Feirmeoirí Aontaithe na hÉireann • The Irish Farmers' Association

FARM INCOME REVIEW 2010

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Foreword

Rowena Dwyer, Chief Economist, IFA

National farm income in 2009 is estimated to have increased by 33% on 2009. The main factors affecting farm incomes in 2010 has been an increase in product prices in almost all commodities and relative stability in input costs.

The changes in total (aggregate) farm income mask very divergent trends between different sectors of farming. While prices rose for almost all commodities, the extent of the price increase varied greatly, from significant price recovery in the dairy, sheep and cereal sectors, with a late, modest increase in the cattle sector to a situation of effective price stability for the pigmeat and poultry sectors.

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

Milk prices in 2010 recovered much, but not all, of the 2009 collapse, with an expected overall price increase of 29%. In response to the increasing prices, production increased by almost 7%. For the Cereals sector, a large price increase was experienced mid-year, due to severe restrictions on supply in the main exporting markets, particularly Russia. As a result, prices increased from 2009 by an estimated 62% on 2009. However, due to the low prices of 2008 and 2009, the area planted was significantly down (15%). Higher yields resulted in an overall estimated fall in production of 5%.

In the Cattle sector in 2010, there was a significant increase in throughput – both in the numbers of cattle slaughtered and live exports. However, this was counterbalanced by a reduction in on-farm stock, resulting in an estimated increase in volume of 3%. Prices varied little on 2009, with increases in the latter stages of the year, leading to an overall increase in price of 2%. For the Sheep sector, there was a substantial increase on the 2009 price of 17%; however, production fell by about 10%, reflecting the continuing decline in the ewe flock.

The Pigmeat sector experienced almost no change in price on 2009, but a large increase in production, as the breeding herd returned to pre-dioxin crisis levels.

On the cost side, prices for the feedstuff and fertiliser were down for the year as a whole but both increased rapidly towards the end of the year, with this trend set to continue. Fertiliser use increased by over 20% on 2009, with feedstuff volumes up by 2%. Energy prices were up by 12% on 2009. Prices for other inputs, including services, maintenance and repairs, veterinary and crop protection products all fell slightly.

Due to delays in payments resulting from the digitisation of maps, the amount of the decoupled Single Payment that was paid out by end 2010 is estimated at €1.18bn, with additional Net Direct Payments, including REPS and Disadvantaged Areas amounting to a further €550m.

Overall, Farm Incomes improved significantly in 2010, increasing by 33% (€515m) to €2,077m.

Farm Income Review 2010 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 2011. 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 2010

1.1 Overview of Farm Income in 2010

It is estimated that the level of national farm income increased by 33% in 2010. With deflation of just under 1%, farm income in real terms increased by 34%.

Table 1.1: % Change in Farm Income 2010/09		
National Farm Income		
Year	**Money Terms**	**Real Terms**
2010/09	33%	34%

1.2 Detailed Changes to Farm Income in 2010

Overall, the gross value of output increased by about 16%, of which 11% was due to increased product prices, while input costs rose by 1%.

In the cattle sector, the value of output rose by 5%, or €73m, due to a slight increase in both price and volume. The large increase in throughput (slaughterings and live exports) was largely offset by a significant reduction of stock on farm. The value of the milk sector rose by 38% due mainly to the almost 30% rise in price.

For sheep, the large increase in price was partially offset by the 10% reduction in production. Overall, the value of the sector increased by almost €10m. The pigmeat sector also increased in value, by almost €30m; however, this was due to increased production, of almost 10%, rather than any price increase. For the poultry sector, volume continued to rise; however, prices fell back by about 2% on 2009, resulting in an overall increase in value of the sector of €10m.

The cereals sector experienced a huge recovery in prices, of over 60%, in 2010; however, due to a reduction in the area sown, production fell by about 5%. This resulted in an overall increase in value for the sector of almost €60m.

For potatoes and mushrooms, prices remained overall unchanged on 2009; however, for vegetables and fruit, prices fell by 4%. Better weather in 2010 resulted in increased volumes produced in all sectors, with the overall value of these sectors up by over €40m.

