# FARM INCOME REVIEW 2009

January 2010

# CONTENTS

# Foreword

## Rowena Dwyer, Chief Economist, IFA

National farm income in 2009 is estimated to be down by 29% on 2008. The main factors affecting farm incomes in 2009 have been the fall in product prices in almost all of the main farming systems, Government cuts in farm schemes and continuing high input costs.

While input prices have fallen from the record highs of 2008, the fall has not been sufficient to offset the reduction in output prices.

The changes in total (aggregate) farm income mask very divergent trends between different sectors of farming. While prices fell for almost all commodities, the extent of the price drop varied greatly, from huge price falls in the dairy and cereal sectors to a situation of effective price stability for the sheep and poultry sectors.

The income implications of the flooding of late 2009 are not included in this Farm Income estimate, as the costs will take some time to assess in the areas most affected. Clearly, it will add to farm costs both in 2009 and into 2010.

The following are the most important factors contributing to the overall outturn for the sector this year.

Milk prices in 2009 collapsed. A slight price recovery began to emerge at the latter stages of the year, but the overall price drop is expected to be 31%. For the Cereals sector, the severe price drop experienced in 2008 continued, with a further fall of 27% on 2008 prices, and a fall in production of 25%.

In the Cattle sector in 2009, production remained reasonably stable, falling back by about 2%, but price dropped by 10%. For the Sheep sector, there was a very slight increase on the 2008 price; however production fell by about 5%, reflecting the continuing decline in the ewe flock.

The Pigmeat sector experienced a fall both in prices, of 8%, and a fall in production of about 5%. The fall in production was directly as a result of the reduction in the breeding herd due to the Pork Dioxin Crisis at the end of 2008.

On the cost side, prices for the major inputs, including feedstuffs, fertiliser and energy were all down from the exceptionally high 2008 prices. Feed and fertiliser prices fell by about 8%, while energy prices fell by about 15%. Prices for other inputs, including services, maintenance and repairs, veterinary and crop protection products all stayed the same as 2008, or rose slightly.

The decoupled Single Payment amounted to approximately €1.3 billion in 2009, with additional Net Direct Payments, including REPS and Disadvantaged Areas amounting to a further €550 m.

Overall, the Farm Income situation is very negative in 2009, showing a reduction in National Farm Income of €676m, or 29%, to €1.65 billion.

Farm-related borrowing peaked in 2009 at €5.4 billion, having risen from €3.5 billion in 2005

*Farm Income Review 2009* seeks to present the main relevant economic and statistical analysis on farm income this year and over a number of recent years. It draws on published data from the CSO, Teagasc and the Department of Agriculture. It seeks also to look ahead to the main issues in 2010. The information in this Review is to assist the officers and members of IFA in understanding the components of farm income, in preparing future IFA policies, and in presenting IFA policies to Government, public representatives and the media.

# 1. REVIEW OF AGRICULTURAL OUTPUT AND INCOME 2009

## 1.1 Overview of Farm Income in 2009

It is estimated that the level of national farm income fell by 29% in 2009. With deflation of 4.4%, farm income in real terms decreased by 26%. Over the past two years, the decline in farm incomes, in money terms, is approximately 38%.

| *Table 1.1: % Change in Farm Income 2009/08* | | |
|---|---|---|
| **National Farm Income** | | |
| **Year** | **Money Terms** | **Real Terms** |
| 2009/2008 | -29% | -26% |

## 1.2 Detailed Changes to Farm Income in 2009

Overall, the gross value of output decreased by about 19%, of which 17% was due to lower product prices, while input costs fell by 9%.

In the Cattle Sector, production remained reasonably stable, falling back by about 2%, but price dropped by 10%, affected by the depreciation of sterling. Milk prices in 2009 are expected to be down by 31%, with production for the sector down by 2%, with a total fall in value for the sector of 33%.

For the Sheep sector, there was a very slight increase on the 2008 price; however production fell by about 5%, reflecting the continuing decline in the ewe flock. The Pigmeat sector experienced a fall both in prices, of 8%, and in production, of 5%, due to the reduction in the breeding herd resulting from the Pork Dioxin Crisis. Towards the end of 2009, production is beginning to increase again, and it is expected that volume in 2010 will return to 2008 figures.

