



Farm Income Review 2015

January 2016

Economic Contribution of Agriculture

€26bn

Gross turnover

12.3%

of Ireland's exports

30%

of the total net earnings from primary and manufacturing industries.

15%

of total national employment

Note When employment in inputs, processing and marketing is included, IFA estimate agriculture accounts for 300,000 jobs.

74%

raw materials and services sourced from Irish suppliers

Note this is compared to 40% for all manufacturing concerns

1 in 5

of every new loan went to the primary sector in 2015.

EU CAP Funding 2013 - 2020 €12.5bn



4 to 1

Every €1 of support for the cattle and sheep sectors, through direct payments, underpins over €4 of output in the economy

Comprising:

- ★ €8.5 billion EU Direct Payments
- ★ Over €2 billion EU Rural Development funding
- ★ Almost €2 billion matching national cofinancing.

Note Teagasc and UCD research highlight the high economic multipliers of the farming sectors, quantifying the positive downstream effect of agricultural production.

Farm Level Statistics

Farm Structure and Demographics

Avg. Farm Size **37ha**
 Avg. dairy herd - **64** cows
 Avg. suckler herd - **15** cows
 Off farm employment on **51%** of households
 Avg. Farmer Age **57**

Family Farm Income by System 2015

€37,179 – Dairy
€14,282 – Suckler
€17,818 – Cattle finishing
€15,759 – Sheep
€26,561 – Tillage
€24,244 – Avg. farm income

Foreword

Kevin Kilcline, Economist

National Farm Income in 2015 is estimated to have fallen by almost 3% on 2014 levels. The fall in aggregate National Farm Income in 2015 was driven by a particularly sharp fall in milk prices and dairy farm incomes, whilst there was also a fall in the prices for pigmeat, cereals and poultry.

In 2015, grass growth conditions were favourable for most of the growing season and followed on from an excellent year in 2014. This has resulted in the maintenance of low input volumes and costs and high output volumes across most sectors.

Despite the positive price movements in markets for sheepmeat and beef product the majority of farmers in the tillage, beef and sheep sectors remain entirely income reliant on direct payment support. In other words, their costs of production were equal to, or in some cases, greater than, the market returns for their product.

In the beef sector, the increase in prices of 8% for finished animals and a reduction in costs, led to an overall rise in farm income. While suckler farmers experienced an increase in prices, initial Teagasc estimates for average incomes are less than €15,000 for a suckler farms, and less than €17,000 for beef finishers. On tillage farms, average incomes were slightly less than €27,000, with average dairy income of just above €37,000. The sheep sector recorded a marginal increase in prices, resulting in a slight increase in the estimated income on sheep farms, to about €16,000.

Across other sectors, the potato sector recorded a significant price increase which comes in the context of a significant fall witnessed in 2014. A decrease in the area of land sown of over 10% combined with an estimated fall in yields of 4% resulted in an overall reduction of about 5% in production. The pigmeat sector recorded a fall in price and a continued increase in output, reflecting further advances in productivity. While there was a fall in feed costs, (which constitute 70% of pigmeat production costs) it was insufficient to compensate for the 19% drop in pigmeat prices resulting in a fall in margin for 2015 on pig farms. Finally, in the horticulture sectors, production was steady, with increased output recorded in the mushroom sector.

Direct payments in 2014 continued to fall to an estimated €1.47bn, or 1.3% behind the 2014 figure. This was due mainly to the continued reduction in environmental payments under the Rural Development Programme (REPS and AEOS) and end of payments under the sheep grassland scheme.

Overall, it is estimated that National Farm Income fell by €75m in 2015 to €2.42bn. When increases in the cost of living are taken into account, National Farm Income in 2015 is estimated to be only 68% of farm income levels in 1995.

With an estimated 139,000 farms in Ireland, this equates to a return per farm of almost €17,582. However, this figure includes all farm enterprises, no matter how small. On the 80,000 farms which produce 93% of total output, the Average Family Farm income for 2014 was estimated to be €24,244.

Having fallen significantly in the early part of the decade, new lending to the agriculture sector has increased across 2013, 2014 and 2015. However, the overall stock of borrowing by the agriculture sector continued to fall, suggesting that while farmers have on average increased their on farm investment they continue to pay down a significant amount of debt.

