THE 2002/2003 SURVEY

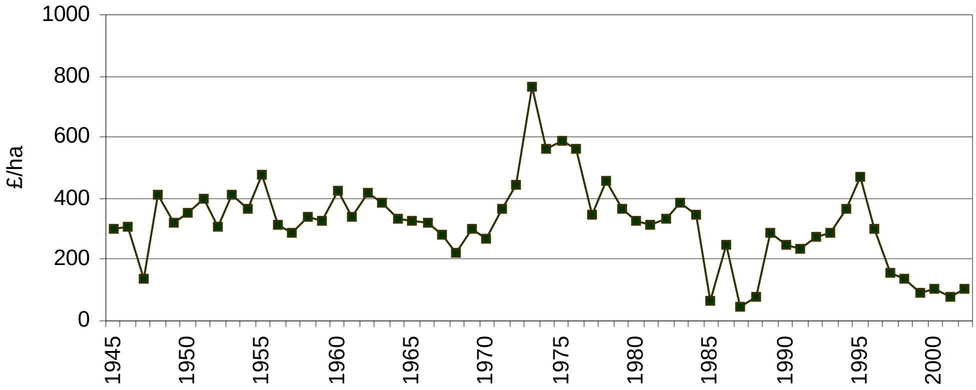
Key Findings of the 2002/2003 Survey

- **The sustained depression in farm incomes persisted for a sixth year**
- **The all time low wheat price of £64 per tonne epitomised the exceptionally low crop prices**
- **Recovery in meat prices, post Foot and Mouth Disease, enhanced livestock returns**
- **Non-agricultural income continued to gain in importance**
- **Fixed costs continued to decline - but 2001/2002 fixed costs shown to be exceptionally low**
- **Larger farm businesses made strategic capital investments**

Farm Performance 2002/2003

The sustained depression of farm incomes continued, and this is starkly presented in the figure below. The average net farm income in the Eastern counties in 2002/2003 was £106 per hectare. Although this was £30 per hectare higher than the previous year, only 58 per cent of farms improved their financial return whilst the remaining 42 per cent (of the identical sample of farms) were less profitable. A partial explanation of the increase in income is that as the least profitable businesses ceased production, the more profitable farms, which had remained in production, took their place in the survey.

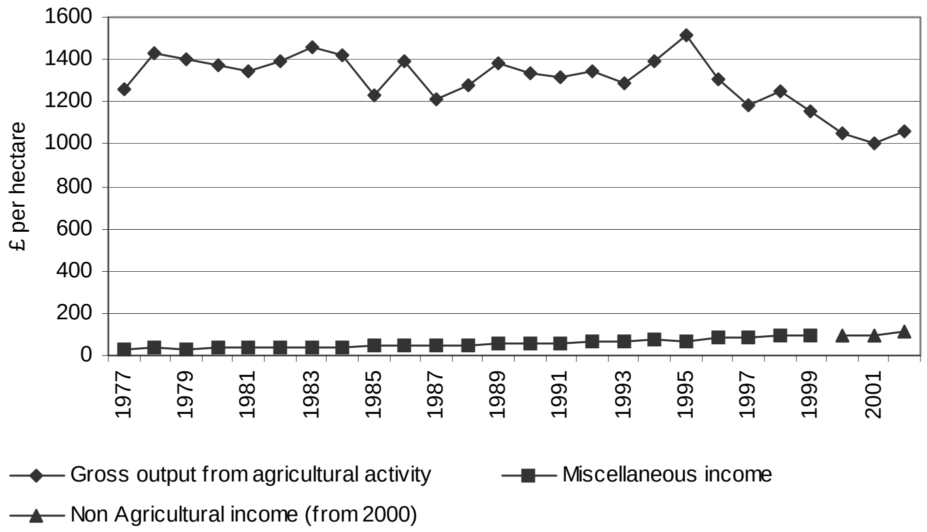
Net Farm Income in the Eastern Counties 1945 to 2002 in Real Terms



The 2002 harvest year was characterised by low prices and a recovery in crop yields. The low prices resulted from the continued relative strength of sterling against the euro and depressed world commodity prices.

Gross output recovered slightly in 2002/2003, for the first time since 1998, but at £1,059 per hectare, it was 30 per cent lower than the peak of 1995/1996. The figure below shows that 2002/2203 was the sixth year of sustained low farm gross output.