For the Poultry sector, production was up 6% in 2009, reflecting a growing demand for lower priced meat during the economic downturn. Price remained on a par with 2008.

For the Cereals sector, the total value of the sector was halved in 2009, with prices falling by 31%, and the volume produced down 30%.

The Horticulture sectors experienced a very mixed 2009, with prices down from between 3% for Mushrooms, 5% for Field Vegetables and 15% for Fresh Fruit. Production was up 10% for the Fresh Fruit sector. In the Mushroom sector, which was particularly badly impacted during the year by sterling, production was down by about 4%.

The Potato harvest price in 2009 is down on 2008 and presenting difficulties for the sector. However the average price for the year overall is up on 2008. Production for the sector is up by approximately 8%.

Feed and fertiliser prices fell by about 8%, while energy prices fell by about 13%. Prices for other inputs, including services, maintenance and repairs, veterinary and crop protection products all stayed the same as 2008, or rose slightly. The volume of inputs used fell overall, with a projected 11% fall in fertiliser use.

The decoupled Single Payment amounted to approximately €1.3 billion in 2009, with other Net Direct Payments, including REPS and Disadvantaged Areas amounting to a further €550m.

When depreciation, intermediate bank charges and wages paid to farm workers are deducted, National Farm Income (as defined by the CSO) for 2009 is €1,655 m, 29% below 2008. Net Interest Payments on farm borrowings fell from €445 m in 2008 to €336 m in 2009 due to lower average interest rates, resulting in Net Farm Income of €1.3 billion.

| *Table 1.2 Agricultural Output, Inputs and Income 2008/2009 - Detailed* | | | | |
|---|---|---|---|---|
| | **2008 (€m)** | **Price ch. (%)** | **Volume ch. (%)** | **2009 (€m)** |
| **Gross Value of Agr: Output (incl. stock changes)** | **4,819** | | | **3,896** |
| (of which) | | | | |
| Cattle | 1,668 | 90% | 98% | 1,471 |
| Milk | 1,630 | 69% | 98% | 1,096 |
| Sheep | 171 | 101% | 95% | 164 |
| Pigs | 334 | 92% | 95% | 290 |
| Poultry | 151 | 101% | 106% | 162 |
| Horses | 217 | 80% | 100% | 173 |
| Other livestock product | 48 | 100% | 100% | 48 |
| Cereals | 200 | 69% | 70% | 97 |
| Potatoes | 74 | 112% | 105% | 87 |
| Mushrooms | 103 | 96% | 96% | 95 |
| Other fresh veg | 94 | 95% | 100% | 89 |
| Fresh fruit | 33 | 87% | 110% | 32 |
| Turf | 33 | 100% | 90% | 30 |
| Other crops | 63 | 98% | 100% | 62 |
| **- Current Inputs and Services** | **3,111** | | | **2,836** |
| (of which) | | | | |
| Feedingstuffs | 1,200 | 92% | 98% | 1,082 |
| Fertilisers | 507 | 92% | 89% | 415 |
| Seeds | 109 | 92% | 95% | 96 |
| Energy and lubricants | 345 | 87% | 98% | 294 |
| Maintenance and repairs | 355 | 102% | 98% | 355 |
| Services | 290 | 102% | 98% | 290 |
| Crop protection products | 60 | 102% | 98% | 60 |
| Veterinary products | 115 | 102% | 98% | 115 |
| Other goods | 130 | 102% | 98% | 130 |
| **= Gross Agricultural Product** | **1,708** | | | **1,060** |
| **+ Direct Payments (less levies)** | **1,904** | | | **1,876** |
| - Depreciation | 764 | | | 759 |
| - Wages to Agr. Workers | 436 | | | 430 |
| - Intermediate Bank Charges | 90 | | | 93 |
| **= National Farm Income** [1] | **2,322** | | | **1,655** |
| - Bank Interest and Charges | 445 | | | 336 |
| ( = Net Farm Income) | 1,877 | | | 1,310 |

