



## ***DLG-Trendmonitor<sup>®</sup> Europe***

*Fact Sheet – Spring 2016*

***Business prospects are worsening,  
willingness to invest is declining***

- **Business situation:** Farmers are less satisfied
- **Modest expectations** regarding business development
- **Willingness to invest** is declining
- **Challenges for entrepreneurs:** Process development in arable farming and animal husbandry

## Modest expectations regarding business development, willingness to invest is declining

The expectations regarding business development for farmers in Germany and Poland remain unchanged in comparison with autumn 2015. Farm managers in France and Great Britain expect a deterioration in their business development. The continuing price pressure without any indication of a reversal in the trend strain the business outlook for farmers in Europe and worsen the prospects.

This environment halts the willingness to invest: In Germany 39 per cent of the farmers want to invest in the coming twelve months (-3 % compared with autumn 2015), in Poland 39 per cent (+/- 0). While in Great Britain the willingness to invest has risen by three per cent to 27 per cent. However, this value is far below the long-term average. In France the willingness to invest has dropped by five per cent to 18 per cent. An important investment target is the optimisation of production in order to reduce costs and increase performance. Farmers in Poland want to expand their capacities.

## Farmers are unhappy with the current business situation

Farmers in Germany are equally unhappy with the current business situation as they were in the autumn 2015 survey (Fig. 1). The current low price for grain, milk and meat puts considerably strain on the profits. The most important goal of the farm managers is to secure the ability to meet the financial obligations. The constant discussion concerning the subsistence strategy in the agricultural location Germany depresses the mood further.

The farm managers in **Poland** also continue to be unhappy with the current business situation. The business situation is assessed as sceptically as it was during the price crisis in autumn 2009. The results of African swine fever, the Russian embargo and regional winterkilling, and with it the associated harvest losses depress the mood.

Fig. 1: Assessment of current business situation

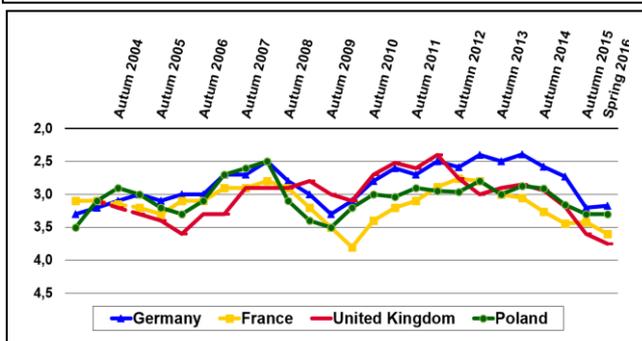
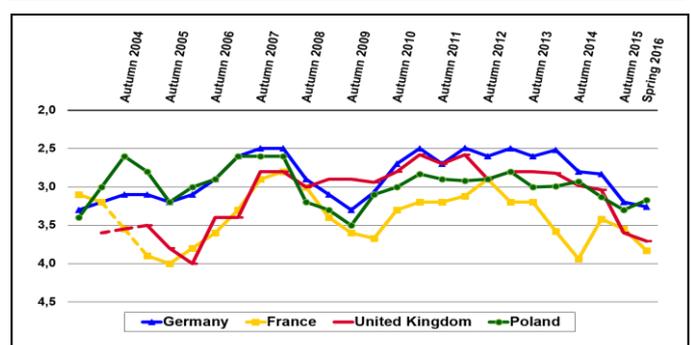


Fig. 2: Expectations of business development



Farmers in **Great Britain** are considerably less satisfied with the current business situation than they were in autumn. Agricultural prices and unfavourable exchange rates strain the economic viability. Additionally, producers from outside the EU increasingly compete with agricultural products. Farmers in **France** are also considerably less satisfied with the current business situation. The meanwhile suspended trading of slaughter pigs has further reinforced the economic uncertainty of pig farmers. Furthermore, the effect of governmental support, which had supported the atmosphere until now, appears to have evaporated. Cash crop producers have benefited from export, but to a lesser extent than was hoped due to the low cereal prices.

## Less confidence in business development

The farmers are less optimistic about business development in the coming twelve months (Fig. 2). In **Germany** the cash crop producers and pig farmers in particular are sceptical about business development. The producer prices are expected to remain under pressure as there is substantial pork availability. As the sow populations are currently being reduced in Europe, there is hope of a price recovery in the second half of 2016. A declining supply of fattening pigs is expected. Again a globally high cereal harvest is expected. This will lead to continuing price pressure for cash crop growers and to considerably worse company earnings than in previous years. Also the outlook for milk producers is cautious – the amount of milk produced globally remains substantial. Lack of stimulation of demand cements the lower producer prices.