On the inputs side, overall input prices rose very little in 2010; however, this was due to lower prices in early 2010, with significant price increases occurring in feed, fertiliser and fuel towards the end of the year. Large changes included an increase of 12% in energy prices in 2010 and an increase in fertiliser use of 24%.

The decoupled Single Payment amounted to approximately €1.18b in 2010, 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 2010 is €2,071m, 33% above 2009. Net Interest Payments on farm borrowings fell to €270m in 2010 due to lower average interest rates and reduced borrowing, resulting in Net Farm Income of €1.8b.

Table 1.2 Agricultural Output, Inputs and Income 2009/2010 – Detailed				
	2009 (€m)	**Price %**	**Volume %**	**2010 (€)**
Gross Value of Agr: Output (incl, stock changes)	**3,876**			**4,486**
(of which)				
Cattle	1,450	102%	103%	1,523
Milk	1,100	129%	107%	1,518
Sheep	158	117%	90%	165
Pigs	307	99%	110%	334
Poultry	155	98%	109%	165
Horses	145	90%	88%	115
Other livestock product	42	100%	100%	42
Cereals	107	162%	95%	165
Potatoes	82	100%	125%	103
Mushrooms	99	100%	102%	101
Other fresh veg	107	96%	120%	123
Fresh fruit	33	96%	120%	37
Turf	35	95%	100%	33
Other crops	57	96%	110%	61
- Current Inputs and Services	**2,869**			**2,896**
(of which)				
Feeding stuffs	1,079	96%	102%	1,052
Fertilisers	416	90%	124%	464
Seeds	87	93%	95%	77
Energy and lubricants	303	112%	101%	344
Maintenance and repairs	357	98%	98%	339
Services	236	98%	102%	233
Crop protection products	48	98%	95%	44
Veterinary products	211	98%	103%	211
Other goods	132	98%	102%	132
= Gross Agricultural Product	**1,007**			**1,590**
+ Direct Payments (less levies)	**1,850**			**1,733**
- Depreciation	780			745
- Wages to Agr. Workers	428			420
- Intermediate Bank Charges	87			87
= National Farm Income [1]	**1,562**			**2,071**
- Bank Interest and Charges (Net)	323			270
(= Net Farm Income)	1,240			1,801

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

1.3 Sectoral Incomes in 2009 and 2010

Estimates for the 2009 and 2010 Average Family Farm Income in the following table are based on the farm income figures provided in the 2009 Teagasc National Farm Survey. The 2010 estimate is 36% above 2009, reflecting the national farm income increase and an estimated 2% decline in farmer numbers. "Full-time" farmers refer to the 30% largest, more commercial farms in the National Farm Survey. The public sector and industrial earnings data is from the CSO.

Table 1.3 Comparisons of Sectoral Incomes 2009-2010		
Income by Sector (€)	**2009**	**2010 (est)**
Average Public Sector Earnings	49,166	46,932
Average Industrial Wage	40,414	42,759
Average Family Farm Income – all farms	11,968	16,500
Average Family Farm Income – full-time farmers[2]	24,214	33,000

As can be seen from the table above, the estimated Average Family Farm Income in 2010 is €16,500, or 35% of Average Public Sector earnings, while, for a "full-time" farmer, income was €32,750 (70% 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, there is 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) 2005-2010			
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
2010 (est)	108	10,782	192

Between 2005 and 2008, the numbers in receipt of Farm Assist remained very steady. However, since 2008, due to the severe farm income situation facing many farm families, the uptake of Farm Assist has increased significantly. By end of 2010, there were 10,782 families in receipt of Farm Assist, with a further 430 applications pending approval. Overall this represents a 45% increase in participants from the 7,700 in 2008.

In Budget 2011, Farm Assist rates decreased by 4% in line with the decrease in overall Social Welfare rates, while the overall allocation for 2011 increased to €129m.

[2] Full-time definition based on labour units required, using Standard Man Day calculation, and does not take into account whether farmer has an off-farm job

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 (base year) prices = 100.