[1] CSO measurement of National Farm Income; this is termed "Operating Surplus" by the CSOs

## 1.3 Sectoral Incomes in 2008 and 2009

Estimates for the 2008 and 2009 Average Family Farm Income in the following table are based on the farm income figures provided in the 2008 Teagasc National Farm Survey. The 2009 estimate is 23% below 2008, reflecting the national farm income decrease between 2008 and 2009 and an estimated 7% decline in farmer numbers. "Full-time" farmers refer to the 60% of farms in the National Farm Survey where the farmer does not have an off-farm job. The public sector and industrial earnings data is from the CSO.

***Table 1.3 Comparisons of Sectoral Incomes 2008-2009***

| Income by Sector (€) | 2008 | 2009 (est) |
|---|---|---|
| Average Public Sector Earnings | 49,026 | 50,400 |
| Average Industrial Wage | 33,695 | 33,250 |
| Average Family Farm Income – all farms | 16,993 | 13,025 |
| Average Family Farm Income – full-time farmers | 21,100 | 16,170 |

As can be seen from the table above, the estimated Average Family Farm Income in 2009 is €13,025, while, for a farmer with no off-farm job, income was €16,170, or 1/3 of Average Public Sector Earnings.

## 1.4 Low Income Farm Families – Farm Assist

Following IFA's campaign on behalf of low-income farm families, the Government introduced the Farm Assist Scheme in April 1999. The scheme, operated by the Department of Social and Family Affairs, is means-tested and 30% of the income assessed is disregarded and also some disregard for dependant children. The following summarises the uptake and value of Farm Assist in recent years.

***Table 1.4 Farm Assist Expenditure (€m) 2005-2009***

| Year | Expenditure (€m) | Number Benefiting | Average Payment (€/week) |
|---|---|---|---|
| 2005 | 67.3 | 7,824 | 165 |
| 2006 | 71.1 | 7,650 | 179 |
| 2007 | 78.7 | 7,400 | 205 |
| 2008 | 85.3 | 7,710 | 213 |
| 2009 | 96.3 | 8,845 | 209 |

Between 2005 and 2008, the numbers in receipt of Farm Assist remained very steady. However, in 2009, due to the severe farm income situation facing many farm families, the uptake of Farm Assist increased significantly. By end of 2009, there were 8,845 families in receipt of Farm Assist, with a further 700 applications pending approval. Overall this represents a 24% increase in participants from the 7,700 in 2008.

In Budget 2010, Farm Assist rates decreased by 4.1% in line with the decrease in overall Social Welfare rates.

# 2. AGRICULTURAL PRODUCT PRICE AND COST TRENDS

## 2.1 Product Price Trends

Table 2.1 sets out the price trends for the main agricultural products and the weighted average price change for total agricultural output in index form, with 2000 prices = 100.

Reflecting the fall in product prices in all commodities, overall output prices in 2009 are only 3% above the 2000 level. Milk prices in 2009 are almost 25% below the 2000 price, with Cereals prices 6% below.

*Table 2.1 Product Price Trends 2000-2009*

| Commodity | 2000 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Cattle | 100 | 113.2 | 110.5 | 127.8 | 114.8 |
| Sheep | 100 | 112.2 | 115 | 120.2 | 120.7 |
| Pigs | 100 | 108.8 | 103.2 | 112.4 | 102.5 |
| Poultry | 100 | 105 | 111.6 | 125.2 | 126.1 |
| Milk | 100 | 90.2 | 111.2 | 112.7 | 76.8 |
| Cereals | 100 | 110.6 | 185.5 | 133.1 | 94.2 |
| **Total Output** | 100 | 107.4 | 117.8 | 122.3 | 103.1 |

*(CSO, with estimates for 2009)*

## 2.2 Input Price Trends

The following table gives the trend in the prices of the main current farm inputs and total current inputs, and also general inflation. Huge growth in input prices in 2008 resulted in total weighted current input prices of 57% above the 2000 level.