Farm Income Review 2015 seeks to present the main relevant economic and statistical analyses on farm income this year and over a number of recent years. It draws on published data from the CSO, Teagasc, the Central Bank and the Department of Agriculture. It seeks also to look ahead to the main issues in 2016. The information in this Review is designed 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.

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1. Review of Agricultural Output and Income 2015

Detailed changes to Farm Income in 2015

It is estimated that the level of National Farm Income fell by 3% in 2015 relative to 2014. Overall, the gross value of Agricultural Output fell marginally by just under 1% in 2015 or €57m.

Total expenditure on inputs remained relatively stable during 2015, with reductions recorded in the price of feed and energy inputs.

For the cattle sector, the value of output is estimated to have risen by 12%, or almost €248m. Prices for cattle recovered from 2014 levels with average prices rising by an estimated 8%. Output volume increased by an estimated 4%, despite the fact that both slaughterings and live exports were down an estimated 2% and 25% respectively on 2014. The increase in stock numbers on farms at the end of the year of 154,667 reflects the significant increase in calf registrations in 2015 up 119,000 calves.

For the dairy sector the value of milk output fell significantly by an estimated €320m, or 15%, in 2015. April 2015 saw the abolition of milk quota and with it the removal of the threat of future super levy bills associated with over quota production. Good grass growth drove production and good milk constituents during peak supply helped negate some of the negative impacts of the significant price drop. The price of milk is estimated to have fallen by 24%, while the volume produced increased by an estimated 11%.

For the sheep sector, the value of output rose by approximately 3% in 2015, to €239m, due to a combination of slight volume and price increases. For the pigmeat sector the value of output fell 4%, with a significant price drop of 10% only partially offset by increased volume of 7%. It is estimated that the poultry sector saw output value increase with volume increase outstripping a price fall of 3%. For both sectors, the fall in feed costs of 4% had a positive impact on margins.

2015 saw the continuation of a series of difficult years for the cereals sector. While good growth and harvest conditions resulted in increased yields of 2%, the area sown under crops was down 5% (in response to price signals over recent years). This resulted in a fall in production of 3%. Harvest prices were back an estimated 3% on the already low levels of 2014 resulting in a decrease in the overall output value of the sector of €16m, to €265m. The potato sector saw a partial recovery in price of 45% following a collapse in 2014. While the total area under potatoes fell by an estimated 10% and yield decreased by 4%, the overall value was up 25% factoring in price movements. For the horticulture and fresh fruit sectors there were little changes in price or volume; however, the mushroom sector produced an increase in volume of 3%, which when combined with a price increase of 3% resulted in an overall increase in output value of 6%.

In line with 2014, the favourable weather conditions and price drops experienced in key input commodities including fuel and feedstuffs, resulted in a slight fall in the overall spend by farmers on inputs. It is estimated that input expenditure fell by 0.5% or €15m. This was driven primarily by a fall in diesel prices and a fall in the price for feedstuffs of 4%.

It is estimated that both fertiliser use and price remained stable as did expenditure on the other main input categories, veterinary, and other goods and services.

The Single Farm Payment in 2015 is estimated to be €1.19bn, reflecting the budget agreed in the CAP Programme 2014–2020. Most notable is the reduction in expenditure on schemes through the Rural Development Programme. The steady reduction in Direct Payments has been the cumulative impact of the closure of the REPS environmental scheme, the various reductions in the Disadvantaged Areas Scheme and the closure of the Suckler Cow Scheme and Sheep Grassland Scheme. Net Direct payments (net of taxes and levies on products) are estimated to be €1,470m in 2015. This is €20m less than the 2014 figure.

When depreciation and wages paid to farm workers are deducted, National Farm Income (as defined by the CSO) for 2015 is just over €2.42bn, which is a reduction of 3% on 2014.