Reflecting the recovery in product prices in almost all commodities, overall output prices in 2010 are 15% above the 2000 level. It should be noted that milk and pig prices in 2010 are only at, or slightly above, 2000 levels.

Table 2.1 Product Price Trends 2000-2010

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 2010)

2.2 Input Price Trends

The following table gives the trend in the prices of the main farm inputs and overall current inputs, as well as 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 2000-2010

Current Inputs	**2000**	**2006**	**2007**	**2008**	**2009**	**2010**
Feeding stuffs	100	111.1	125.2	144.4	132.1	125.9
Fertilisers	100	133.1	135.5	220.1	185.1	161.6
Energy	100	143.1	147.3	175	144.8	164.1
Plant Protection	100	101.7	101.7	103.1	105.1	105.2
Vet. Products	100	122.4	126.1	128.8	130.9	131.1
Services	100	124	128.5	136.5	139.4	137.3
Total Inputs	100	123.1	130	157.2	142.5	139.7
Inflation: CPI	100	124	127	132	126	125

(CSO, with estimates for 2010)

Since 2000, input prices have fallen by 11%, significantly in excess of the general deflation of 5%. However, input prices remain 40% above those in 2000. When compared with product prices, it is clear that the agricultural terms of trade have significantly deteriorated since 2000[3].

[3] 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 estimated value of direct payments included in National Farm Income, from Department of Agriculture data. Due to delays in payments, there is a reduction in the figure for 2010 from €1,848 to €1,733; however, it is expected that the balance of these payments will be made in 2011. The figure for total payments is adjusted for taxes and levies on production or products (e.g. animal disease levies, Bord Bia levies) paid by farmers.

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

Payment Type	**2009**	**2010**
CAP Reform Direct Payments		
Single Farm Payment	1,302	1,190
Livestock Premia (residual)	1	0
Sugar Beet Restructuring	1	0
Grassland/ Upland Sheep Scheme	5	-
CAP RD Measures		
REPS	340	326
Disadvantaged Areas	220	210
Installation Aid	10	3
Dairy Emergency Fund	-	12
Other Items		
Disease eradication compensation	-	19
Suckler Cow Welfare Scheme	30	33
Production Aids - Dried Fodder	0	-
Total Direct Payments	**1,908**	**1,793**
(less Taxes and levies)	60	60
Net Direct Payments	**1,848**	**1,733**

4. FARM INCOME TRENDS AND INFLATION: 1995 - 2010

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. While National Farm Income in 2010 is 91% of the 1995 figure, when this is adjusted for inflation it is 35% below its 1995 level.

Table 4.1 Trends in National 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
2004	2,275	93.3	132	70.9
2005	2,763	113.3	135	84.0
2006	2,429	99.6	140	71.0
2007	2,608	107.0	147	72.7
2008	2,301	94.4	150	62.9
2009	1,560	70.1	143	48.9
2010	2,071	91.3	142	64.3

5. FARM INCOME AND NON-FARM INCOME – NATIONAL FARM SURVEY DATA (2009)

5.1 Level and Distribution of Family Farm Income

The *2009 Teagasc National Farm Survey* (NFS), based on a sample of 1,029 farms, (representing about 102,270 farms nationally), was published in July 2009. It calculated the average family farm income per farm at €11,968 (income from farming only). This was a reduction of 30% on 2008. The survey does not include the main intensive sectors including pigs, poultry and intensive horticulture.

The National Farm Survey shows that 65% of farmers do not have an off-farm job, i.e. are full-time farmers; their average farm income in 2009 was €14,200. In the case of the 35% of farms where the farmer has an off-farm income, the average farm income was about €7,800. Their average off-farm income declared was €24,700, which when combined with an average farm income, gave a total income of €32,500. The proportion of farmers with an off-farm job fell from 40% in 2008 to 35% in 2009, reflecting the reduction in off-farm employment opportunities.