*Table 2.2 Input Price Trends 2000-2009*

| Current Inputs | 2000 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Feedingstuffs | 100 | 111.1 | 125.2 | 144.4 | 132.1 |
| Fertilisers | 100 | 133.1 | 135.5 | 220.1 | 185.1 |
| Energy | 100 | 143.1 | 147.3 | 175 | 144.8 |
| Plant Protection | 100 | 101.7 | 101.7 | 103.1 | 105.1 |
| Vet. Products | 100 | 122.4 | 126.1 | 128.8 | 130.9 |
| Services | 100 | 124 | 128.5 | 136.5 | 139.4 |
| **Total Inputs** | 100 | 123.1 | 130 | 157.2 | 142.5 |
| **Inflation: CPI** | 100 | 124 | 127 | 132 | 126 |

*(CSO, with estimates for 2009)*

In 2009, input prices fell by almost 10% on 2008 figure, significantly in excess of the general deflation of 4.4%. However, input prices remain 39% above 2000. When compared with product prices, it is clear that the agricultural terms of trade have significantly deteriorated since 2000[2].

[2] Agricultural Terms of Trade = prices of agricultural outputs relative to the prices of agricultural inputs

# 3. DIRECT PAYMENTS/SINGLE FARM PAYMENT

### 3.1 Value of Direct Payments

Table 3.1 sets out the value of direct payments included in National Farm Income, from Department of Agriculture data. The figure for total payments is adjusted for taxes and levies on production or products (animal disease levies, Bord Bia levies) paid by farmers.

***Table 3.1 Direct Payments included in Farm Income (€m)***

| Payment Type | 2008 | 2009 |
|---|---|---|
| **CAP Reform Direct Payments** | | |
| Single Farm Payment | 1,290 | 1,302 |
| Livestock Premia (residual) | 1 | 1 |
| Sugar Beet Restructing | 64 | 1 |
| Upland Sheep Scheme | - | 5 |
| **CAP RD Measures** | | |
| REPS | 310 | 369 |
| Disadvantaged Areas | 257 | 220 |
| Installation Aid | 9 | 10 |
| **Other Items** | | |
| Disease eradication compensation | 27 | 21 |
| Suckler Cow Welfare Scheme | 33 | 30 |
| Production Aids - Dried Fodder | 0 | 0 |
| **Total Direct Payments** | **1,991** | **1,957** |
| (less Taxes and levies) | 87 | 81 |
| **Net Direct Payments** | **1,904** | **1,876** |

Direct Payments fell in 2009, due to cuts in funding for farm schemes, including the Disadvantaged Areas and the ending of the Sugar Beet Restructuring Aid. In 2009, Direct Payments of €1.87 billion were greater than National Farm Income €1.65 billion, as the majority of farm enterprises in 2009 were operating at below the costs of production.

# 4. FARM INCOME TRENDS AND INFLATION: 1995 - 2009

When comparing data over a long time period, it is necessary to adjust for inflation, i.e. to give the trend in farm income in real terms.

## 4.1 Impact of Inflation

Farm income is particularly vulnerable to inflation as there is no indexation for inflation built into EU price supports or EU direct payments. Table 4.1 outlines the changes in the level of National Farm Income since 1995 when inflation is taken into account.

***Table 4.1 Trends in Farm Income in Money and Real Terms***

| Year | Farm Income €m | Farm Income 1995 =100 | Inflation 1995 =100 | Farm Income in Real Terms |
|---|---|---|---|---|
| 1995 | 2,438 | 100 | 100 | 100.0 |
| 2000 | 2,224 | 91.2 | 113 | 80.4 |
| 2007 | 2,608 | 107 | 147 | 72.7 |
| 2008 | 2,301 | 94.4 | 150 | 62.9 |
| 2009 | 1,655 | 74.4 | 143 | 51.9 |

While National Farm Income in 2009 is 74% of the 1995 figure, when this is adjusted for inflation it is now almost 50% below its 1995 level.

