



DLG-Trendmonitor[®] Europe

Fact Sheet – Spring 2015

***Business expectations divergent,
readiness to invest declines***

- **Business situation:** less satisfaction
- **Expectations of business development:** divergent
- **Readiness to invest:** declining, but remains at a high level
- **Challenges for entrepreneurs:** acceptance in society, animal welfare, securing liquidity

Between overcast and optimistic – divergent expectations of business development; Readiness to invest declines, but remains at high level

Farmers in Europe have differing expectations of business development for the coming 12 months. While farm managers in Germany and the United Kingdom expect unchanged business development, Polish farmers are less optimistic. Farmers in France assess business development differently – the farm managers are more optimistic.

Farmers in Germany, the United Kingdom and Poland plan to invest less in the coming 12 months. However, readiness to invest remains at a high level. In Germany for example, 46% of the farmers questioned plan to invest in the coming 12 months (-5% by comparison with autumn 2014), in Poland 47% (by comparison with 51%) and in the United Kingdom 48% (by comparison with 55%). The readiness to invest is admittedly increasing in France (+7%), but at now 21% still remains at a low level.

Farmers less satisfied with the current business situation

Farmers in **Germany** are less satisfied with the current business situation than they were in autumn 2014 (Fig. 1). Although the business year 2013/14 ended with an above-average result, current price developments for grain and especially for milk and pork are creating some dissatisfaction. The increasing bureaucracy resulting from the EU Agricultural Reform and the sustained discussion of management methods in Germany as a farming location are depressing the mood.

Farm managers in **Poland** are also less satisfied with the current business situation. As a result of the outbreak of African swine fever in the east of the country and the Russian embargo, Polish agricultural exports have slumped. The good harvest and the good economic results in the fiscal year 2013/14 and rising direct payments as a result of the agricultural reform are unable to lighten the mood.

Fig. 1: Assessment of the current business situation

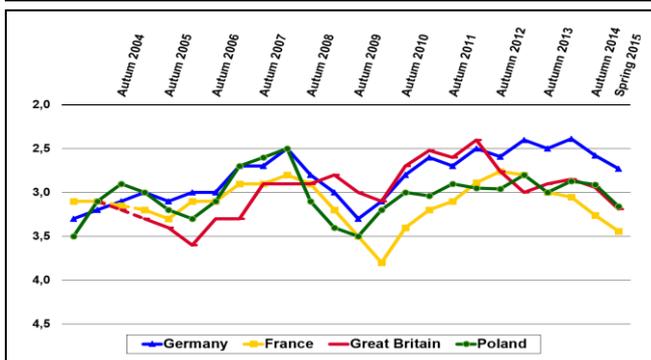
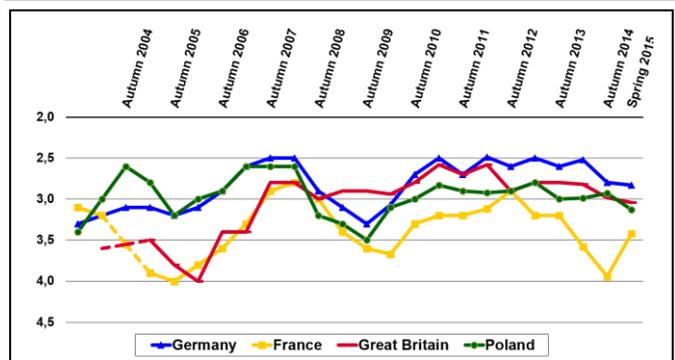


Fig. 2: Expectations of business development



Farmers in the **United Kingdom** too are less satisfied with the current situation than they were in autumn 2014. The pressure on grain prices is depressing the mood. The end of the milk quota led to a feeling of insecurity and is also clouding the current business situation. Farmers in **France** are also less satisfied with the current business situation than they were at the time of the autumn 2014 survey. This is due to the poor grain qualities of the 2014 harvest and the initially difficult export situation for grain. Furthermore, the still unclarified implementation of the EU Agricultural Reform is causing uncertainty among farmers.

Expectations of business development – Stable in Germany and the United Kingdom, overcast in Poland, brightening in France

Farmers' business conditions will develop quite differently in the coming 12 months (Fig. 2). Farmers in **Germany** do not expect any changes by comparison with autumn 2014. The *cash crop producers* expect stable business development, for the lively export business has supported prices despite the large harvest in 2014. Sustained price pressure can be expected for the current year, but the contracts system offers opportunities for fixing the unexpectedly high level of grain prices at least for partial quantities. The *milk producers* are less confident about business development in the coming 12 months. At present the brisk export business resulting from the weak Euro is supporting prices, but the globally high milk supply means that prices are not moving much. A recovery of milk prices is not expected until the end of the year when the global milk powder stocks in storage will be largely depleted. Expectations of *pig farmers* concerning business developments in the coming 12 months are also less favourable than they were in autumn 2014. The economic situation remains strained as a result of the sustained price pressure and lack of impetus for higher meat sales to date. At present little movement can be expected in the market as regards prices for pigs and for feedstuffs.