Table 1.1 IFA estimate of Agricultural Output, Input and Income

IFA Estimate of Agricultural Output and Income 2014 and 2015					
	2014 €m	Price	Volume	2015 €m (est)	% change
Gross Value of Agr. Output (incl. stock changes)	5,964			5,907	-0.95%
Cattle	2,012	108%	104%	2,260	
Milk	2,093	76%	111%	1,772	
Sheep	232	101%	102%	239	
Pigs	471	90%	107%	454	
Poultry	133	97%	106%	137	
Horses	215	103%	102%	226	
Other livestock product	59	97%	102%	59	
Cereals	281	97%	97%	265	
Potatoes	88	145%	86%	110	
Mushrooms	133	103%	103%	141	
Other fresh veg	94	97%	100%	91	
Fresh fruit	50	98%	102%	50	
Turf	39	100%	100%	39	
Other crops (incl net forage)	64	99%	102%	64	
Current Inputs and Services	3,738			3,723	-0.4%
Feeding stuffs	1,321	96%	105%	1,332	
Fertilisers	566	100%	101%	571	
Seeds	67	89%	95%	57	
Energy and lubricants	450	89%	102%	409	
Maintenance of materials and buildings	449	100%	102%	458	
Crop protection products	69	99%	99%	68	
Veterinary expenses	290	101%	103%	303	
Other goods and services	479	100%	100%	479	
Intermediate bank charges	47	100%	100%	47	
= Gross Agricultural Product	2,226			2,184	-2%
+ Direct payments (less levies)	1,489			1,470	-1%
- Depreciation	729			735	
- Wages to Agr. workers	487			495	
= National Farm Income *	2,499			2,424	-3%
- Bank interest and charges (Net)	280			310	
- Land rental	203			211	
(= Entrepreneurial Income)	2,016			1,903	

Incomes across the different farm enterprises

In its 2015 outlook conference in early December, Teagasc provided initial estimates of farm income for 2015 across the main farm enterprise types. The figures for 2015 highlight the significant drop in dairy farm income for 2015 but also the consistently low market returns generated from the other main enterprises – beef, tillage and sheep.

Table 1.2: Estimate of 2015 income by farm enterprise type¹

Income €	2014	2015 (est)
Dairy	67,598	37,179
Cattle Rearing	10,369	14,282
Cattle Other	13,321	17,818
Tillage	28,995	26,561
Sheep	15,065	15,759
All	26,642	24,244

Farm incomes vs. other economic sectors

Table 1.3 highlights that Farm Incomes continue to lag behind average earnings in the rest of the economy. In 2015, average income from farming was approximately 55% of the Average Industrial wage and slightly greater than 50% of average public sector earnings. While the income figures vary across the different farm enterprises, the continuing profitability challenge in many farm enterprises is significant.

Table 1.3: Incomes across different economic sectors

	2014	2015 (est)
Average Public Sector Earnings ²	47,862	48,082
Average Industrial Wage ³	44,167	44,058
Average Family Farm Income – all farms	26,642	24,244

¹ IFA estimate, based on Teagasc Outlook projections. Final income figures for the farm enterprise types will be provided in the Teagasc National Farm Survey 2015 Result mid-2016.

² CSO, Employment, Hours and Earnings by Private or Public Sector, Quarter and Statistic 2014 & 2015 (Q1 – Q4).

³ CSO, Industrial Earnings – NACE Industry categories (B to E) annual, 2014 & 2015 (Q1 – Q4).

Farm Income in Real Terms 1994-2015

Farm income is particularly vulnerable to inflation as there is no indexation for inflation built into EU direct payments. Table 1.4 outlines the changes in the level of National Farm Income since 1995 when inflation is taken into account. While National Farm Income in 2015 is 103% of the 1995 figure, when this is adjusted for inflation, in real terms it is only 68% of the 1995 level.

Table 1.4: Trends in National Farm Income in money and real terms 1995-2015

Year	Farm Income €m	Farm Income 1995 = 100	Inflation 1995 = 100	Farm Income in Real Terms
1995	2,375	100	100	100
2005	2,583	109	135	81
2012	2,295	97	151	64
2013	2,390	101	152	66
2014	2,499	105	152	69
2015	2,424	103	151	68

2. Agricultural product price and cost trends 2015

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 2005 (base year) prices = 100. In the decade since 2005, output prices have increased by, on average, 30%.

Table 2.1 Product price trends 2005-2015⁴

Commodity	2005	2010	2011	2012	2013	2014	2015 est
Cattle	100	111.6	134.3	151.7	154.9	140.5	157.1
Cereals	100	122.4	161.0	187.8	191.8	148.2	139.7
Milk	100	107.5	122.9	112.3	136.9	130.6	101.0
Pigs	100	99.3	108.7	120.5	126.5	121.0	111.7
Sheep	100	130.0	140.3	135.4	136.3	139.8	140.2
Poultry	100	114.5	121.5	130.8	133.3	130.6	128.4
Total Output	100	111.6	128.6	135.3	147.1	134.9	130.1

Input price trends

The increase in input costs over the same time period show that input prices are 32% higher than the 2005 price levels. Therefore, while the past decade has seen a significant increase in product prices, these gains have been completely eroded by increased input costs.