# 5. FARM INCOME AND NON-FARM INCOME
## – NATIONAL FARM SURVEY DATA (2008)

### 5.1 Level and Distribution of Family Farm Income

The *2008 Teagasc National Farm Survey* (NFS), based on a sample of 1,02 farms, (representing about 104,800 farms nationally), was published in July 2008. It calculated the average family farm income per farm at €16,993 (income from farming only). This was a reduction of 13.7% on 2007. The survey does not include the main intensive sectors including pigs, poultry and intensive horticulture.

The National Farm Survey shows that 60% of farmers do not have an off-farm job, i.e. are full-time farmers; their average farm income in 2007 was €21,100. In the case of the 40% of farms where the farmer has an off-farm income, the average farm income was about €10,900. Their average off-farm income declared was €27,200, which when combined with an average farm income, gave a total income of €38,100.

***Table 5.1 Average Family Farm Income 2008***

| | | |
|---|---|---|
| Farmers with off-farm job | 40% | €10,900 |
| Farmers with no off-farm job | 60% | €21,100 |
| All farms | | €16,993 |

There is a wide spread of farm incomes, concentrated in the lower income brackets. While 41% of farms have a family farm income of less than €6,500, only 13% have an income of greater than €40,000. On 98% of the farms earning €6,500 or less from farming, either the farmer and/or the spouse had other income from off-farm employment, pension or social assistance.

***Table 5.2 Distribution of Family Farm Income***

| **€000** | **< 6.5** | **6.5 - 13** | **13 - 20** | **20 - 25** | **25 - 40** | **> 40** |
|---|---|---|---|---|---|---|
| % | 41 | 21 | 11 | 5 | 9 | 13 |
| Number | 42,968 | 22,008 | 11,528 | 5,240 | 9,432 | 13,624 |

### 5.2 Trend in Average Farm Income

Table 5.3 gives the level of average farm income from the National Farm Survey for 2001-08, and an IFA estimate for 2009, based on the fall in National Farm Income, and the estimated fall in farmer numbers during the year.

***Table 5.3: Trend in Average Farm Income – All Farms***

| **Year** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009 est.** |
|---|---|---|---|---|---|---|---|---|
| Income (€) | 14,917 | 14,765 | 15,557 | 22,459 | 16,680 | 19,700 | 16,993 | 13,023 |

### 5.3 Incidence of Off-Farm Incomes of Farmers and Spouses

In recent years the incidence of off-farm employment by either the farmer or spouse has become more prevalent.

However, in 2008, the % of farmers and spouses with off-farm employment fell marginally with 40% of farmers with an off-farm job (41% in 2007) and 56% of farmers and/or spouse with an off-farm job (58% in 2007). This is reflective of the overall downturn in the rural economy and the reduction in off-farm employment opportunities. Table 5.4 summarises off-farm employment broken down by farm size

***Table 5.4 % of farms by farm size, where farmer/spouse has off-farm job***

| Size (Ha) | **<20** | **20-30** | **30-50** | **50-100** | **>100** | **All Sizes** |
|---|---|---|---|---|---|---|
| Farmer Only (%) | 51 | 48 | 33 | 18 | 19 | 40 |
| Farmer or Spouse (%) | 61 | 59 | 55 | 51 | 53 | 56 |

There is a significant variation in the incidence of off-farm employment depending on the farm enterprise. The more labour intensive enterprises, such as dairying, record the lowest level of off-farm employment, while in drystock farms, 50% of farmers are employed off-farm.

***Table 5.5 % of Farms by Farm Enterprise where farmer/spouse has off-farm job***

| **System** | **Dairying** | **Dairying/ Other** | **Cattle Rearing** | **Cattle Other** | **Mainly Sheep** | **Tillage** |
|---|---|---|---|---|---|---|
| Farmer Only (%) | 16 | 35 | 50 | 55 | 45 | 47 |
| Farmer or Spouse (%) | 52 | 57 | 63 | 43 | 53 | 63 |

## 5.4 Value of Single Payment by System

The following table gives the average family farm income (FFI) and the average Single Farm Payment (which is included in FFI) by system for 2008; the average farm size is also shown to put this into perspective. The average single payment for all farms in the survey was €11,854 and the average size was 36.7 hectares.