The farmers questioned in the **United Kingdom** have different expectations of business development too. While cash crop producers and dairy farmers are less confident regarding developments, pig farmers display a positive mood. By contrast with the prices in large parts of the EU, pig prices in the United Kingdom have remained at a high level of around 1.7 €/kg SW despite the price decline that can be ascertained here as well. Farmers are expecting stable prices in the coming months and accordingly sound business development.

Cash crop producers, dairy farmers and pig farmers in **Poland** are less optimistic regarding business development in the next 12 months. African swine fever and Russia's sustained import embargo are depressing both the current mood and expectations of business development in the coming year. Farmers in all lines of business expect little movement on the markets and the economic situation remains tight.

Contrary to the trend in these countries, business development in **France** has brightened. During recent weeks French farmers have been exporting grain again, leading to producer prices that now show a plus. Dairy farmers too are expecting more favourable business development than in autumn 2014. After the transfer of quotas between the regions was only possible to a very restricted extent up to 31 March, the end of the quota is now unlocking new scope for farm development. Furthermore, producers are expecting prices to rise.

Fig. 3: Readiness to invest in Europe

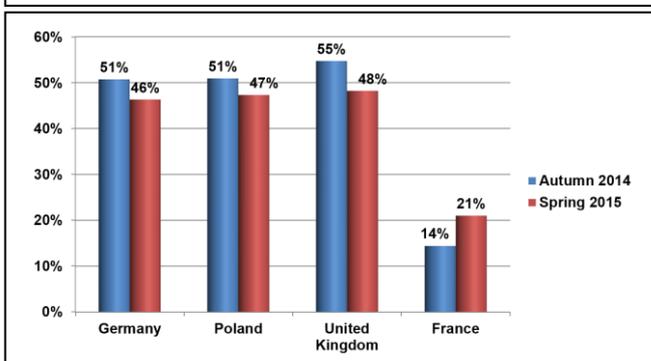
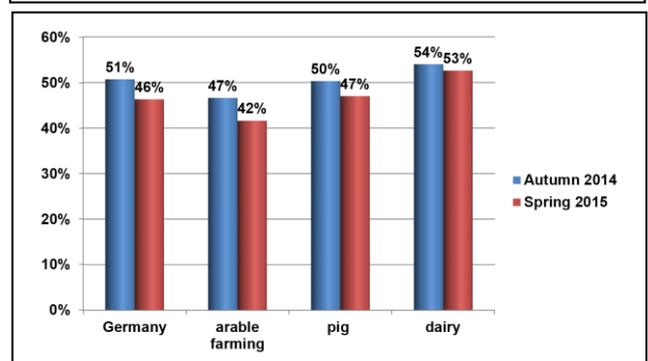


Fig. 4: Readiness to invest in Germany



Decline in readiness to invest in Germany, United Kingdom and Poland, increase in France

In **Germany** readiness to invest has dropped from 51% during the autumn 2014 survey to now 46%. In particular the cash crop producers (-5%) and pig farmers (-3%) are planning to invest less in the coming 12 months. For those farmers intending to invest, the focus is on optimising current lines of production, as individual farm growth is becoming increasingly difficult due to the high rise in land costs and increasing regulations. Dairy farmers show stable readiness to invest at 53% (compared with 54% in autumn 2014). Dairy farmers want to increase productivity in the barn and in feed production, and to use their operational capacities more efficiently.

In the **United Kingdom** readiness to invest has declined by 7% compared with autumn 2014. At present 48% of the farmers interviewed say they plan to invest in the coming 12 months. Cash crop producers are investing distinctly less. While in autumn 2014 altogether 57% of the farmers surveyed planned to invest, in the current survey the figure is 47%. Dairy farmers too plan to invest less, but willingness to invest remains at a high level (55% compared with 63% in autumn 2014). Pig farmers are more willing to invest. They plan a clear increase of 12% to now 63%. The above-average pig prices in a comparison with the rest of the EU and the expected stability of business development support this willingness to invest.

In **Poland** also, readiness to invest is declining slightly, but remains at a high level. For example 46% of Polish cash crop producers (-4% by comparison with autumn 2014), 50% of dairy farmers (-6%) and 47% of pig farmers (-2%) intend to invest in the coming 12 months. The focus will be on expanding core segments of business. Polish farmers are thus continuing along their expansion and modernisation track.