Table 5.1.1 Average Family Farm Income 2009		
Farmers with off-farm job	35%	€7,800
Farmers with no off-farm job	65%	€14,200
All farms		€11,968

There is a wide spread of farm incomes concentrated in the lower income brackets. While 48% of farms have a family farm income of less than €6,500, only 6% have an income of greater than €40,000 (13% in 2008, reflecting the huge fall in income for larger farmers in 2009). 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 5.1.2 Distribution of Family Farm Income

€	**< €6,500**	**€6,500 – 13,000**	**€13,000 – 20,000**	**€20,000 – 25,000**	**€25,000 – 40,000**	**> €40,000**
%	48	19	13	5	9	6
Number	49,090	19,431	13,295	5,114	9,204	6,136

5.2 Trend in Average Farm Income

Table 5.2 gives the level of average farm income from the National Farm Survey for 2003 - 2009. An IFA estimate for 2010 is included, based on the increase in National Farm Income and an estimated fall in farmer numbers between 2009 - 2010.

Table 5.2: Trend in Average Farm Income – All Farms

Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010 est**
Income (€)	14,765	15,557	22,459*	16,680	19,687	16,993	11,968	16,500

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, since 2008, the percentage of farmers and spouses with off-farm employment has fallen from 41% in 2007 to 35% in 2009, and from 58% of farmers and/or spouse with an off-farm job in 2007 to 53% in 2009. This is reflective of the overall downturn in the rural economy and the reduction in off-farm employment opportunities.

Table 5.3.1 summarises the incidence of off-farm employment by the farmer and/or spouse, broken down by farm size. As expected, the percentage declines as the size of farm increases.

Table 5.3.1: % 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 (%)	46	39	29	16	13	35
Farmer &/or Spouse (%)	52	55	53	50	45	53

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, 40% of farmers are employed off-farm.

Table 5.3.2: % 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 (%)	13	19	42	41	37	39
Farmer &/or Spouse (%)	50	52	55	52	51	57

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 2009; the average farm size is also shown to put this into perspective. Reflecting the decline in producer prices in all commodities in 2009, the SFP represented more than 100% of farm income in all enterprises except specialist dairying. The average payment for all farms in the survey was €12,030 and the average size was 37.1 hectares.

Table 5.4 Average SFP by System

System	**Dairying**	**Dairying + Other**	**Cattle Rearing**	**Cattle Other**	**Mainly Sheep**	**Tillage**
Size (hectares)	47.4	54.6	29.7	30.9	34.7	56.8
Average FFI (€)	23,684	17,281	6,563	9,302	9,688	15,247
(of which) SFP (€)	15,685	18,873	8,077	11,121	8,824	20,937
SFP as % of FFI	66%	109%	123%	120%	91%	137%

5.5 Value of REPS Payments

48% of farms in the survey received REPS payments in 2009 (up 3% from 2008). The average Family Farm Income on these farms was €14,455 of which €5,577 came from REPS. By comparison, for non-REPS farms, the Average Family Farm Income was €9,695.

Table 5.5 Average REPS Payments for REPS farms

System	Dairying	Dairying + Other	Cattle Rearing	Cattle Other	Sheep	Tillage
Size (hectares)	44.4	52	32.4	33.7	36.7	47.3
Average FFI (€)	25,432	19,443	9,708	13,357	11,659	16,085
REPS Contribution (€)	6,329	7,136	5,406	4,659	6,161	6,110

As can be seen from Table 5.5, for cattle rearing and sheep enterprises, REPS comprised over 50% of Average Family Farm Income in 2009.

6. INVESTMENT TRENDS AND FARM BORROWING

6.1 On-farm investment

The following table gives the estimated gross investment levels by the agricultural sector, sourced from the Teagasc National Farm Survey (with IFA estimate for 2010).

Table 6.1 Capital Investment in Irish Agriculture (€m)

Year	2004	2005	2006	2007	2008	2009	2010 (est)
Gross investment (€m)	696	799	788	1,371	2,041	665	606
Investment per farm	6,143	7,192	6,965	12,250	19,479	6,473	5,900

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

Investment in 2009 fell to approximately €665m, due to the completion of FWMS investment and the severe farm income situation. For 2010, it is estimated that investment remained at a similar level, due to the effects of the 2008 and 2009 farm income reductions.