Both product prices and input costs have increased at a far greater rate than changes in the general cost of living. Since 2005, aggregate inflation has been 13%. The erosion of product price gains by input cost increases, coupled with the moderate increase in the cost of living over the last decade, illustrates clearly one of the reasons behind the decline in real farm incomes over time.

Table 2.2 Input price trends 2005-2015

Input	2005	2009	2010	2011	2012	2013	2015 est
Feeding stuffs	100	117	136	146	158	143	138
Fertilisers	100	133	163	168	167	162	162
Energy	100	122	140	154	151	147	132
Seeds	100	105	111	127	134	125	122
Veterinary expenses	100	112	112	112	112	115	116
Total Inputs	100	118	131	138	142	136	132

⁴ Source: CSO *Agricultural Price Indices*, with estimates for 2015.

3. Direct Payments/Single Farm Payment 2015

Value of Direct Payments

Table 3.1 sets out the estimated value of Direct Payments included in National Farm Income. It is estimated that €1.47bn of Direct Payments (payments net of taxes and levies) have been made in 2015. The figure does not include forestry premium payments.

The reduced Direct Payments figure of 2015 shows the cumulative impact of the cuts in farm schemes that have been introduced over successive budgets since 2008, and the reduced Basic Payment envelope for Ireland in the new CAP reform. In 2008, total Direct Payments to farmers were worth almost €1.9bn. The fall in Direct Payments of €500m has had a significant impact on farm incomes, particularly in the lower income, drystock sectors, which have high levels of participation in farm schemes. It is expected that funding for farm schemes through the new Rural Development Programme will increase substantially over the coming years.

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

Payment Type	2013	2014	2015
CAP Reform Direct Payments			
Single Farm Payment	1,202	1,178	1,191
Grassland Sheep Scheme/Dairy Efficiency	19	17	1
Dairy and Pig Crisis Package			22
CAP RD Measures			
REPS/ AEOS	205	200	116
Disadvantaged Areas	201	194	194
GLAS Organics			26
Other Items			
Disease eradication compensation	13	15	15
Suckler Cow Welfare Scheme	9	-	-
Beef Genomics Scheme		30	41
Total Direct Payments	1,649	1,634	1,614
(less Taxes and levies)	144	144	144
Net Direct Payments	1,505	1,490	1,470

4. Demographic and financial data by farm enterprise 2014

A detailed breakdown of farm incomes and output by farm enterprise type is produced annually by Teagasc through the National Farm Survey (NFS). The 2014 survey calculated the average family farm income per farm at €26,642 (income from farming only).

It should be noted that the NFS is based on a sample of 895 farms representing a farming population of 78,760 farms. The survey does not include the intensive sectors including pigs, poultry and intensive horticulture, and also does not include smaller farms with a Standard Output of less than €8,000.

Level and distribution of Family Farm Income

There was a wide spread of farm incomes, with many farms concentrated in the lower income brackets. In 2014, 61% of farms still had an income of less than €20,000, while 18% had an income of greater than €50,000.

Table 4.1 Distribution of Family Farm Income 2014

€	< 5,000	5,000 - 10,000	10,000 - 20,000	20,000 - 50,000	50,000- 100,000	>€100,000
%	24	17	20	22	13	5
Number	18,985	13,448	15,821	17,403	10,283	3,955

Incidence of off-farm employment

The National Farm Survey shows that in 2014, 30% of farmers had an off-farm job. The number of households in which the farmer or the spouse had an off-farm job increased in 2014, from just over 49% in 2011 to 51%, which may reflect the improvement in the general economy. This remains significantly below the 2007 peak of 58%.

