

The Andersons Centre – Latest News Update

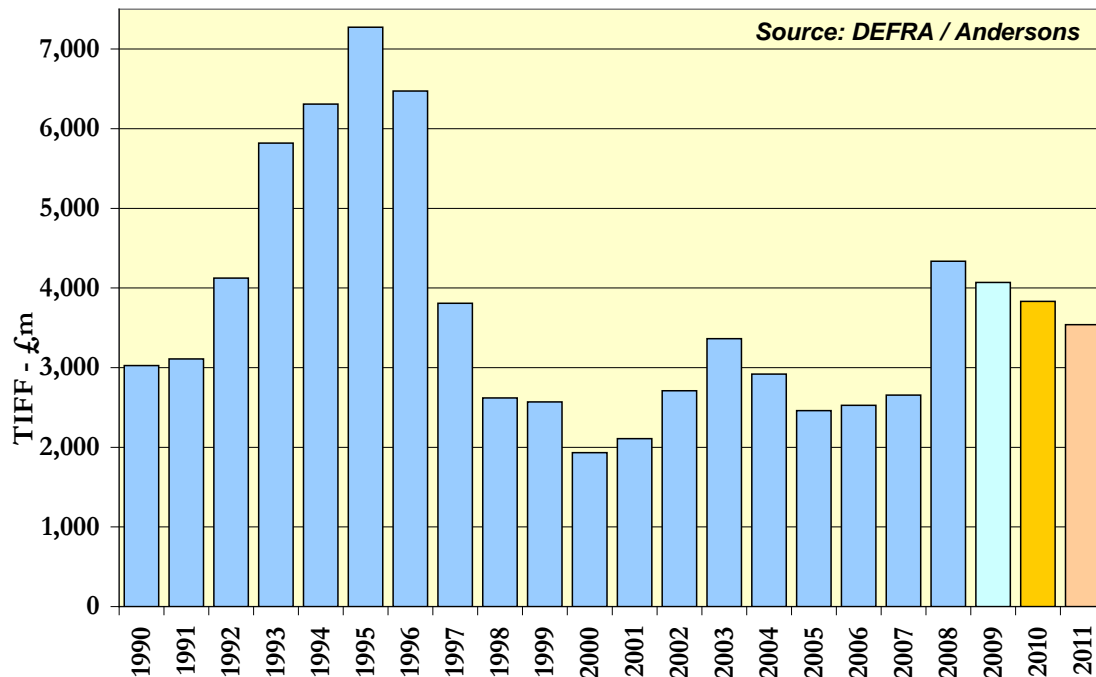
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Farm Profitability Forecast

As we pass the mid-point of the year, it seems an opportune time to look at farm profitability prospects for 2010. The benchmark indicator is Total Income from Farming (TIFF). This is the aggregate return to all the entrepreneurs in UK agriculture and horticulture for their management, labour and their own capital in their businesses - in simplistic terms, it is the profit of 'UK Farming Plc'.

When DEFRA released the 2009 provisional figures at the turn of the year we made some tentative estimates for 2010 and 2011. At the time we wrote *'as long as the exchange rate does not alter significantly ... it is quite plausible that TIFF could be higher again in 2010 thanks to lower costs and firm prices.'* Unfortunately, rather than the €1 = 90p that prevailed at the turn of the year, we have had a period with the £/€ rate well below 85p. Of course, we don't pretend to know what will happen to the Euro and Pound relationship over the coming 12 months, but should it remain roughly where it is now, there is likely to be a negative impact on farm profitability. Our latest estimates are shown below.

UK TOTAL INCOME FROM FARMING (Real Terms, 2009 Prices)



Although it is difficult to disentangle the various causes of changes in farm profitability, between half and two-thirds of any variation can be traced fairly directly to shifts in the exchange rate. With the current degree of uncertainty around this major variable, any confidence in the forecasts rapidly evaporates the further into the future you go. Therefore the 2011 figure can be thought of as indicative at best.

One other issue we always tend to highlight at this point is that the aggregate UK TIFF figures hide as much as they reveal. They obviously mask any differences between different farming sectors and regions. Perhaps even more important is that they don't show the profitability of individual farms. The gap between the best businesses and the also-rans has been widening in recent years. Even in an environment where it is generally more difficult to make profits, the most efficient businesses may still be able to improve returns.

For further information on farm profitability, please contact us

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