***Table 5.6 Average SFP by System***

| **System** | **Dairying** | **Dairying + Other** | **Cattle Rearing** | **Cattle Other** | **Mainly Sheep** | **Tillage** |
|---|---|---|---|---|---|---|
| Size (hectares) | 47.6 | 46.8 | 29.7 | 31 | 34.1 | 57.9 |
| Average FFI (€) | 45,700 | 23,700 | 7,700 | 11,200 | 9,600 | 19,400 |
| (of which) SFP (€) | 15,472 | 16,269 | 8,044 | 11,258 | 8,447 | 21,209 |

## 5.5 Value of REPS Payments

45% of farms in the survey received REPS payments in 2008. The Average Family Farm Income on these farms was €18,339, of which €6,318 came from REPS. By comparison, for non-REPS farms, the Average Family Farm Income was €15,869.

***Table 5.7 Average REPS Payments for REPS farms***

| **System** | **Dairying** | **Dairying + Other** | **Cattle Rearing** | **Cattle Other** | **Sheep** | **Tillage** |
|---|---|---|---|---|---|---|
| Size (hectares) | 43.8 | 40.4 | 34.4 | 34.2 | 38.6 | 49.6 |
| Average FFI (€) | 45,121 | 19,782 | 12,603 | 15,581 | 13,431 | 19,243 |
| REPS Contribution (€) | 6,904 | 6,757 | 5,928 | 5,839 | 6,752 | 7,133 |

# 6. INVESTMENT TRENDS AND FARM BORROWING

## 6.1 On-farm investment

The following table gives the estimated gross investment levels by the agricultural sector, from the Teagasc National Farm Survey. Since 2006 there has been a huge increase in the amount of on-farm investment undertaken.

*Table 6.1 Capital Investment in Irish Agriculture (€ millions)*

| Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010(est.) |
|---|---|---|---|---|---|---|---|
| Gross investment (€m) | 696 | 799 | 788 | 1,371 | 2,041 | 500 | 600 |
| Average Investment per farm | 6,143 | 7,192 | 6,965 | 12,250 | 19,479 | 5,102 | 6,122 |

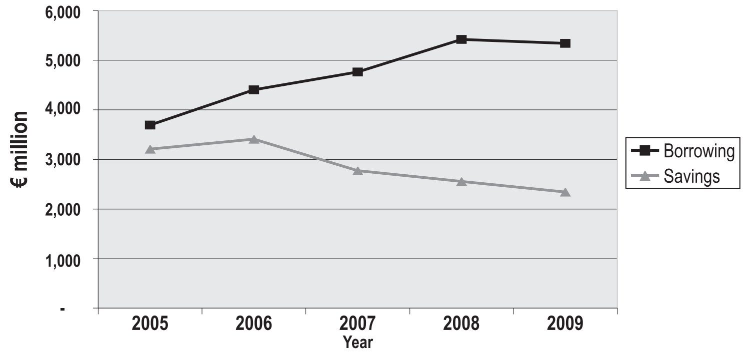
Due primarily to work undertaken the Farm Waste Management and Farm Improvement Schemes, farm investment in buildings, machinery and other between 2006 and 2008 was in excess of €4 billion.

Investment in 2009 slumped to approximately €500m, due to the completion of FWMS investment and the severe farm income situation. For 2010, current estimates indicate an increase in investment to €600 m.

## 6.2 Level of Farm Borrowings and Savings

The increased on-farm investment has led to a record level of farm-related borrowing. Central Bank data shows that farm borrowing peaked in early 2009, at €5.4 billion, having risen from €3.7 billion in 2005.

*Figure 6.1 Levels of Farm Borrowing and Deposits 2005-2009 (€ million)*




Since 2005, farm borrowing has increased by 45% while the level of savings has declined by 27%, from €3.2 billion to €2.3 billion. As a result, farmers now have more than double the amount borrowed as they have on deposit.

The cost of borrowing has declined slightly from a peak in late 2008. However, where a farmer has had to restructure his existing borrowings, this has generally led to a rise in the interest rate charged. Access to credit and the cost of credit remains a difficulty for many farm families in 2009/2010.