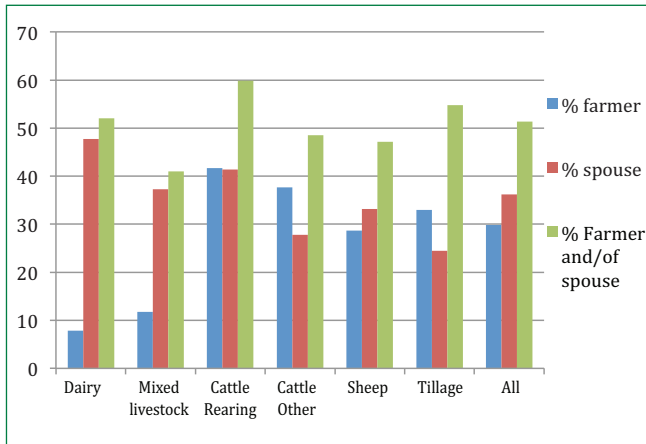
Of interest, however, is the breakdown of off-farm employment incidence between the different enterprise types. In 2014, while only 8% of dairy farmers had an off-farm job, on cattle-rearing farms this figure was 42%.

By contrast, the highest level of off-farm employment for farm spouses was on dairy farms, at 48%. This was significantly higher than the average off-farm employment for farm spouses of 36% for all farms. The incidence of off-farm employment for spouses has potentially significant implications for the overall farm household income by enterprise type, but is also likely to reflect the age profile on the different farm types.

Table 4.2 % of Farms by system where farmer/spouse has off-farm job

System	Dairying	Mixed Livestock	Cattle Rearing	Cattle Other	Mainly Sheep	Tillage	All
Farmer only (%)	8	12	42	38	29	33	30
Spouse (%)	48	37	41	28	33	25	36
Farmer/spouse (%)	52	41	60	49	47	55	51

Figure 4.1 Off-farm employment by enterprise type 2014 (% of farms)



Value of Single Farm Payment and Direct Payments 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 2014. The average farm size in hectares is also shown, along with the average age of the farmer. The results highlight that the SFP and other Direct Payments continue to represent the majority of farm incomes in most farm enterprises.

In 2014 the SFP represented 53% of average FFI. When all Direct Payments are included (e.g. SFP/REPS/DAS/Suckler Cow), this comprised 72% of Family Farm Income in 2014, and over 100% of Family Farm Income in cattle and sheep enterprises. The average Direct Payments figure of €19,139 reflects an increase of over €600, or 3% on the 2014 figure.

In terms of farm structure, the average farm size was almost 48 ha, ranging from 38 ha on cattle rearing farms to 63 ha on tillage farms. The age profile of farmers remains very high, with the youngest farmers in dairy, with an average age of 53, while all other farmer enterprise types had an average age of greater than 56.

Table 4.3 Direct Payment, farm size and age of farm owner by farm enterprise

System	Dairying	Cattle rearing	Cattle other	Mainly sheep	Tillage	All
Average size (hectares)	55	38.5	40.1	54.2	62.4	47.6
Average age of farmer	52.6	56.5	58.6	59	58.5	56.9
Average FFI (€)	67,598	10,369	13,321	15,065	28,995	26,642
o/w SFP (€)	16,603	9,507	13,341	11,659	23,137	14,009
o/w all Direct Payments	20,767	15,412	18,250	18,510	26,129	19,139
SFP as % of FFI	25%	92%	100%	77%	80%	53%
Direct Payments as a % of FFI	31%	149%	137%	123%	90%	72%

5. Investment trends 2014 and farm borrowing 2015

On-farm investment

Capital investment on farms decreased by 2% between 2013 and 2014, from €725m to €708m⁵. This resulted in a Net Investment (net of grants) per farm of almost €7,735. However, there are significant differences in the investment by farm enterprise type, as outlined in table 5.1, with investment on dairy farms of almost €21,263 per farm, compared with investment of just over €2,754 in sheep enterprises. This is a reflection both of income levels on the different enterprises and expansion plans.

Table 5.1 Net Investment by Farm Enterprise 2014

Farm Type	€
Dairy	21,263
Cattle rearing	2,859
Cattle other	3,831
Tillage	7,807
Sheep	2,754
All farms	7,735

Level of Farm Borrowings and Savings

As a capital-intensive industry, there is a requirement for constant reinvestment in the agriculture sector. Central Bank data⁶ indicates that, since peaking at €5.5bn in 2009, the total stock of farm borrowing has continued to fall. Since 2010, the total debt outstanding on farms has fallen from €4.3 to €3.3bn.