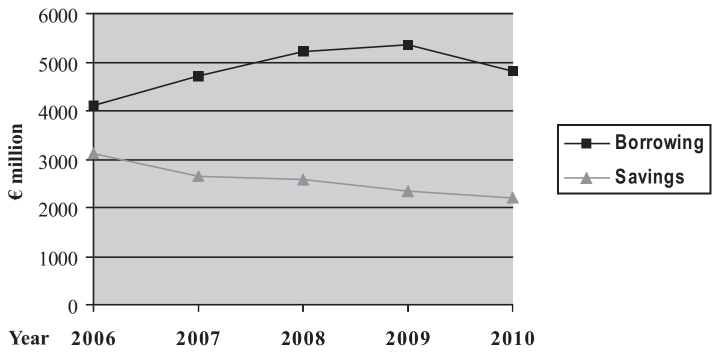
6.2 Level of Farm Borrowings and Savings

The agriculture sector, despite the decline in incomes over 2008 and 2009, continued to invest in farm businesses. Detailed figures on lending to the SME sector show that the agriculture sector undertook 24% (~€500m) of all gross new lending to the core SME sector between Q1-Q3 2010.

At an aggregate level, increased on-farm investment led to a record level of farm-related borrowing in 2008. Central Bank data shows that farm borrowing peaked in early 2009, at €5.4b, falling to €4.8b by mid-2010.

At the same time, there has been an annual decline in farm deposits since 2006; however, this appears to be stabilising in 2010.

Figure 6.1 Levels of Farm Borrowing and Deposits 2006-2010 (€ million)



7. AGRICULTURAL STATISTICS

The following are the main agricultural statistics from the CSO on the national breeding herd and tillage area, based on the annual crop and livestock survey, with IFA estimates for 2010.

7.1 Livestock

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

	2005	2006	2007	2008	2009	2010 (est)
Dairy Cows (000s)	1,114	1,109	1,087	1,113	1,129	1,106
Beef Cows (000s)	1,228	1,215	1,181	1,180	1,154	1,108
Total Cows (000s)	2,342	2,324	2,268	2,293	2,283	2,214
Ewes (000s)	3,558	3,104	2,854	2,614	2457.2	2,261
Pig Breeding Herd (000s)	173.4	169.4	165.4	157	158	160

There has been a decline in almost all livestock in 2009, with the exception of the pig breeding herd, which is rebuilding since the pork dioxin collapse at end 2008.

7.2 Crops

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

Product	2004	2005	2006	2007	2008	2009	2010 (est)
Wheat	102.7	95.2	87.5	84.3	104.8	82.6	70
Barley	183.7	164.4	167	167.5	179.1	185.7	157
Total Cereals	310.2	282	279.8	278.9	313.4	292.2	243
Potatoes	13.2	11.8	11.5	11.7	12	12.9	12.5

Since the peak of 2008, when 313,400 hectares of cereals was planted, there has been a significant decline, with 2010 planting of 243,000 ha more than 20% below 2008 figures. The price increase experienced in 2010 is likely to result in an increase in planting in 2011.

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.

The results of the CSO Agricultural Census 2010, which will be published over the coming 18 months, will give a detailed and up-to-date picture of farm enterprises, activities, structure and age profile.

8. OUTLOOK FOR 2011

8.1 Product Prices and Farm Incomes

2010 saw a strong recovery in farm incomes, with price increases in almost all commodities, particularly the dairy, cereals and sheep sectors. The outlook for producer prices in 2011 remains positive, with international demand continuing to recover; however, gains may be offset by increased input costs.

A market development which looks likely to continue in 2011 is the move towards providing guarantees on producer prices through market instruments, including contracts, forward selling etc, in an attempt to minimise the volatility in farm incomes that has been prevalent in the sector over the last five years. However, the same instruments are not currently available for minimising input cost volatility.

