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Farm Business Income

Farm Business Income forecasts for the year ending February 2012 have been released by Defra, which indicate incomes in several key sectors have strengthened over the last 12 months. Improvements in UK beef and milk prices, along with the relative strength of agricultural commodity prices have helped underpin the forecast.

Average farm business income by farm type (£/farm), England

Farm Type	2009/10	2010/11	2011/12 (provisional)	Annual % Change 2011-12 / 2010-11
In real terms at 2011/12 prices				
Cereals	46,500	89,500	90,000	1%
General cropping	73,500	117,000	85,000	-28%
Dairy	65,000	69,500	84,000	21%
Grazing Livestock (Lowland)	32,000	22,500	28,000	24%
Grazing Livestock (LFA)	28,500	22,500	24,000	7%
Specialist pigs	83,500	47,000	35,500	-24%
Specialist poultry	80,000	71,500	62,500	-13%
Mixed	36,500	53,500	54,500	2%

The NFU commented that these forecasts are in contrast to the performance of the wider economy (see page 3 GDP). They follow on from the improved confidence that we've seen in some farming sectors and build on other recent indicators that have underlined agriculture's contribution to the wider economy. This is undoubtedly positive news for parts of the industry. But not all farm types saw improvements to their bottom line. Pigs and poultry saw profitability decline, as rising input costs, most notably feed, made inroads into enterprise margins. Higher costs will not be unique to pigs and poultry either. All farmers have faced significantly higher operating costs over the last year, with the 18 per cent increase in fuel costs and the 20 per cent rise in fertiliser prices the most significant.

The full Defra release is available at:-

<http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-farmmanage-fbs-publications-fbincomes-statsnotice-120126.pdf>

The NFU release is available at:-

<http://www.nfuonline.com/News/Forecasts-show-many-sectors-on-the-up/>

Farm diversification and renewable energy production

Data relating to estimates of **farm diversification and renewable energy production** have been released by Defra. Almost 25 thousand farms in England ran some form of diversified activity in 2010. This equates to 24% of all commercial holdings, a decrease from 28% in 2007.

Number and percentage of farms with diversified activities: 2007 & 2010

	% of holdings with diversified activities	No. of holdings with diversified activities	Total number of holdings
2007	28	37 500	135 000
2010	24	24 892	105 449

Almost half of those holdings with diversification were running contracting and haulage activities and a third had some sort of tourism activities such as accommodation and sports and leisure.

Of those holdings diversifying, number and percentage of farms by type of activity: 2010

Diversified activity	% of diversifying holdings	No. of holdings
Contracting and haulage	47	11 577
Tourism	33	8 111
Environment	7	1 716
Processing and food manufacture	9	2 259
Commercial energy production for the market	2	396
Any other diversified activity not listed above	26	6 486

Note that the methodology in collating diversification data has changed so that previous data is not directly comparable.

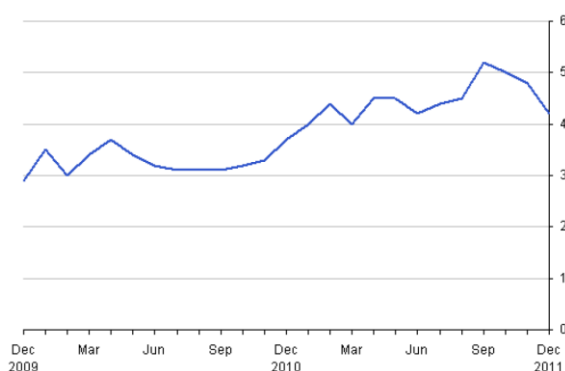
In the release Defra have stated that just over 5,000 holdings in England used renewable sources to produce energy in 2010, equating to a 5% uptake. It must be remembered that the figures cover the period July 2009 to June 2010, effectively pre-dating the Feed-In Tariffs scheme which only started in April 2010. An independent West Midlands report of nearly 400 farmers surveyed by University of Wolverhampton Business School in Feb/Mar 2011, found a 14% renewables uptake. Moreover, 41% of all those surveyed said they were “likely” or “very likely” to try to engage in a renewables enterprise within 5 years. Future Defra surveys are likely to reflect the greater level on on-farm renewables activity undertaken since incentives were introduced.

