THE 2000/2001 SURVEY

Key Findings of the 2000/2001 Survey

- **Farm output reduced by eight per cent compared to 1999/2000**
- **Farmers responded with lower variable and fixed cost expenditure**
- **Most farms ended the year with weaker balance sheets**
- **Results of the most profitable farms provide pointers for others to follow**

About the Survey

The Cambridge University survey of farming in the Eastern counties was initiated in 1925 and the Farm Business Survey, as we now know it, was introduced in 1936. In this report, for the harvest year 2000 and for the accounting year up to the end of April 2001, information was collected from 367 farms.

The study includes the counties of Bedfordshire, Cambridgeshire, Essex, Hertfordshire, South Lincolnshire, Norfolk and Suffolk. The Farm Business Survey excludes the smallest farm businesses. Output is estimated on the basis of standard gross margins and farms are included if they are deemed to provide employment for one or more people. The land area represented totals 1.6 million hectares of farmed land and includes 30 per cent of the area of wheat and 60 per cent of the area of sugar beet grown in England and Wales.

This Report on Farming in the Eastern counties is intended to be of interest and value to managers, policy makers and economic researchers. One established use of the report is as a source of comparison of financial measures of farm performance. Benchmarks are presented for a range of farm types classified variously by product mix, farm locality and income level. The detailed tables in Appendix 4 are a unique source of reference for farmers, their advisors, and for those concerned with the financing and supply of agriculture and with dealings in land. The data on output, detailed costs and gross margins by enterprise are useful inputs to planning, budgeting and evaluation.

Presentation of Results

The results are presented by farm type and district. Definitions of these classifications are given in Appendices 1.3 and 1.4 respectively. Unless stated otherwise, un-weighted sample means are given. For results spanning several years, all historic data in tables or figures, and descriptions in the text, are stated in real terms at 2000 values. Machinery has been depreciated using the replacement value method. The term ‘Upland’ in this report refers to farms which are outside the fen districts. The results for horticultural businesses are published in a separate report.

Business Performance

Output

In 2000/2001, farmers started to learn to live with the strong pound and low world prices for agricultural commodities. But cereal prices fell again and the newly introduced Agenda 2000 cut support for arable crops. The record yields of 1999 were, naturally, not repeated in 2000.

The long term trend of withdrawal from livestock production, typified by a further ten per cent reduction in the dairy herd in the Eastern counties, further reduced the productive capacity of farms in the Eastern counties.

Gross output fell by eight per cent to £819 per hectare.

In early 2000 producers experienced a recovery in the prices of livestock and milk as this sector started to regain consumer confidence after BSE. But then Swine Fever struck and brought movement restrictions and inconvenience but no reduction in pigmeat prices for those able to move stock. The Foot and Mouth outbreak followed but the financial effects were not felt in 2000/2001.

Potato prices rose by 65 per cent and substantially boosted the financial performance of potato producing farms.

Variable and Fixed Costs

Given the appropriate economic signals, farmers showed that they were capable of implementing change within their businesses and changing their method of farming. Although only small areas of land were sold, an unquantified number of farmers moved away from direct farming allowing others to manage their crops and livestock.

There was an overall reduction in variable cost expenditure of 12 per cent.

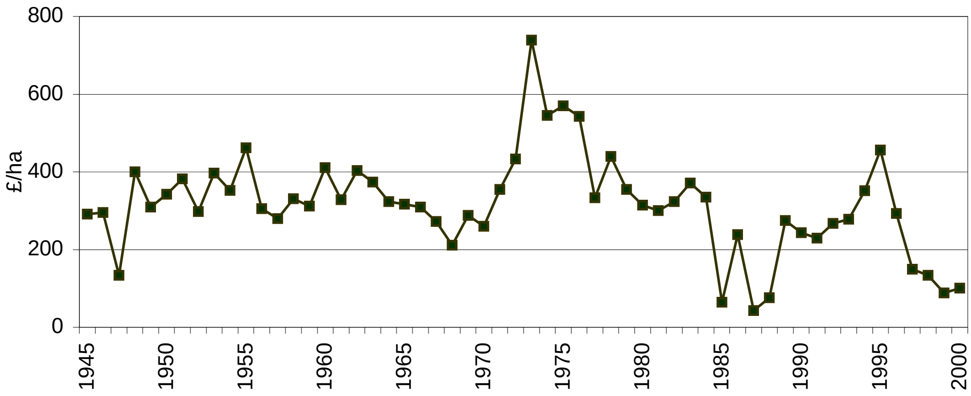
Expenditure on labour and other overheads reduced by six per cent in comparison with 1999.

Net Farm Income

The overall effect was an increase in average net farm income to £101 per hectare. This represents a nineteen per cent improvement but from an unusually low income in 1999/2000. Non agricultural income increased in importance and comprised more than 12 per cent of the total farm gross margin.

The figure below shows the fourth successive year of depressed farm performance and the results by farm type.