The following provides a summary of the outlook for the main commodities.

- For milk, international demand remains strong, and international supply should tighten during the year, as a result of drought in New Zealand, and increased feed costs, which should have a negative impact on production in some of the major exporting countries (e.g. USA).
- For the beef sector, the price increase that has commenced in late 2010, due mainly to reduced supply, higher world market prices and improved exchange rate movements, looks set to continue into 2011. The maintenance of funding for farm schemes, including Disadvantaged Areas and Suckler Cow and the re-opening of the AEOS scheme should provide more income certainty in 2011 for the drystock sectors.
- In the cereals sector, restricted supply in some of the major exporting countries is likely to continue, indicating a positive price outlook; however, as with 2010, prices will only become clearer based on the yield in other Northern Hemisphere markets in the first half of 2011.
- For pigmeat, a price recovery is expected by mid-2011; however, this will be in the wake of a very difficult 9-month period in which pig producers have been producing at a loss, due to increased feed prices.
- For sheep, supplies will remain tight into 2011, which should help maintain the strong prices witnessed throughout 2010.

8.2 Input Costs

The weakening of the euro against the dollar, combined with increased global demand for inputs due to rising product prices, restrictions in the supply of fertiliser from key exporting countries and increased domestic taxes on energy inputs are expected to contribute to an increase in overall farm inputs costs during 2011.

8.3 Exports

As expected, sterling strengthened slightly overall during 2010; however, there was no consistent pattern to the euro:sterling exchange rate throughout the year. It is expected that sterling will continue to strengthen in 2011, due to stronger growth in the UK economy, and the possibility of an interest rate increase in the UK, resulting from higher than expected inflation. This will be positive for Irish agri-food exports and for agri-food products competing on the domestic market with imports from the UK.

8.4 Public Finances and Economic Growth

Budget 2011 introduced a €6b adjustment in the public finances (reduced public expenditure and increased taxation) as the first instalment in the Government's four year Recovery Plan, which will see an overall adjustment of €15b by 2014. While the gap between public expenditure and taxation has stabilised, the Budget is likely to be deflationary, reducing domestic consumer demand. Overall, while net exports are expected to grow in 2011, all other GDP components (Consumer Demand, Government Investment and Private Investment) are expected to contract further. It is expected that unemployment will remain at around 13% through 2011.

8.5 Access to and Cost of Credit

The proposed restructuring of the banking sector in 2011, agreed by Ireland as a condition for accessing the EU-IMF fund, is likely to result in a significant reduction in size and activity of the Irish indigenous banks. However, it is likely that there will be renewed focus on lending to the domestic SME sector, including the farm business sector, which undertook almost 25% of all new small business lending in 2010.

Overall, access to funding will remain restricted and expensive for the Irish banks, resulting in further expected increases in the costs of credit for all borrowers.

8.6 CAP Post-2013

The publication of the EU Commission paper on the future of the CAP in late 2010 gave some indication of the likely shape of the CAP post 2013, with the proposed retention of decoupled Direct Payments, a strong second pillar (Rural Development), and a rebalancing of payments towards the New Member States. However, there has been no serious discussion on the size of the CAP budget after 2013 or the allocation between Member States.

In mid-2011, the Commission will publish the legal framework for the CAP, which should set out in more detail the mechanism through which the Commission's proposals will be implemented, and give a more accurate picture of the future shape of the CAP. It is unlikely, however, that budgetary decisions will be finalised in 2011.

8.7 International Trade Talks – Mercosur

At present, it does not appear likely that a multilateral WTO deal will be concluded in 2011. However, there is concern that the negotiations between the EU and Mercosur countries (Brazil, Argentina, Uruguay, Paraguay) may result in the conclusion of a bilateral trade deal. This would have very negative implications for European agriculture and for the Irish beef sector in particular, as lower cost imports would reduce the overall price beef in the EU market. The reduction in beef prices would have a knock-on negative effect on prices in the cereal, pigmeat and poultry sectors.

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