The full Defra release is available at:-

<http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-landuselivestock-farmstats-diversification-release2010-201201261.pdf>

Inflation

CPI: Percentage change over 12 months



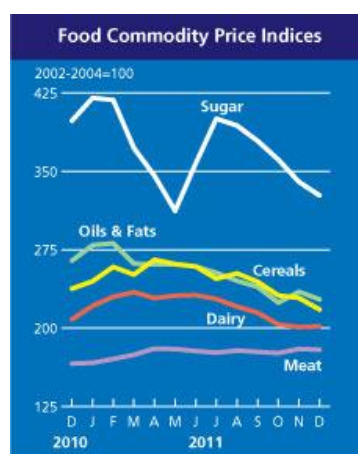
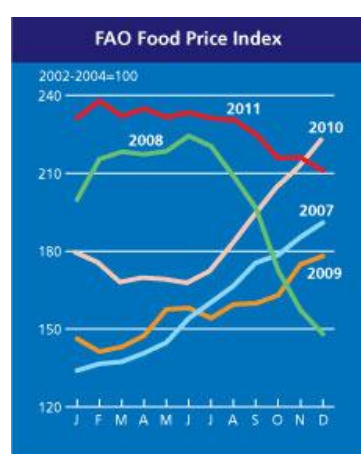
Consumer Prices Index (CPI) annual inflation – the Government’s target measure – was 4.2 per cent in December, down from 4.8% in November.

Month on month data shows inflation slowed significantly in December. The last time there was a larger fall in annual inflation was between November and December 2008, when the standard rate of VAT was reduced, and the rate fell from 4.1 per cent to 3.1 per cent.

	Percentage change over 1 month		Percentage change over 12 months									
	2010 Dec	2011 Dec	2011 Apr	2011 May	2011 Jun	2011 Jul	2011 Aug	2011 Sep	2011 Oct	2011 Nov	2011 Dec	
CPI (overall index)	1.0	0.4	4.5	4.5	4.2	4.4	4.5	5.2	5.0	4.8	4.2	
01 Food and non-alcoholic beverages	1.6	1.4	4.4	5.8	6.9	6.2	6.2	6.4	5.0	4.0	3.8	
01.1 Food	1.6	1.5	3.7	5.3	6.5	5.8	5.6	6.0	4.6	3.7	3.5	
01.1.1 Bread and cereals	1.1	1.1	6.9	5.8	8.5	9.7	7.1	7.7	6.2	3.1	3.1	
01.1.2 Meat	1.5	0.4	3.4	5.1	7.2	6.6	7.1	6.5	5.8	6.4	5.2	
01.1.3 Fish	-0.3	-2.0	6.8	11.4	12.2	7.0	6.2	8.2	10.0	8.2	6.4	
01.1.4 Milk, cheese and eggs	2.1	0.7	1.1	1.1	3.3	3.3	5.3	4.9	2.6	3.1	1.7	
01.1.5 Oils and fats	-2.2	0.9	8.7	20.0	15.7	15.9	12.3	10.5	10.5	9.5	13.0	
01.1.6 Fruit	3.9	4.6	0.3	5.4	3.3	1.8	2.1	5.9	0.9	-0.2	0.5	
01.1.7 Vegetables including potatoes and tubers	2.9	3.7	2.9	5.1	5.4	4.7	3.9	3.8	2.3	0.8	1.6	
01.1.8 Sugar, jam, syrups, chocolate and confectionery	0.3	0.2	7.4	7.5	8.2	7.5	7.6	8.1	8.5	5.6	5.5	
01.1.9 Food products (nec)	-0.2	1.8	-0.7	3.9	5.5	3.0	3.5	2.2	2.9	3.5	5.6	
01.2 Non-alcoholic beverages	1.0	0.8	9.3	9.3	10.4	8.3	9.9	8.9	7.2	6.1	5.9	
01.2.1 Coffee, tea and cocoa	2.4	1.6	7.8	6.4	9.3	9.1	11.1	13.5	12.8	10.4	9.6	
01.2.2 Mineral waters, soft drinks and juices	0.6	0.5	9.8	10.3	10.6	7.9	9.4	7.3	5.3	4.6	4.5	

Food prices contributed to the deflationary pressure, with the 12 month rate of inflation for all food items falling from 3.7% in November to 3.5% in December.