Of interest to note is that, while there was a decline in new lending in the early years of the downturn, new lending for the agriculture sector⁷ has increased significantly (17%) over the past three years. This would indicate that farmers have increased their investment on farms in the past two years, while continuing to repay a significant amount of debt, and at a greater rate.

The level of deposits⁸ held by the agriculture sector has not varied significantly over the last five years, increasing by 4% between 2010 and 2015, from €2.55bn to €2.82bn.

These figures are illustrated in Figure 5.2. The line indicates the level of new borrowing extended to the agriculture sector (value on right axis) while the columns reflect the level of debt outstanding, and amount of money on deposit, as at September 2015 (value on left axis).

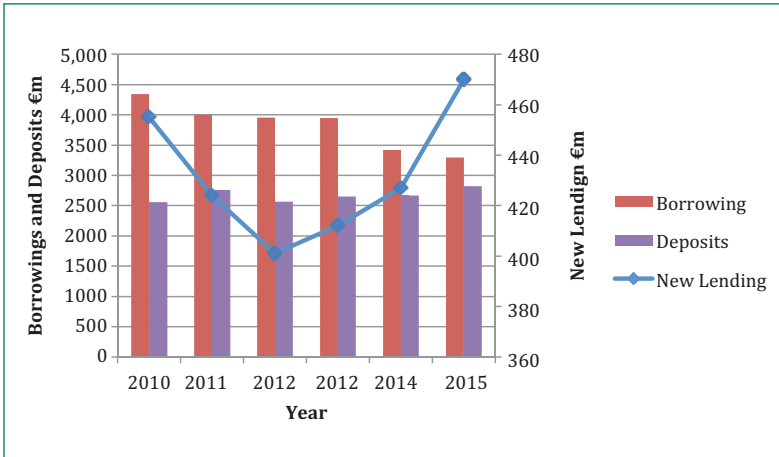
⁵ Teagasc National Farm Survey 2014

⁶ Credit Advanced to Irish Resident Small and Medium Sized Enterprises, September 2014

⁷ Gross new lending to the Agriculture Sector Q1-Q3 2010-2014 (Q4 2014 data not yet available)

⁸ Due to a reporting change in the Central Bank Quarterly Bulletin in 2011, the deposits figure is the figure for Primary Industries. This includes agriculture, forestry, fishing and mining. Agriculture (excluding fishing and mining) represents approximately 85% of this figure.

Figure 5.1 Levels of Agriculture Borrowing and Deposits 2010-2015 (€ million)



6. Livestock numbers and crops 2015

The following are the main agricultural statistics for 2015 on the national breeding herd and area under crops, sourced from the CSO's annual Crop and Livestock Survey.

Livestock

Table 6.1 Trends in the National Breeding Herd (000 head, June)⁹

Year	2010	2011	2012	2013	2014	2015	2014v 2013
Dairy cows	1,071	1,117	1,141	1,163	1,226	1,296	6%
Other cows	1,158	1,123	1,149	1,150	1,129	1,076	-5%
Cows	2,229	2,240	2,289	2,314	2,355	2,372	1%
Ewes	2,450	2,435	2,589	2,568	2,517	2,486	-1%
Female breeding pigs	160	155	145	147	150	148	-2%

2015 saw contrasting developments in the cow breeding herds, with an increase in dairy cow numbers of 6% versus a decline of 5% in the beef breeding herds. This reflects the continued expansion of the dairy herd following the removal of milk quotas in April and potentially reflects the response to the very low income figures on suckler farms in 2013 and 2014 and negative price movements. The ewe flock and pig breeding herd recorded small decreases of 1 and 2% respectively 2015.

Crops

Table 6.2 Area under crops, (000 hectare, June)¹⁰

Year	2010	2011	2012	2013	2014	2015	2015 v 2014
Total wheat	77.8	94.2	98	60.6	71.6	64.9	-9%
Winter wheat	59.8	77.7	84.6	45.4	65.1	55	-16%
Spring wheat	18	16.4	13.5	15.2	6.5	10	54%
Total oats	19.7	21.4	23.7	26.7	18.6	23.3	25%
Winter oats	10.3	9	9.9	5.4	10.1	11.4	13%
Spring oats	9.4	12.4	13.8	21.3	8.5	12	41%
Total barley	174.8	180.6	192.8	219.4	215.7	201.8	-6%
Winter barley	28.8	35.9	41	36	60.1	69.5	16%
Spring barley	146	144.8	151.8	183.5	155.6	132.4	-15%
Total cereals	272.3	296.2	314.5	306.7	305.9	291	-5%
Potatoes	12.2	10.4	9	10.7	9.5	8.4	-12%

The number of cereal hectares sown in 2015 was 5% lower than 2015. There was a significant increase in spring crops sown across all cereals except barley reversing the previous year's trend. In response to the price drop experienced in 2013 and 2014, the area of potatoes sown fell by 12%.

