



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

### ***Fact Sheet – Spring 2014***

#### ***Farmers in Europe show high readiness to invest***

- Expectations of business development show confidence in Germany and the United Kingdom
- High readiness to invest in Germany and Poland, strong growth in investments in the United Kingdom
- Animal farmers in Germany, the United Kingdom, France and Poland show above-average readiness to invest

## Above-average readiness to invest in Germany + Poland, strong growth in the United Kingdom

Farmers in Germany are confident as regards business development in the coming 12 months. Expectations have reached a peak score of 2.5 points, equalling the boom years 2007/2008. Dairy farmers in particular are optimistic in Germany and although market crop producers and pig-farmers are slightly more reserved as regards business development than in autumn 2013, they are still showing confidence.

Expectations of business prospects in the United Kingdom and Poland are stable, remaining unchanged at 2.8 points in the United Kingdom and 3.0 points in Poland. Farmers in France are distinctly more sceptical about business prospects compared with the last survey with 3.6 points.

Farmers show high readiness to invest. In Germany, 58% of the farmers surveyed want to invest in the coming 12 months (+6% compared with autumn 2013). Readiness to invest is high in Poland too at 49% (by comparison with 50% in autumn 2013). In the United Kingdom readiness to invest has increased markedly by +14% compared with the autumn survey to now 45%. In France the situation is completely different with a decline in readiness to invest by 4% to 24% compared with the autumn survey 2013.

## Assessment of the business situation: stable in Germany, improvement in the United Kingdom, slight cool-off in France and Poland

- Farmers in Germany are highly satisfied with the current business situation (Fig. 1) A peak score of 2.4 points has been reached. Farmers in Poland also assess the current business situation more positively than in autumn 2013, as farmers achieved above-average annual results in 2013. After the difficult harvest year in 2012, the economic situation for farmers in the United Kingdom has continued to settle with farm managers considering the current business situation to be stable. Despite a decline in the annual results for 2013, farmers in France assess the current business situation as being stable too.

Figure 1: Assessment of the current business situation

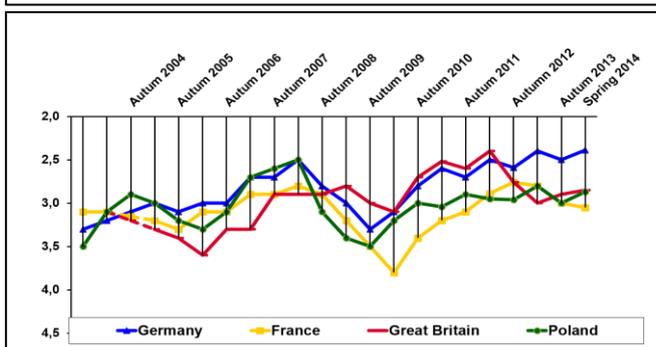
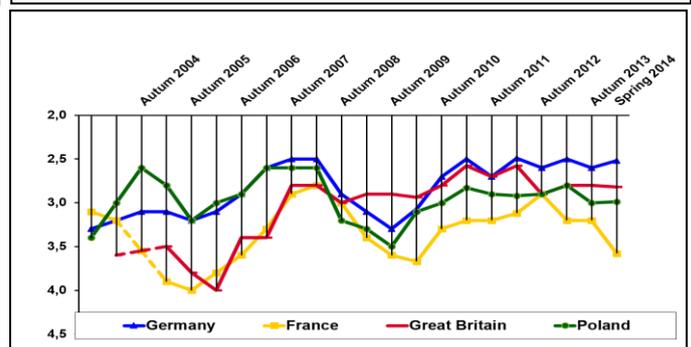


Figure 2: Expectations of business development



- The assessments are based on the favourable price - cost ratios for market crop producers. Despite reduced producer prices, cost-effectiveness in arable farming was favourable in both of the last two years due to a drop in fertilizer prices. In addition, despite the record global harvest in 2013, grain prices have risen due to extensive EU exports. Moreover, decreasing grain prices since summer 2013 have led to reduced costs for animal farming even though feed grain costs have most recently risen again - on the whole the economic situation for animal farmers has improved. Russia's import ban on pork resulted in a sharp drop in pig prices at the beginning of the

year. The market is currently stable again due to rising domestic demand and prices have recovered as a result. Increased farm-gate prices for milk in the second half of 2013 have markedly improved the situation for milk producers.