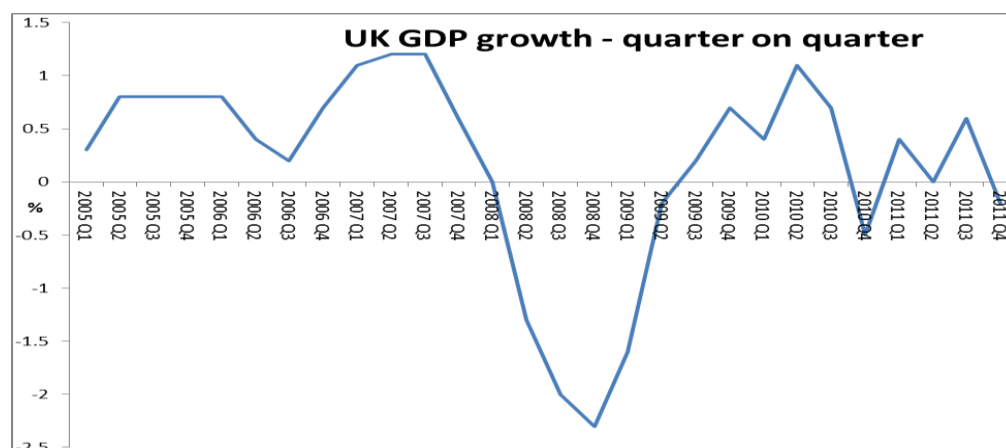
The **FAO food price index (FFPI)** is a measure of the monthly change in international prices of a basket of food commodities (meat, cereals, oils and fats, dairy and sugar). The FFPI averaged 211 points in December 2011, 2.4 per cent (5 points) down from November and 11.3 per cent (27 points) below its February 2011 peak. Sharp falls in international prices of cereals, sugar and oils were behind the December decline and the downward trend in the second half of the year. In spite of some weakening during the second half of 2011, the annual FFPI averaged 228 points in 2011, 23 per cent (42 points) more than in 2010, exceeding the previous high of 200 points in 2008 and the highest level (in both nominal and real terms) since FAO started measuring international food prices beginning in 1990.



GDP

UK economic activity shrank by 0.2% in the last three months of last year according to official figures. It marks a sharp drop in economic activity from the third quarter of 2011, when gross domestic product (GDP) expanded by 0.6%. The ONS figures also show that the economy grew by 0.9% during 2011.

The quarterly fall in GDP is the first since the last three months of 2010, when freezing weather was blamed for a 0.5% drop.



The contraction was driven by weakness in the production sector. Growth in the construction sector was negative and was flat in the service sector, so these two sectors made no contribution to GDP growth in the fourth quarter. Estimates for agriculture shows growth of 0.1% in the last quarter of 2011.

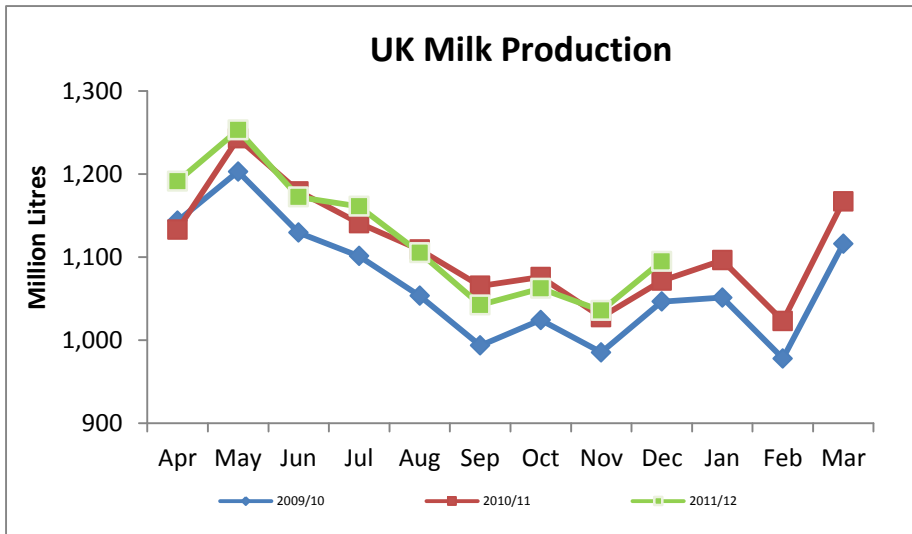
Quarter-on-quarter percentage growth

Component	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4
Agriculture	-10.0	12.1	-1.1	0.5	0.1
Total Production	0.2	-0.3	-1.4	0.2	-1.2
Mining & quarrying	-5.0	-4.7	-7.7	-0.2	-1.1
Manufacturing	0.7	0.8	0.0	0.1	-0.9
Utilities	6.0	-5.1	-1.4	2.2	-4.1
Water supply	-0.8	5.0	-2.8	-0.5	0.2
Construction	-1.4	-1.6	3.1	0.3	-0.5
Total Services	-0.3	0.8	0.1	0.7	0.0
Distribution, hotels & restaurants	-1.1	1.0	0.0	0.2	-0.5
Transport, storage & communication	0.7	-0.1	-0.2	0.3	-0.1
Business services & finance	-0.1	0.7	0.2	1.2	0.0
Government & other	-0.5	1.3	0.2	0.6	0.4