# 7. AGRICULTURAL STATISTICS

The following are the main agricultural statistics from the CSO on the national breeding herd and tillage area, based on the full Census of Agriculture 2000 and later annual surveys.

### 7.1 Livestock:

*Table 7.1 Trends in the National Breeding Herd (000 head, June)*

| Product | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Dairy Cows | 1,114 | 1,109 | 1,087 | 1,113 | 1,129 |
| Beef Cows | 1,228 | 1,215 | 1,181 | 1,180 | 1,154 |
| Total Cows | 2,342 | 2,324 | 2,268 | 2,293 | 2,283 |
| Ewes | 3,558 | 3,104 | 2,854 | 2,614 | 2,457 |
| Pig Breeding Herd | 149.7 | 150.4 | 148 | 139 | 140 |

With the exception of the dairy herd, which has remained steady, each of the populations have declined slightly since 2005. The decline in the ewe flock is of most significance, having fallen from 3.5 million in 2004 to 2.45 million in 2009, a decline of 30%.

### 7.2 Crops:

*Table 7.2 Area under Crops, (000 hectare, June)*

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Wheat | 102.7 | 95.2 | 87.5 | 84.3 | 104.8 | 82.6 |
| Barley | 183.7 | 164.4 | 167 | 167.5 | 179.1 | 185.7 |
| Total Cereals | 310.2 | 282 | 279.8 | 278.9 | 313.4 | 292.2 |
| Potatoes | 13.2 | 11.8 | 11.5 | 11.7 | 12 | 12.9 |

Between 2004 and 2007, the area of land under cereals had declined from 310,000 hectares to 279,000. This trend was reversed in 2008, whereby the area sown increased to 313,400 hectares. This increase was almost fully reversed in 2009, with only 292,000 hectares planted, a decline of 7%. However, the fall was not uniform, as the area sown for wheat fell by over 20,000 hectares, while the area planted for barley increased, by 6,000 hectares.

### 7.3 Structure of Agriculture Sector

The physical structure of farming has improved over the last 20 years. While the average farm size in 1991 was 26 hectares, this increased by just less than 25%, to 32.3 ha, in 2007.

In addition, mobility in the use of land has increased, with 33% of all farms renting a total of 762,000 hectares in 2007, up from 21%, who rented 550,000 hectares in 1991. The option of tax-exempt income long-term land leasing should further encourage better land utilisation.

While the age-profile of the agriculture sector is not favourable at present, with 50% of farmers aged over 55, and only 7% below 35, there is huge potential for this to change as the numbers of high-quality individuals going through the agricultural education and training system at present is higher than it has been in decades. In 2009, there are over 3,200 students enrolled in Teagasc further education agricultural courses

# 8. OUTLOOK FOR 2010

## 8.1 Product Prices and Farm Income

2009 saw a collapse in Farm Incomes with prices falling for almost all commodities. By end 2009, there are signs that, due to rising demand in the world economy, there will be some increase in prices for our major commodities in 2010.

- For milk, the price increase has already commenced and looks set to continue through early 2010, as global demand picks up. However, the release of intervention stocks by the EU Commission through 2010 may affect market price;
- For beef and sheep an expected strengthening of sterling should result in some increase in prices, as will the expected recovery in demand in some of the larger Eurozone markets. However it should be noted that Government cuts in REPS, Suckler Cow and Disadvantaged Areas will reduce farm incomes very significantly for some individual farmers;
- In the cereals sector, spot prices are currently about €15 per tonne higher than 2009; however an increase in price will be dependent on the yield in other Northern Hemisphere markets in the first half of 2010;
- For pigmeat, EU exports are expected to recover in 2010, which should have a positive impact on prices. In the Irish market, a return to pre-Dioxin production numbers should improve efficiencies in the processing plants.
- For poultry, domestic consumer demand is expected to remain strong throughout 2010.
- For horticulture, an increase in price will be dependent on the level of strengthening of sterling. An expected rise in domestic consumer demand towards the end of the year may also lift prices.