### Expectations of business development: confidence in Germany, recovery in the United Kingdom, slight reservation in France and Poland

- Farmers in Germany are confident regarding business development in the coming 12 months. Business expectations in the United Kingdom and Poland are stable, while in France expectations of business development for the coming 12 months have fallen sharply (Fig.2).
- In **Germany** expectations of business development in the coming 12 months are largely positive. The business expectations of milk producers are positive due to the continued high price level for milk in particular, together with reduced feed prices. The international markets are currently having no problems absorbing present increases in milk quantity. Although slight reductions in the milk price are evident, on the whole the market situation is considered to be stable. Expectations of pig-farmers have lowered slightly but still remain above-average compared with recent years. The background for this is doubts about future market development due to Russia's import ban. Although the pig market is currently balanced, development over the medium term is subject to sales risks. Expectations of business development of market crop producers are stable at a positive level. Thanks to extensive grain exports, grain prices have shaken free of the price slump in the second half of 2013. The price - cost ratio for producer and farm input prices has developed favourably for producer prices, leading to expectations of a continued positive business trend.

Fig.3: Readiness to invest in Europe

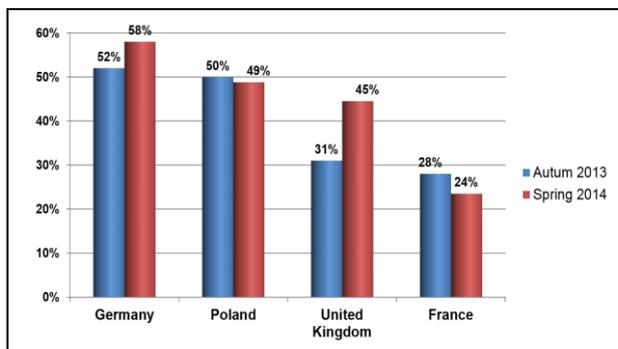
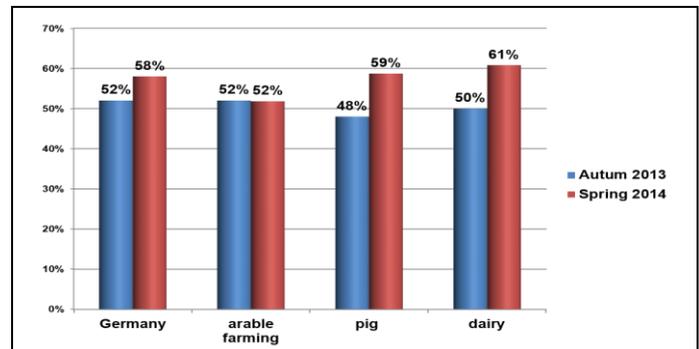


Figure 4: Readiness to invest broken down by business segments in Germany



- Expectations of business development have stabilized in the **United Kingdom**. The background for this is the normalized production conditions after the wet harvest year in 2012 and the favourable market climate. In addition, pig prices have remained stable as they are unaffected by the Russian import ban thanks to the import status of British pork. Although the south-west of the United Kingdom has been affected by flooding, this is a merely regional phenomenon. Farmers in **Poland** are expecting stable business development. In pig-farming the reduction of the animal population is expected to cease in 2014, showing an improved positioning of Polish pig-farmers. The development of milk production is positive too - despite sinking dairy cow populations, milk production is growing - future-oriented farms are expanding and the productivity and competitiveness of the farms is improving. Farmers in **France** have a pessimistic view of the coming 12 months. The discussion of agricultural policy regarding the redistribution of direct payments is leading to a marked decline in business expectations. In addition, animal farmers are also confronted with structural problems - this is evident in the continued reduction in pig

populations. Milk producers are also sceptical about the coming 12 months. Possibilities for farm development are limited due to restrictions on trading milk quotas in France. For this reason, milk producers do not consider themselves to be adequately prepared for the free milk market.

### High readiness to invest in Germany and Poland, marked increase in the United Kingdom, decline in France

- The **investment tendency in Germany** has increased by +6% compared with the autumn survey 2013 to now 58%. In particular the readiness of dairy farmers to invest has increased by 11% to 61% and that of pig-farmers also by 11% to now 59%. The investments are partly targeting fulfilment of higher production standards, and partly targeting optimizing production. Optimization is gaining increasing importance for farm development, compared with growth of individual farms, as expansion is becoming ever more difficult due to the high cost of land and increasing regulatory requirements. The readiness to invest of market crop producers is stable at 52%.
- In the **United Kingdom**, the tendency to invest has increased considerably by 14% compared with the autumn survey 2013. Following the steep decline in 2012 as a consequence of the disastrous harvesting and sowing conditions, the negative trend has come to a halt. The tendency to invest is approaching pre-crisis levels.
- The readiness to invest of farm managers surveyed in **Poland** remains above-average. A total of 49% intend to invest in the coming 12 months. The farmers surveyed are set for expansion. Particularly extensions of core business segments are being carried out. Furthermore, farmers are catching up on deferred investments. Thus, the readiness of Polish farmers to invest remains above-average compared with their colleagues in other countries.

