



DLG Trend Monitor[®] Europe

Fact Sheet – Autumn 2014

High willingness to invest despite difficult environment

- Declining business performance expectations
- Willingness to invest holding up in Germany, Poland, and the United Kingdom, but declining for France
- Farmers focusing on innovations in data processing and animal welfare in farming

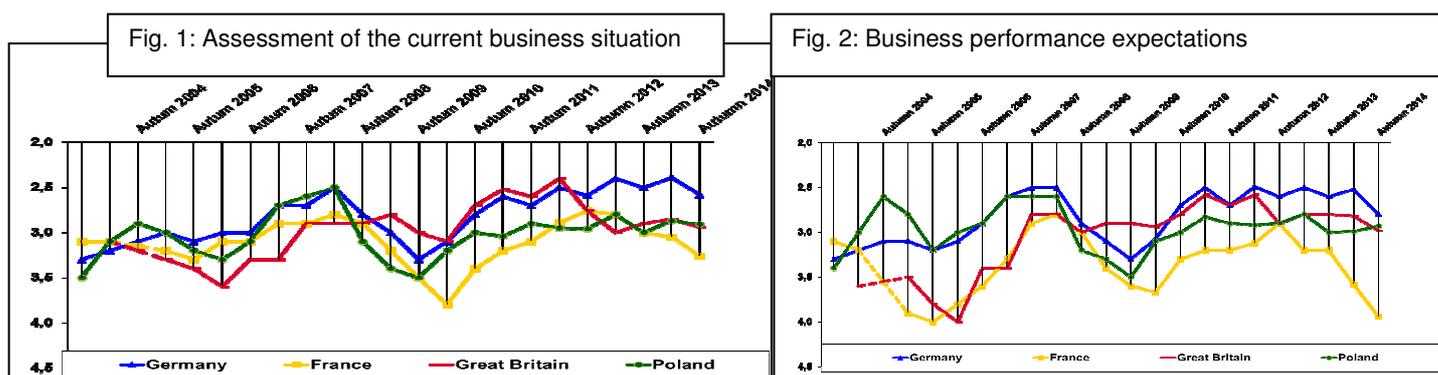
Willingness to invest holding up in Germany, Poland, and the United Kingdom, but declining for France

Farmers in Germany are less confident about business performance in the upcoming twelve months. Expectations for the upcoming twelve months have fallen off slightly, with an increase to 2.8 points in the current autumn survey compared with 2.5 points in spring 2014. Farmers surveyed in the United Kingdom and Poland continue to report stable business performance expectations at 2.9 points (unchanged since autumn 2013). However the situation is different in France, with farm managers expressing pessimism with regard to business prospects for the next twelve months.

With the exception of France, farmers' willingness to invest remains at a high level. In Germany, 51 per cent of respondents intend to invest in the next twelve months (down 1 per cent on autumn 2013). Willingness to invest also remains high in Poland at 51 per cent (50 per cent in autumn 2013). In the United Kingdom, willingness to invest has increased markedly with a rise of 24 per cent since the autumn 2013 survey, and now stands at 55 per cent. However the mood in France contrasts sharply with this, with willingness to invest slumping to 14 per cent, just half the autumn 2013 figure.

Assessment of the business situation: stable in Germany, the United Kingdom and Poland; further cooling in France

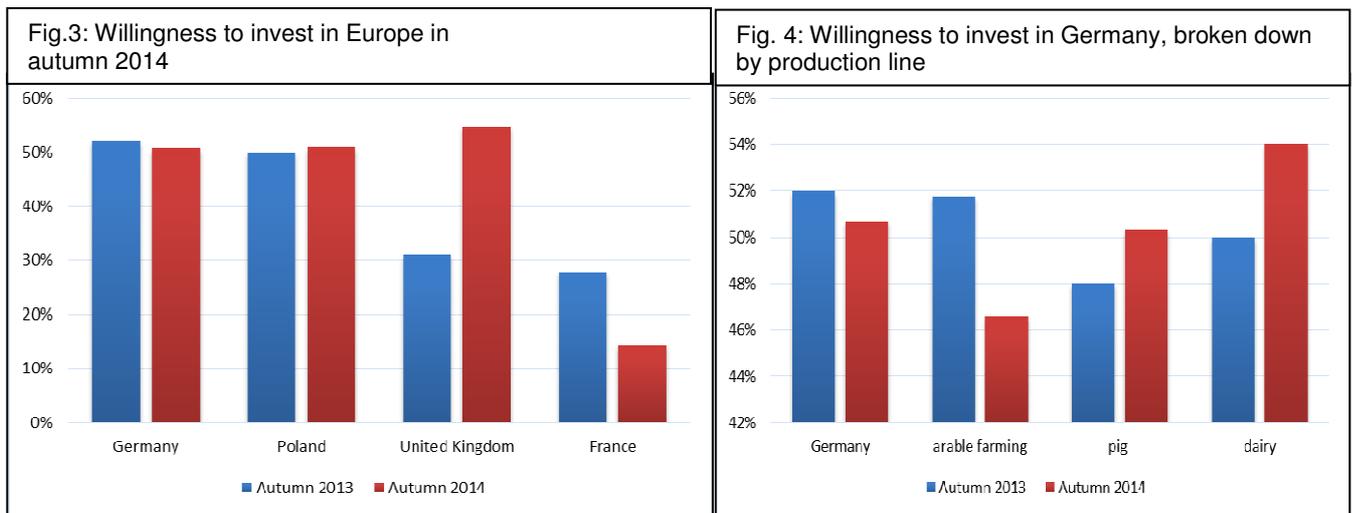
- Farmers in **Germany** are generally satisfied with the current business situation, despite assessing it slightly less favourably (Fig.1). The positive results achieved in recent months have led to a stable assessment of the current situation. Farmers in **Poland** have not changed their assessment of the current situation since autumn 2013, and the situation also remains stable for farmers in the **United Kingdom**. Farmers in both Poland and the United Kingdom are less reliant on exports than their counterparts in Germany, and therefore assess the situation to be stable. The current situation is viewed less positively by farmers in **France**, who are not only dissatisfied with agricultural policy, but have also profited to a much lesser degree from the favourable conditions of the past few months, due to France's weakening position on the international markets.