In **Great Britain** the farmers are less confident about business development in the coming twelve months. The prices in Great Britain are also under pressure. Unfavourable exchange rates of the British pound to Euro are making EU agricultural products more competitive, which leads to price pressure for farmers in Great Britain.

In **Poland** the prospects of business development have stabilised for the coming twelve months, but remain gloomy. Winterkilling makes new seeding necessary and puts pressure on the profits of arable farming. The producer prices have not fallen as sharply compared with other countries, and are providing stabilisation of the business outlook.

The business prospects of farmers in **France** are also bleak. The interim suspended trading of fattening pigs has led to further uncertainty in the pricing. Due to the sustained low price of the current and increasing EU competition in the milk and pig market, farmers are viewing business development in the next twelve months even more sceptically than in autumn 2015.

Fig. 3: Willingness to invest in Europe

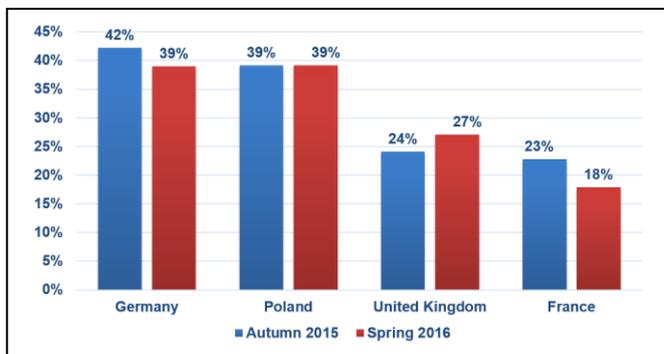
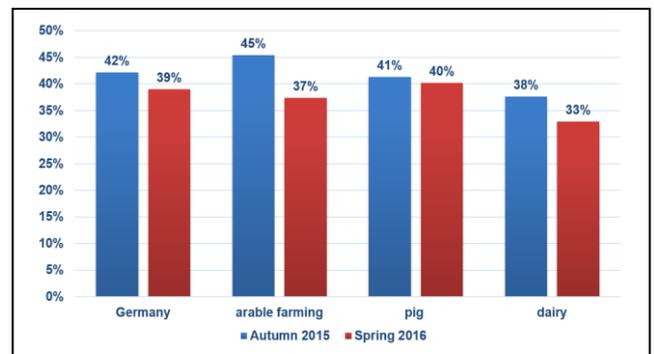


Fig. 4: Willingness to invest in Germany



## Willingness to invest is declining

The **willingness to invest in Germany** has fallen further compared with the autumn 2015 survey (Fig. 3). The decline in the cash crop producers (-8 % to now 37 %) is particularly clear. The cash crop producers are expecting a sustained low price, which is halting investment. Additionally, the investments in previous years were also supported by tax-induced investment decisions. With the present unfavourable price course, attention is on the ability to pay. Furthermore, the farm managers are checking the cost framework of the production. Also the willingness to invest in dairy farming is considerably lower with -5 per cent to the current 33 per cent. The background is the necessary measures safeguarding liquidity and the increased investment spending by companies in recent years

in view of the end of the milk quota. In contrast, the willingness to invest of pig keepers is comparatively high at 40 per cent.

While the willingness of farmers in **Great Britain** to invest has risen by three per cent to 27 per cent. This means a considerably below average propensity to invest compared with the course of previous years. The slight growth can be traced back to the large investment phase of cash crop producers, while pig and dairy farmers have drastically cut back their investment plans. Thus, 17 per cent of the livestock farmers want to invest in the coming months. Unfavourable exchange rates exert pressure on the producer prices, as agricultural products can be imported more cheaply from EU countries. Imports of investment goods increase in price and restrict the scope of investment.

The willingness to investment is stable in **Poland**. As in autumn 2015, 39 per cent of the farmers in Poland want to invest in the coming twelve months. The majority of farm managers want to expand the existing capacities. The surveyed farmers are persistently growth-orientated in comparison with those from other countries, and are expanding the businesses in the restructuring of Polish agriculture.