## 8.2 Input Costs

It is expected that input costs will rise slightly in almost all areas in 2010. Energy, fertiliser and feed-cereal costs are likely to increase; however protein costs will fall. With global recovery occurring only slowly, demand remains moderate. Therefore a surge in input prices, as happened in 2008, is not expected.

## 8.3 Sterling Depreciation

The continued weakness of sterling against the euro has provided significant difficulties for the agri-food sector throughout 2009. Accounting for over 40% of exports, the UK remains the largest market for the agri-food sector. Export figures indicate a fall in export value of €1.1 billion, or 14% in 2009 to approximately €7 billion for agri-food and drink. In addition, employment in exporting food and drink processing companies will have fallen by 10,000 by end of year.

It is believed that sterling is currently undervalued and while it is likely to remain weak throughout the first half of 2009, it is expected to recover some of its loss against the euro as the year progresses, which will improve the competitiveness of Irish agri-food exports and reduce the competitive advantage currently enjoyed in the Irish market by UK substitute goods. At the same time, Government must continue to address the uncompetitive business costs in the Irish economy, including energy, labour and waste costs and must increase marketing and access to non-sterling markets for Irish agri-food exports.

## 8.4 Public Finances
Budget 2010 resulted in a reduction in public expenditure of €4 billion, as the Minister for Finance attempted to stabilise the public finances. Farm schemes, which had been cut in the two previous budgets, were left unchanged. A further adjustment of €8.5 billion in the public finances is required over the next four years; this will be through a combination of further expenditure cuts and increases in taxation. There is potential to achieve further expenditure savings through improved efficiencies in public service delivery.

## 8.5 Access to and Cost of Credit
The financial crisis, and the lack of funding available to the banking sector, has resulted in a restriction of access to credit for all Small Businesses, including farmers. This situation has been exacerbated at farm level during 2009 due to the severe income crisis in agriculture.

During 2009, Government provided significant capital for the Irish banks and introduced legislation for a National Asset Management Agency (NAMA), the purpose of which is to improve the bank balance sheets and return to a viable banking system. In Budget 2010, Government also announced a Credit Review System whereby small businesses who are refused access to credit will have access to an independent arbitration body.

Further state capitalisation of the banks appears inevitable. However, if the Credit Review System is effective and if NAMA results in increased access to funds and a reduced cost of borrowing for the Irish banks, then 2010 may see a return to more normal lending activity in the Irish banking system. An improvement in Farm Incomes will also improve the lending environment for the farming sector.

However, the cost of borrowing is likely to rise towards the end of 2010 as it is expected that the ECB will increase its base rate in the second half of the year as major Euro economies, in particular France and Germany, return to growth.

## 8.6 CAP Post-2013
Discussions on the future size and shape of the CAP will begin in earnest in early 2010, with an expected publication of the new European Commission's proposals on the CAP post-2013 in June/July. At the same time, discussions on the overall size of the EU budget, and the share that will go to the CAP, will have a significant influence on the size of the CAP budget. The recent public commitment by the Minister for Agriculture and his colleagues from 21 EU countries to an ambitious continent-wide CAP post-2013 with adequate resources is a positive.

The new Agriculture Commissioner, Mr Damian Ciolos, is a former Minister for Agriculture in Romania. Although he will favour the retention of significant funding for the CAP, he is also likely to look for a redistribution of CAP funding towards the New Member States (Eastern Europe). It is vital that, in the forthcoming negotiations, the Irish Government and Department of Agriculture ensure the retention of a strong, fully funded CAP, which is primarily financed at EU level and protects the viability of the family farm structure.

## 8.7 WTO
The recent WTO talks in Geneva were not successful in reactivating serious discussions on concluding the Doha round. Although it is likely that some negotiations will recommence in 2010, it is more likely that serious negotiations and agreement will be deferred to at least 2011. It should be noted, however, that the new EU Commissioner for Trade, Mr Karl De Gucht, is in favour of greater trade liberalisation and the conclusion of the Doha development round.

THE IRISH FARMERS' ASSOCIATION
Irish Farm Centre, Bluebell, Dublin 12.

**www.ifa.ie**