Business performance expectations: slowdown in Germany, the United Kingdom and France, stable conditions in Poland

- Farmers in Germany, the United Kingdom and France are less confident about business performance in the upcoming twelve months, whereas the confidence of Polish farmers has remained steady (Fig. 2).
- In **Germany**, business performance expectations for the next twelve months have declined. *Dairy farmers* are particularly sceptical about business prospects, in view of sharply increasing milk

volumes around the world and the expectation that milk prices will remain under pressure. *Pig farmers* face a similar situation, as large quantities of pigs for slaughter, combined with Russia's import ban on pork, are resulting in sustained, heavy pressure on producer prices. Hopes of domestic demand reviving remain vague and offer an uncertain prospect at best of an upturn in the market. Reduced feedstuff prices, while providing some relief on the cost side, are not enough in themselves to generate a more optimistic mood. The scepticism of *commercial crop growers* with regard to future business performance is at a level last seen in autumn 2010. The record global cereal harvest is pushing the price of cereal down and this is expected to remain depressed over the coming months. Although lower energy and fertilizer prices have provided some relief on the cost side, this cannot offset the difficult prospects for the cereal market at present. The same is true with regard to cereal exports, which - while currently brisk - will likewise be unable to reverse the trend in the cereal market.



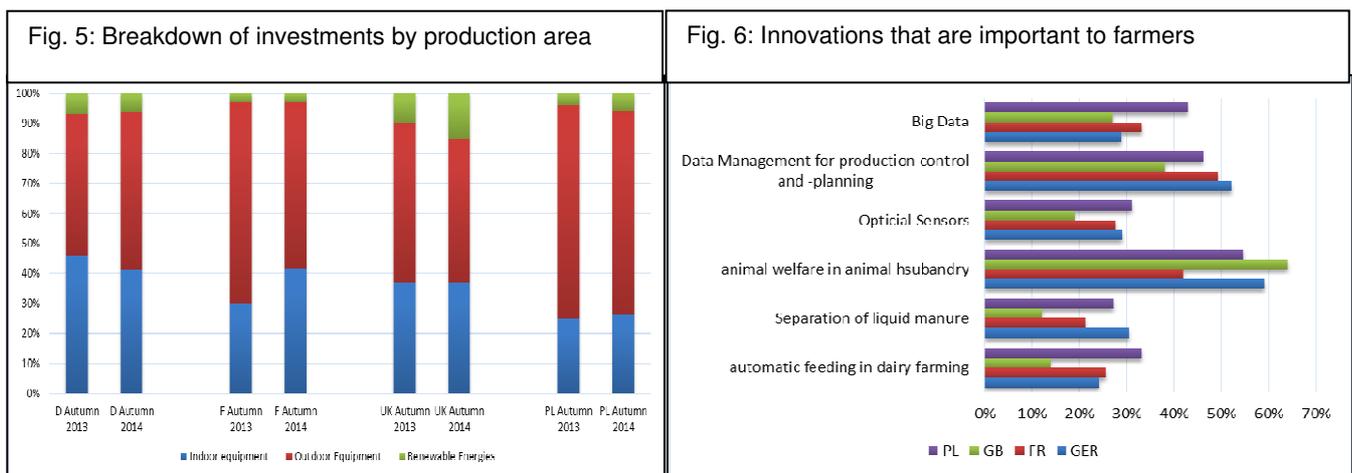
- Business performance expectations have declined slightly in the **United Kingdom**. The recovery in expectations after a disastrous year in 2012 has thus come to a halt for the time being. The background to this is an increasingly difficult market environment, even though farmers in the United Kingdom are less reliant on exports than their German and French counterparts. Farmers in **Poland** expect business performance to continue on an even keel. The halt in the reduction of the national pig herd has further improved the pig farming situation in 2014. The trend in milk production is also positive with production volumes increasing despite shrinking dairy herds – future-oriented farms are expanding, and farms are also improving in terms of productivity and competitiveness. In **France**, business performance expectations have fallen again and are now at an all-time low. The current market difficulties and the agricultural policy debate regarding the redistribution of direct payments, are together leading to a further marked decline in business expectations. In addition, livestock farmers find themselves confronted by structural problems, as is evident in the continued reduction of the national pig herd.