Fig. 5 Cultivation adjustments in arable farming

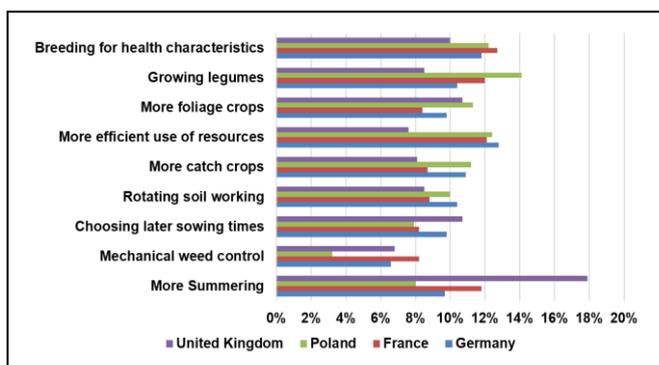
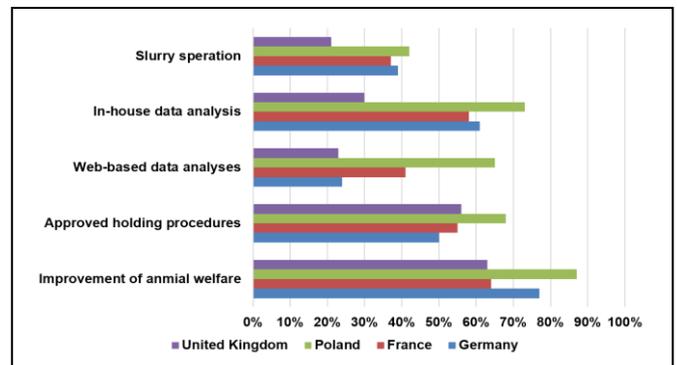


Fig. 6: Innovation fields in animal husbandry



Farmers in **France** are investing considerably less: In autumn 2015, 23 per cent of the farm managers still wanted to invest; this was 18 per cent in the current survey. This applies to all types of production to the same extent. Beside the low price levels, the competition from imports of milk and meat from the EU is rising. Additionally, the once again rising cereal exports are having a less positive effect on the company earnings than was hoped for. The low price level for cereals and oilseeds has put pressure on profits. Furthermore, the interim suspended trading of the pig prices has led to uncertainty.

### Reasons for investment: Optimisation and business growth

In the current economic environment the farmers in Germany willing to invest want to optimise the existing production. In France there is a differentiated view: Both optimisation and expansion of the existing branches of the industry and entering into new branches of the industry are central reasons for investment. In Poland the emphases are on company growth and adjustment to the legal standards.

Especially in arable farming the focus is on the reduction of operating and working costs. These increased through the extensive investment in recent years and have raised the burden of the fixed costs. In dairy farming the farm managers are focused on drawing more milk out of the farm's own feed in order to reduce the costs for performance feed. Additionally, the procedures of feed production should be tightened as feed production is an important lever for economic dairy production.

## Challenges in arable farming and animal husbandry

The cash crop producers in the surveyed countries are particularly concerned with the reduced selection of active ingredients in crop protection. Also the increasing problem of resistance is identified as an important challenge. This requires adjustments in the cultivation programmes. The farmers are expanding the crop rotations with catch crops and summering (Fig 5). Especially farmers in Great Britain, with partly very short crop rotations, want to expand the crop rotation with summering.

Animal husbandry in Europe is in parts hotly debated in public. An improvement in animal welfare is demanded. The farmers see their future in established livestock management procedures. The conversion to ecological farming is a company development option for only a few farmers. The livestock farmers focus on improvement in animal welfare when further developing their livestock management systems, and want to improve the existing procedures in this area (Fig. 6). Furthermore the farmers are interested in innovations in the business data analysis. The goal is to improve management. With the exception of the Polish farmers, web-based data analysis systems play a lesser role. Until now, the uncertainty in the area of data security was too high. Additionally, the question of proprietorship of the data is still a question. These uncertain criteria make the farm managers hold off with establishing the appropriate systems on the farm.

## Conclusion

Throughout Europe both the current business situation and the expectations of business development are viewed more cautiously than was the case in spring 2015. The persistent price pressure, the increasing regulation of production, and the controversial discussion concerning agricultural production methods are creating an uncertain economic environment. Therefore investments are hindered. Due to the sustained low prices, securing the ability to meet the financial obligations is the top priority in farm management.

Adjustment of the cultivation systems to the changing arable conditions is assuming priority for cash crop producers. The farmers are expanding the crop rotations. Technical innovations in ordering and crop management are needed to establish streamlined processes in the farms, also from the aspect of costs.

Livestock farmers want to improve animal welfare in the livestock management systems and expect appropriate innovations from the equipment manufacturers. Beside technological innovations, the development of procedures also mean new marketing challenges, to be able to cover the resulting associated costs.

The entrepreneur is the central success factor under the current market conditions. Farm management and organisation, knowledge of the farm production and financial indicators, as well as skill in production are the responsibility of the company and are the key to successful farm management. The focus is being placed increasingly on low production costs and high performance. However, there is no patent remedy for improvement in production and financing; rather every farmer in collaboration with consultants must expose the improvement potentials in production and financing and make reserves available in order to achieve better results. Nevertheless, innovations in technology and management will be demanded by the changing framework conditions in arable and livestock farming. The suppliers are required, in addition to technical innovations, to also convince the farmers of the contributions the innovations can make towards economic agricultural production.

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