has dropped to 13 per cent and thus reached the previous lowest level noted in spring 2010. The dairy farmers and cash crop producers are cutting back further on investments, while the investment plans of pig farmers remain stable at a low level (15 per cent). The economic situation does not allow French farmers to make any investments at the present time.

Livestock farmers want innovations in animal welfare and better machinery and equipment for slurry spreading

In the changing economic environment, innovations in production are an important approach for business development. Farmers are focusing in particular on needs-oriented fertilizing with slurry. The goal is to spread nutrients with low losses and in line with needs. Accordingly, for 77 per cent of the farmers questioned, techniques used for needs-oriented fertilizing are very important or important. Furthermore, information about the nutrient contents is necessary for needs-oriented slurry spreading. For 63 per cent of those questioned, innovations in technologies for more precise determination of the nutrient contents of slurry are very important or important.

Improving animal welfare assumes a key role in the development of animal husbandry, for alongside rising demands by customers, awareness for animal husbandry is increasing in society. For 71 per cent of the farmers questioned, innovations for improving animal welfare are very important or important. 51 per cent of the livestock farmers consider authorization procedures for keeping systems to improve animal welfare to be very important or important because, given the discussion evolving on animal welfare, approaches that improve keeping methods are necessary. Moreover innovations in animal welfare strengthen the position of livestock farmers in public discourse.

Brexit: British farmers are cautiously optimistic

For farmers in the United Kingdom, Brexit means above all one thing – uncertainty. This is because London is planning a “hard” Brexit, in other words including exit from the single market. The trade relations between the EU and the United Kingdom will therefore need to be renegotiated. It is currently completely uncertain what impacts this will have on agricultural exports from the EU.

The future of direct payments for the farmers in the United Kingdom is also open. Altogether fewer funds and concentration of the payments on agricultural regions with site-related disadvantages, for instance where the landscape profile is to be retained for reasons of tourism, are to be expected. Accordingly the farms in disadvantaged regions hope for stable payments, while other farms will have to adjust to fewer direct payments. This means further forced structural change, as larger farms that can produce at lower cost can compensate the drop in direct payments better than smaller and medium-sized farms. The latter will have to grow individually or reduce the costs of machinery and work performance through machinery cooperation arrangements in order to be able to stay in the market.

However, the farmers in the United Kingdom do not expect only disadvantages from Brexit. The farm managers expect fewer specifications from politicians and greater freedom of decision. The loss in value of the Pound against the Euro means that agricultural exports from the United Kingdom are distinctly more competitive than they were before the Brexit vote. And as a result of the exchange rate, products from the United Kingdom have become more competitive than imports. This leads to farmers hoping that in future they can regain market shares for agricultural products on the home market. For example, the degree of self-sufficiency for pork is around 60 per cent and the new framework conditions nourish pig farmers’ hopes of better business. In addition, the lowering of the base interest rate by the Bank of England has fostered favourable financing conditions for investments.

Conclusion

The economic situation remains challenging for the farmers. Although prices in animal husbandry have developed in a more friendly direction, the losses sustained during the low-price phase continue to burden the farms. And the further economic development is characterized by uncertainties in the global economy. Depending on business developments in important export countries, the hitherto thriving export business could suffer setbacks.

Despite this, farmers want to use innovations to improve production systems and animal keeping methods. Accordingly the goal of livestock farmers is to improve the animal welfare of keeping systems. Farmers therefore expect innovations from technology manufacturers. In connection with the amendment of the Fertilizer Regulation, farmers also want to spread slurry and manure more precisely. For this, innovations in determining the nutrients and spreading are necessary in order to increase efficiency and reduce nutrient losses.

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