Fig. 5: Breakdown of investments

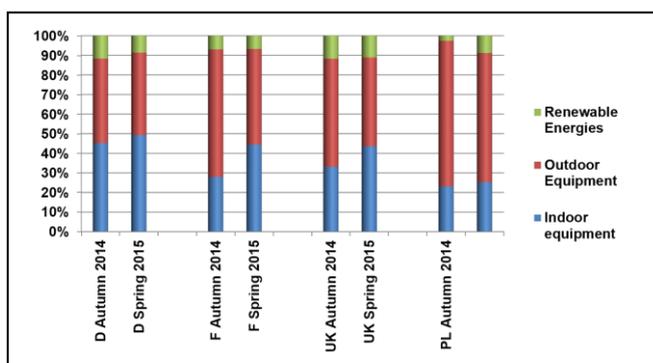
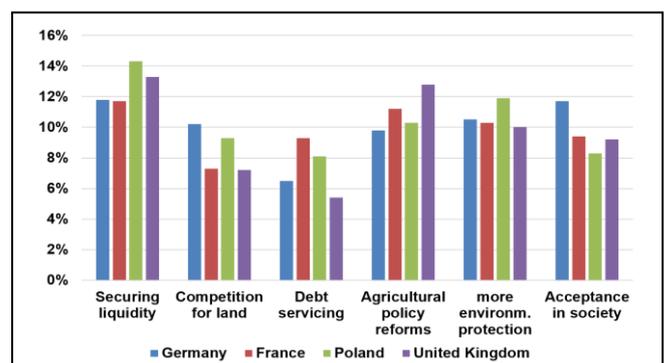


Fig. 6: Challenges for farmers



The situation in **France** is characterised by a slight recovery in willingness to invest. While in autumn 2014 only 14% of farm managers planned to invest, in the current survey the figure has risen to 21%. Though the readiness of pig farmers to invest has dropped by 4% to 20%, the investment plans of cash crop producers have risen by 6% to 15% and those of dairy farmers by 8% to 29%. The end of the milk quota is opening up new scope for farm development, following the quota era during which the transfer of delivery rights between the regions was greatly restricted.

The focus of investment by farmers is shifting towards animal husbandry (Fig. 5). In **Germany**, investments in animal housing, facilities and equipment for animal husbandry is increasing by 4% to 49%. The target of investments is to optimise ongoing production. Farmers in **France** also plan to invest more in farmyard operations (+17% to 45%), as the end of the milk quota unlocks freedom for farm development. In **Poland** the focus of investments remains on field operations. 66% of planned investments are set to flow into this sector. Investments in renewable energies are expected to increase by 6% to now 9%. Farmers in the **United Kingdom** are also strengthening their animal

husbandry operations – investments are due to rise by 11% to 44%. This development is being fuelled in particular by the currently favourable environment for pig farmers.

Entrepreneurial challenges – Society and politics are becoming more important

The low prices for agricultural produce involve liquidity risks. This is currently a topic that is equally important for farmers in Germany, France, Poland and the United Kingdom. However, the liquidity situation of the interviewees in Germany on the one hand and in Poland, France and the United Kingdom on the other is assessed very differently. For instance 50% of the farmers questioned in Germany are of the opinion that initial liquidity bottlenecks are appearing now. Their colleagues in the other countries assess the liquidity situation much more acutely – 64% of the farmers in France, 60% in Poland and 50% of those questioned in the United Kingdom are of the opinion that the situation is already precarious. The farmers' assessment shows the need for liquidity planning or forecasting in order to identify bottlenecks in good time and initiate measures to ensure financial solvency.

Farmers in Germany especially are involved in securing acceptance in society. Their scope for action to obtain such acceptance lies in local public relations, for each farmer represents an "interface" to society. In other European countries too, agriculture and animal welfare are a subject of public debate. For instance in the United Kingdom, sow keeping was changed over to group keeping in the year 1999. Following this, sow stocks were halved and the degree of self-sufficiency has dropped to around 50%. However, farmers in Germany and the United Kingdom assess the current animal welfare debate very differently. Whereas every second animal farmer questioned by Trendmonitor in Germany is of the opinion that the topic is being instrumentalised primarily to boost political profiles, the majority of farmers questioned in the United Kingdom are of the opinion that politics are becoming more strongly oriented to consumer opinions.

Conclusion

Throughout Europe both the present business situation and the expectations of business development are being assessed more reservedly. The sustained price pressure, the increasing interventions of politics in production and the sustained controversial discussion are creating an uncertain economic environment, which at first glance is making investment more difficult. Despite this, readiness to invest remains at a high level, for the investment goals vary widely between the countries. Against the background of uncertain political discussion and due to high land prices, farmers in Germany are concentrating on optimising their existing lines of production. Farmers in France are using the fresh scope for action resulting from the end of the milk quota for – in some cases long-delayed – farm development, and farm managers in Poland are continuing their expansion course.

The results show the increasing distinctions between locations in Europe as regards possibilities of farm development. While farmers in Germany are concentrating on optimising production, farmers in Poland are continuing to use the possibilities of developing their farms through expansion.

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