⁹ CSO June Crops and Livestock Survey

¹⁰ CSO June Crops Survey

7. Outlook for 2016

Product and input prices

The outlook for product prices in 2016 is largely stable with a recovery in dairy prices expected and increases forecast for the, sheep, pigmeat and grain sectors.

On the inputs side a further decline in fuel prices is expected, which will also put downward pressure on electricity prices. Under normal weather conditions there should be little change in feed bills in 2016 for all grassland enterprises, with the exception of dairy farms that are continuing to expand. Fertiliser prices are not forecast to increase in 2016 and stable fertiliser usage should lead to stable fertiliser expenditure for all grassland systems in 2016. Feed prices are forecast to move upwards slightly.

Access to and cost of credit

The cost of and access to credit continues to be significant issue for Irish SMEs and farmers. Central Bank figures highlight that the exit of a number of commercial banks during the financial crisis has resulted in a high level of market concentrate, and an uncompetitive banking environment. Figures show Irish SMEs face high levels of credit constraint and borrowing costs which are out of line with our European counterparts, particularly for smaller loans i.e. typical agricultural loans which are less than €250,000. It is expected that dairy farms in particular will come under increased cash flow pressure in Spring 2016 following the significant drop in 2015 incomes combined with a period of low milk volumes and poor constituents. It will be critical in this period that there is full cooperation of the banking sector to work with farmers and to provide flexibility on loan products and repayments.

The continued negative outlook for growth in the euro area, the improved position of the Irish banks, and the increased availability of loan funds through the Government's Strategic Banking Corporation of Ireland (SBCI) will likely lead to some downward pressure on interest rates and borrowing costs in the commercial banks.

Of particular relevance to Irish farmers in 2016 will be the launch of targeted agricultural loans through the Government's Strategic Banking Corporation of Ireland (SBCI) initiative. To date €800m is being made available through the fund with the aim of offering more flexible loan products to SMEs and farm enterprises. The SBCI offer a lower cost of funding to commercial banks (AIB, BOI and Ulster), which are then passed on to SMEs. Since its launch in March 2015 the agricultural sector has seen the most significant uptake of the fund with 40 % of loans being accessed by farmers. The introduction of targeted agricultural loan products has the potential to further increase the uptake of SBCI funding loans in 2016, which will increase financial options.

Macroeconomic Economic Outlook

The outlook for economic growth in 2016 is largely positive. However, as a small open economy heavily dependent on export markets, Ireland is particularly exposed to the vagaries

of international commodity markets and exchange rate changes. Whilst our key trading partners the US and UK continue to outperform the EU economy, uncertainties remain. On a positive note continued growth prospects in emerging economies provide export opportunities for Irish agri-food product.

Most economic commentators forecast the Euro to remain weak, which will aid the competitiveness of our exports. However, a weak euro also makes imports of goods and services from the UK or US more expensive, increasing costs of production. Recent slowdowns in the UK economy are likely to push back Bank of England plans to follow the US Federal Reserve and pull back on their current policy of a monetary stimulus.

The United Kingdom European Union membership referendum, now expected in June 2016 could have far reaching consequences for the Irish economy and agricultural exports. Britain represents our most important agri-food export market accounting for 43% of Irish agricultural output Irish agricultural output, and over 50% of beef exports in 2015. Based on our overall agri export performance of €10.8bn in 2015, the ESRI estimate a 20% potential loss in trade if Britain exits the EU, equating to almost €1bn. The report further suggests that bilateral trade flows could reduce by as much as 20%, and greater in the case of the agri-food sector.