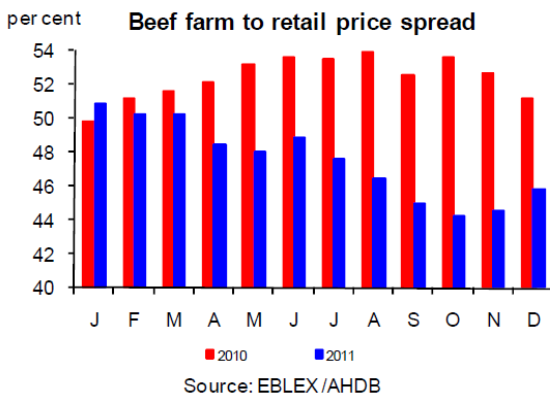
Milk Production

UK production in December 2011 was up 2.2% on the 2010 December figure. The 2011/12 milk year so far is stronger than 2010/11 with cumulative deliveries at 10,118m litres, which is 73m litres (or 0.7%) more than at the same time in the 2010/11 milk year.

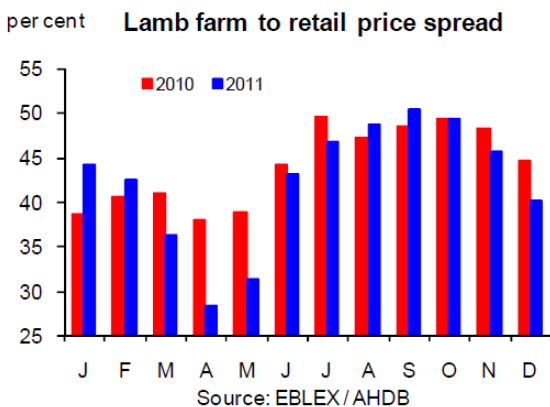
Cumulative deliveries for the 2010/11 year stood at 13,332m litres, an increase of 507m litres (4.0%) compared with the same period in 2009/10 and the highest since 2006/07.



Farm to retail price spreads



During December farmgate prices for **beef** declined slightly while average retail prices increased. As a result the actual price spread between the producer and the retailer widened compared with month earlier levels. Producers received, on average, 54 per cent of the final retail price during December, one percentage point less than November. However, with farmgate prices increasing to a greater extent than retail prices during the year the latest figure is five percentage points higher than in December 2010 when the producer received only 49 per cent of the final retail price.



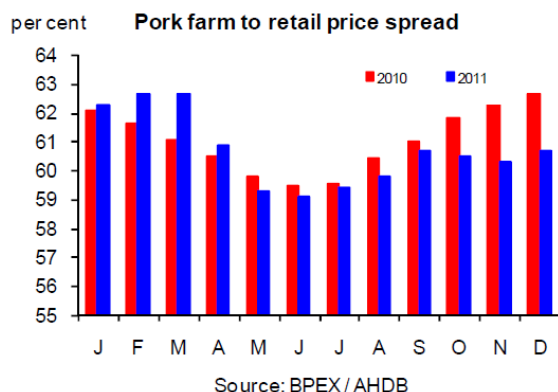
As the seasonal uplift in **lamb** prices continued into December, the average farmgate price was 42 pence higher than in November. This price rise was given added impetus by reportedly strong demand from the export market and generally tight supplies. At the same time the average retail price marginally declined. As a result the actual price spread in December narrowed with producers receiving almost 60 per cent of the final retail price, compared with 54 per cent in November.

For the whole of 2011 a 15 per cent increase in farmgate prices, compared with 2010 levels, more than offset an increase of 7 per cent in the retail price for lamb. As a result the actual price spread narrowed and producers receive on average almost 59 per cent of the final retail during 2011, compared with almost 55 per cent during 2010.

The voice of British farming

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The average farmgate **pig** price in December was little changed from November. Over the month, the average retail price increased by just over 1 per cent. As a result, the gap between producer and retail prices widened slightly to reach almost 61 per cent. This means that producers received an average of just over 39 per cent of the retail price. This is higher than at the same point in 2010, when producers received 37 per cent of the retail price.

Feed Prices

£s per tonne	21-01-12	14-01-12	07-01-12
Feed Wheat	149.90 ▲	149.10 ▲	148.70 ▲
Feed Barley	146.40 ▲	144.30 ▼	145.10 ▲
Maize Gluten	171.00 ▲	170.00 =	170.00 ▲
Rapemeal	158.00 ▲	152.50 ▼	166.50 ▲
Soyameal Brazilian	285.50 ▲	277.50 ▲	277.00 ▲
Soyameal HI Pro	310.00 ▲	302.50 ▲	298.00 ▲
Sunflowermeal	135.50 ▲	135.00 ▼	139.00 ▲
Pelleted Wheat	136.00 ▲	135.00 ▼	140.00 ▼

Data from Defra, HGCA

Price comparison for 7th January relate to price on 31st December