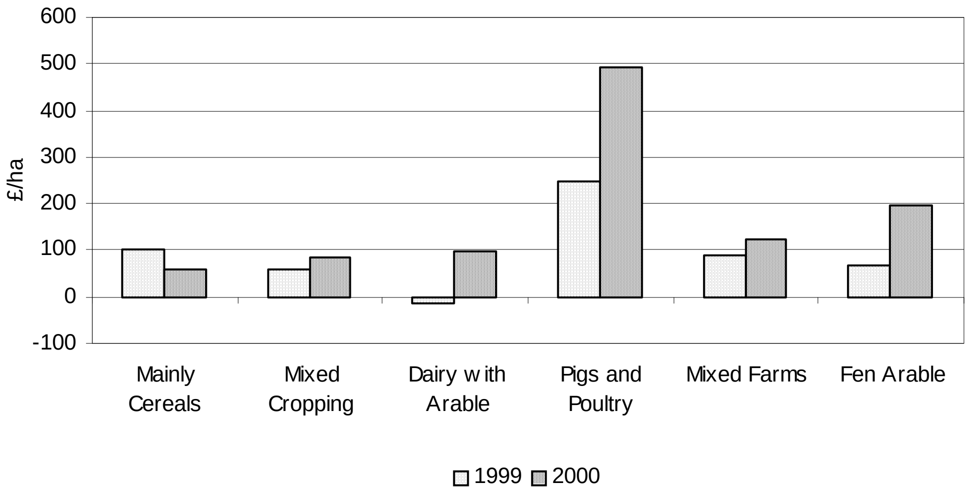
Net Farm Income in the Eastern Counties 1945 to 2000



Mainly through cost reduction and changes to business structure, farmers in the Eastern counties mitigated much of the reduction in output. Though on the predominant Mainly Cereals farms, net farm income fell by 45 per cent to £57 per hectare.

Other farm types, exposed to either livestock or potatoes, experienced improvements in income although most increased their share of combinable crops.

Net Farm Income per Hectare by Farm Type 1999/2000 and 2000/2001



Capital Position

Regardless of tenure, most farms saw a decline in net worth in the year. Mixed Cropping farms, with enhanced returns from potato production, were the exception.

Asset values reduced due to non investment in replacement buildings and machinery and through a reduction in livestock numbers.

There was little net change in borrowing by farmers, but this was a result of reduced investment in land, buildings and machinery. However, it is likely that additional borrowings provided working capital to make up the shortfall in earnings. Farms were able to survive with levels of borrowing which would not be sustainable if interest rates were to rise.

The average farm, with a weakened capital position, has less flexibility. Options for expansion or diversification are narrower and the buffer against poor future financial performance is lost.

Crop and Livestock Performance

The Table below compares the gross margins of crop and livestock enterprises in 2000 and with earlier years.

Comparison of Real Gross Margin per Hectare for Harvest Years 1995 to 2000

	1995	1996	1997	1998	1999	2000
			£ per hectare			
Winter wheat	926	754	612	631	690	562
Winter barley	828	648	567	529	592	481
Spring barley	785	508	533	572	502	509
Oilseed rape	747	853	745	582	660	501
Peas (combined)	713	641	596	444	591	463
Beans	607	568	621	486	585	507
Set-aside	310	290	291	291	300	212
Sugar Beet	1174	1062	946	960	846	770
Potatoes	4400	1038	2143	5407	1500	3526
			£ per head			
Dairy	1001	887	897	809	679	727
Beef	178	149	153	138	177	193
Sheep	44	42	30	42	39	33

The profitability of winter combinable crop production dropped to new depths. This is illustrated by the change in gross margin of the winter wheat crop illustrated in the Table below.

Change in Winter Wheat Gross Margin 1999 and 2000 in Real Terms

	1999 £/hectare	2000 £/hectare	change per cent
Yield	9.08	8.38	-8%
Price	77	69	-10%
Crop Output	697	577	-17%
Area Payment*	245	220	-10%
Variable costs	252	234	-7%
Gross margin	690	562	-19%

*excluding agrimonetary compensation relating to 1999 crop

The winter wheat yield was close to the six year average but the reductions in price were a direct result of the strength of sterling against the euro, exposure to reduced world prices and the Agenda 2000 reforms of the Common Agricultural Policy. Spring crops gave record yields but remained uncompetitive in comparison with their winter drilled alternatives.

The potato gross margin rebounded due mainly to an average price increase of 65 per cent and growers reduced variable cost expenditure. The potato crop was the main reason for the overall increase in net farm income on farms in the Eastern counties.

The diminishing livestock sector saw a recovery in the prices of most of its products but the 2001 Foot and Mouth Outbreak struck at the end of the year. The financial effects will form part of our 2001/2002 survey results.

The Most Profitable Farms

The substantial reductions in expenditure on all farms of variable inputs, labour and machinery show that farmers made abrupt changes to their farming practices. Without this cost reduction net farm incomes would have fallen in line with output (by eight per cent).

Lower costs, per se, do not give rise to higher returns. The efficient farmer will always seek to optimise input levels. However, the extent of the cost saving measures shows that there had been scope for improved targeting of expenditure in 2000.

Our analysis includes a comparison of the top ten farms of each farm type with the whole sample of farms of that type. We also compare the gross margin performance of crops produced by the top 25 per cent of farms against all farms growing the crop.

Gross Margin Performance

The top 25 per cent of farms by gross margin usually produce high yields with near optimum expenditure on variable costs. For example, the top 25 per cent of wheat producing farms in the Eastern counties grew a full tonne per hectare more than the remaining 75 per cent but with seven per cent lower variable cost expenditure in 2000.

Business Performance

The most profitable farms generally had the lowest expenditure on labour and machinery and made above average expenditure on contract. Some of the more profitable farms were managed by the farmer who carried out some of the work with a small compliment of machinery and they earned above average levels of non agricultural income.

These farmers tended to have benefited from education and were open to advice, but education and advice were not necessarily a passport to better farm performance.

The immediate gross margin impact of agronomy advice was minimal but farms buying such advice tended to be more profitable overall. Expenditure on business advice was made by the most and the least profitable businesses. In the former situation, the farmers presumably wanted to make their businesses even more profitable. In the latter, they had to.

Indicators of better performance have never been more useful to farmers. The results described above can be seen in more detail in chapters three, four and six.

There were some areas of expenditure which even the best farmers were not able to correct. Rent, which might have been expected to fall in 2000/2001, was unchanged on the previous year.