Willingness to invest remains high in Germany and Poland, has sharply increased in the United Kingdom, and declined in France

- Investment intentions in Germany** remain stable at 51 per cent (compared with 52 per cent in the autumn 2013 survey). The willingness to invest has particularly increased amongst dairy and pig farmers, with dairy farmers showing a 4 per cent rise to 54 per cent, and pig farmers up 2 per cent to 50 per cent. The investments are targeted partly on achieving higher production standards and partly on optimising production. Optimising production - as opposed to growing individual farms - is becoming increasingly important as a means of farm development, as expansion is

restricted due to the high cost of land and increasing regulatory requirements. Commercial crop growers' willingness to invest is virtually unchanged since autumn 2013 at 51 per cent.

- Investment intentions in the **United Kingdom** are a staggering 24 per cent up on the level reported in the autumn 2013 survey. 55 per cent of farmers surveyed intend to invest in the upcoming twelve months. Investment intentions have recovered markedly since the disastrous performance in 2012 and are now at their pre-crisis level.
- Farm managers surveyed in **Poland** continue to show an above-average willingness to invest, with 51 per cent intending to do so in the next twelve months. The farmers surveyed are intent on expansion and are particularly focused on extending core business segments. Polish farmers are thus continuing down the path of expansion and modernisation.



- The situation in **France** is characterised by a collapse in willingness to invest: whereas 28 per cent of farmers intended to invest in autumn 2013, this has shrunk to just 14 per cent twelve months later. This decline is based on a halving of commercial crop growers' willingness to invest and a sharp drop on the part of dairy farmers (down 10 per cent on autumn 2013).
- A look at **investment areas** reveals various shifts: farm managers in **Germany** increasingly want to invest in arable farming (Fig.5). 50 per cent of planned investments would thus be in arable farming (up 7 per cent on the autumn 2013 survey) and 40 per cent in livestock farming (down 4 per cent). Farmers in **France** are planning increased investments in livestock farming, whereas in **Poland**, investments are focused on arable farming. Investing in bioenergy has grown in importance for farmers in the **United Kingdom**.
- The farmers surveyed have a variety of reasons for investing. Farmers in **Germany** are mainly concentrating on the replacement of existing machinery and equipment and the optimisation of ongoing production. The high and constantly increasing cost of land, together with a growing scarcity of workers in contractor companies and a short supply of workers in family farms, is moving the focus onto improving land and labour productivity. Farmers surveyed in **Poland** are looking to expand, with 40 per cent wanting to further develop their core business segments.

In **France**, farmers are keen to catch up on previously postponed investments: an indication of the currently lethargic state of farming in France. Farmers in the **United Kingdom** are mainly focused on optimising production (30 per cent of respondents).

Innovations: high priority on animal welfare in farming and data processing

- Improvements to animal welfare in farming are a focal point for farmers in Germany (59 per cent), the United Kingdom (64 per cent) and Poland (55 per cent). Farmers are greatly interested in innovations in order to improve husbandry methods (Fig. 6).
- Data processing is also a priority: 52 per cent of farmers in Germany, 49 per cent in France and 46 per cent in Poland regard innovations in this area as important. The aim is to be able to make better use of data generated during production and increase its use as a decision-making tool. In addition to the use of data processing for production purposes, the processing and interpretation of data is also important when it comes to services. On-site data processing on farms is more important than web-based solutions (big data).

Summary

Rates of investment across Europe are holding up despite the difficult market environment at present. Current interest rate levels are facilitating attractive financing terms for investments and boosting the high willingness to invest. Rising tenancy costs and production standards, combined with ever more difficult access to skilled workers, are resulting in structurally increasing production costs, which farmers are aiming to mitigate by optimising production. The efficient use of land and labour, as well as firm cost management, are crucial for farms' development and for securing liquidity in this current period of weak prices. Slower investment growth is to be expected in general with regard to milk production, as preparations for the end of quotas in 2015 are completed in the next few months.

Farmers are focusing on improving animal welfare and on analysing production data more effectively. Farm managers are therefore particularly interested in innovations within these areas, so that they can improve their husbandry methods and management systems.

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