Despite the mixed performance of our trading partners, export growth in 2016 was strong particularly within the agri-food sector. Bord Bia figures estimate that the value of Irish food and drink exports increased by 3% in 2015 to exceed €10.8 billion for the first time. The food and drink sector recorded its sixth consecutive year of export growth in 2015 aided by favourable exchange rate developments and better returns for beef, seafood and beverages.

In summary while uncertainties remain, the poor performance of the EU economy looks set to continue in 2016, particularly given the performance and prospects of the area's three largest economies (Germany, France and Italy). This will see the ECB continue its policy of quantitative easing in 2016 with the aim of stimulating activity. To date the ECB's QE policy has led to a weakening of the euro.

On the domestic front, key macroeconomic indicators point to positive economic growth performance and projections for 2016. Domestic demand increased significantly in 2015 and is projected to rise further in 2016 driven by improved consumer sentiment and falling unemployment. Within the domestic economy, the construction, manufacturing and services sectors continue to report an increase in activity. The combination of these factors should lead to continued positive economic growth and a further fall in unemployment in 2016.

International Trade Talks

The main focus of EU trade discussions in 2016 from an Irish perspective will be on the EU-US negotiations on the Transatlantic Trade and Investment Partnership (TTIP) and the potential recommencement of bilateral trade negotiations between the EU and Mercosur Trading Bloc.

TTIP

February 2016 will see the reopening of the 12th round of TTIP negotiations and it is the stated goal of the EU Commissioner for Agriculture Phil Hogan to conclude an agreement before the end of the year. While there are a number of opportunities, the threats to agriculture arising from the TTIP discussions are potentially far more significant and IFA is clear that there can be no sacrifice of EU and Irish agriculture in pursuit of an overall deal. A recent USDA study on agriculture in the TTIP, supports this position estimating significant relative gains to US agriculture under a potential agreement.

Within the negotiations a clear divergence of views has also emerged between the US and Europe regarding equivalence of standards in agriculture and food production including, the use of hormones and antibiotics in meat production, animal health, traceability and food safety. The IFA has explicitly outlined its policy position which has as a fundamental principle the need for the EU to insist on strict equivalence of standards in trade negotiations. This means all imports must meet the same animal health, welfare, traceability, hygiene and environmental standards as are required of EU producers. These include EU constraints on the use of GMOs, hormones, growth promoters (ractopamine, BST), pesticide use and food safety measures; The EU must not conclude any trade agreement which runs directly counter to EU climate change objectives by facilitating the replacement of carbon efficient Irish produce on the EU market with carbon intensive imports; The EU must insist that Beef is designated as a sensitive product as any significant increase in imports would have a very negative impact on Irish beef prices in the EU market. Similarly, the Pigmeat, Poultry and Sheep sectors must be safeguarded against any imports which target only high value cuts;

While the opening of the US market offers increased opportunities for Irish Dairy exports in the post quota era, recent moves by the US to increase import duties on EU dairy products including cream and butter will limit the growth potential of any potential new market.

Mercosur

The election of a New Argentinean President in November 2015 has increased the likelihood of the EU Commission recommencing bilateral trade negotiations between the EU and Mercosur trading Bloc (consisting of Brazil, Argentina, Uruguay and Paraguay) in 2016. A Mercosur trade deal has the potential to undermine Irish and European agriculture, and in particular our essential beef export trade.

In the context of the current debate on climate change, Irish grass based beef production systems are 2 and 4 times more efficient than South American production in terms of climate change and greenhouse gas emissions (GHG). Research shows Brazilian production has a much higher carbon footprint and has been developed on the back of widespread destruction of the Rainforest in the Pantanal and Amazon regions. A Mercosur deal that replaces sustainable EU beef production for European consumers with emissions intense product from South America would consequently run contrary to the established aims of EU policy on climate change.

European Emission Target Setting

Negotiations between European Parliament and Council representatives on climate change and emissions target setting are expected to progress steadily during the first half of 2016 under the Dutch Presidency of the EU Council.

Livestock farming is the key source of greenhouse gas emissions, placing farming at the centre of the talks. In addition triologue negotiations between the Parliament, Commission and Council will also take place. With significant expansion planned for the Irish dairy herd, both these negotiations which will set emission targets for agriculture to 2030 and beyond. IFA will seek full implementation of the October 2014 Heads of Government agreement which recognises the multiple functions of agriculture as food, fuel and energy producers when addressing environmental challenges.



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