Figure 5: Breakdown of investments between production areas

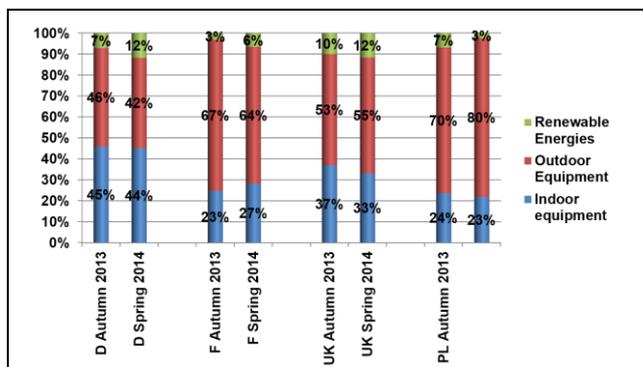
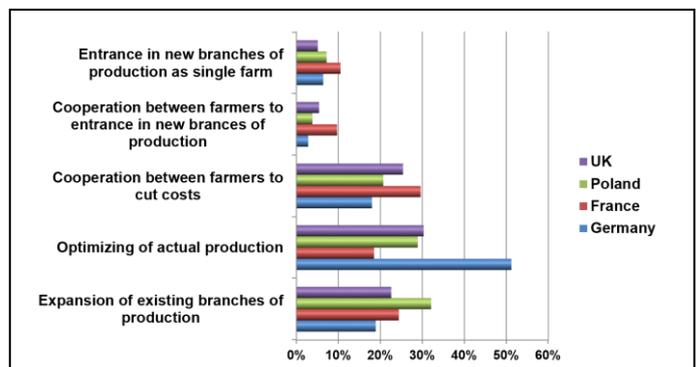


Figure 6: Strategies for farm development of European farmers



- The situation in **France** is characterized by a decline in the readiness to invest - whereas 28% of farmers wanted to invest in autumn 2013, this was the case for only 24% in spring 2014. The reversal is based on a lower investment tendency among market crop producers and pig farmers. Doubts about the future level of direct payments are currently making it more difficult to finance investments, leading to reservations in investing.
- In the **areas of investment**, field operations and animal husbandry are virtually on an equal footing in **Germany** (Fig. 5). Altogether 45% of planned investments target farmyard operations (-1% by comparison with the autumn survey 2013) and 43% target field operations (-4%). There has been a rise in investment plans for bioenergy - a total of 12% of investments are to target this area (+5%). The main focuses in bioenergy are on photovoltaics. There has also been an increase in

investment plans for biogas and biomass heating systems. Farm managers are planning increased investments in bioenergy in **France** and are thus forcing the diversification of production. In **Poland** the focus of investments is on field operations. This production area has increased by 4% compared with the autumn survey 2013.

- The strategies for farm development of the farmers surveyed vary (Fig. 6). Farmers in **Germany** are targeting production optimization. The high, continually increasing cost of land, together with a growing scarcity of workers in contractor companies and the short supply of workers in family farms is moving the focus onto improving land and work productivity. Thus, analyses by the European Dairy Farmers (EDF) show that farms in Germany invest around 40 work hours per dairy cow, per year, while farms in the Netherlands expend around 20 work hours per cow, per year. In **Poland**, farmers surveyed are set for expansion - 32% intend to expand their core business segments. Production optimization is also relevant for Polish farmers (30%). Taking the example of work investment of EDF farms, enormous potential can be seen, for instance in milk production - Polish EDF farms expend around 80 work hours per cow, per year.

Farmers in **France** see cooperation with other farmers to reduce costs as an important strategy for farm development. Additional farm development options for French farmers are the growth of individual farms and adopting new production branches. Optimization of production is the central farm development strategy (30% of those surveyed) for farmers in the **United Kingdom**. Around 26% of farmers surveyed want to further develop cooperation to reduce costs in their own farms.

## Conclusion

The investment dynamic remains constant throughout Europe. Optimization of existing production and growth in farm size are the focus of investments, varying according to the respective locations. Rising leases and production standards as well as ever more difficult access to skilled workers is leading to structurally increasing production costs. In this context, the efficient use of land and work factors and consistent cost management are a determining factor for farm development. The current favourable economic climate and favourable interest rates offer farmers the opportunity to develop their businesses with targeted investments.

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