Gross Output from Agricultural Activity and Miscellaneous Income/Non-agricultural Income 1977 to 2002

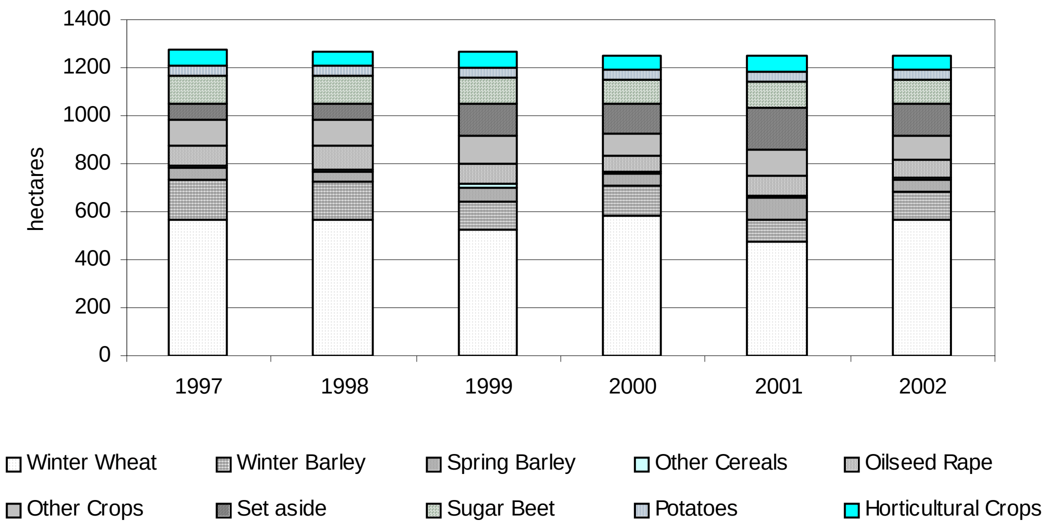


Cropping

Combinable Crops and Set Aside

The figure below illustrates the cropping of the Eastern counties between 1997 and 2002.

Crop Areas in the Eastern Counties 1997 to 2002



The 2002 cropping can most readily be compared with 1999 and 2000 when the set-aside rate was also set at ten per cent. Reduced areas of most crops were grown in 2001 due to unusual wet weather. In

2002, a relatively large area of winter cereals was grown in the Eastern counties (740,000 hectares); a greater area had been grown in 2000 but less had been grown in 1999. Conversely, the area of oilseed rape and protein crops in 2002 exceeded the 2000 area but was less than the area grown in 1999.

Sugar Beet, Potatoes and Horticultural Crops

The area of sugar beet, constrained by farmer's contract entitlement, totalled 101,000 hectares. This was eight per cent below the five-year average as farmers were confident about meeting their contract tonnage but reluctant to produce excess C quota beet.

Potato production continued to concentrate into the potato growing areas of the Eastern counties. A total of 45,000 hectares were grown. The area of horticultural crops remained close to the five-year average at 62,000 hectares.

Crop and Livestock Gross Margins

Crop Gross Margins

The table below shows the long-run gross margin performance of the main crop and livestock enterprises found on farms in the Eastern counties of England.

The gross margins of combinable crops were consistently low, but their relative performance was consistent with previous years. The gross margin performance of all of these crops was around seven per cent below the average for the previous five years.

The 2002/2003 year was characterised by above average crop yields but depressed crop prices. For example, the winter wheat yield was three per cent higher than the five-year average but the price was 19 per cent lower.

Sugar Beet and Potatoes

The 2002/2003 sugar beet crop benefited from above average yields and prices. The gross margin of £937 per hectare was the highest since 1998 and four per cent higher than the four year average.

The low potato price contained the gross margin of this crop to £2,089 per hectare, 34 per cent below the five year average.

Comparison of Real Gross Margin per Hectare for Harvest Years 1997 to 2002

	1997	1998	1999	2000	2001	2002
			£ per hectare			
Winter wheat	655	660	717	588	549	520
Winter barley	606	553	614	503	434	454
Spring barley	571	599	521	532	411	491
Oilseed rape	797	609	685	524	447	563
Peas (combined)	638	464	614	485	404	444
Beans	664	508	608	530	403	449
Set-aside	311	305	311	222	208	221
Sugar Beet	1012	1005	879	806	825	937
Potatoes	2293	5658	1558	3688	2667	2089
Dairy (£ per head)	959	847	706	760	814	732
Beef (£ per head)	164	144	183	202		
Beef (£ per livestock unit)					264	352
Sheep (£ per head)	32	44	40	34	21	44

Livestock Gross Margins

Beef, sheep and pig producers enjoyed higher prices for their products and this was reflected in the gross margins of these enterprises. The sheep gross margin made a welcome recovery to £44 per ewe, compared to the five year average of £34 per ewe.

Dairy enterprise performance was blighted by the milk price of 17.95 pence per litre which gave rise to a gross margin of £732 per cow.

Non-agricultural Income

Non-agricultural income totalled an average of £117 per hectare in 2002. It increased at a rate of 10 per cent per year in 2001 and 2002. We have observed a lag between the planning and development of non-agricultural enterprises and the emergence of a revenue stream.

The main activities were contracting (52 per cent of the revenue), site /building rental (26 per cent) and agri-environment scheme participation (seven per cent of the total). However, for most sources of non-agricultural income, the location was of prime importance as this determined the market opportunities or feasibility of participation in agri-environment schemes.

Fixed Costs and Investment

The long-term decline in fixed costs continued in 2002. However, it became apparent that the sharp cost reductions observed in 2001 were partly a function of the season rather than an acceleration to the process of cost reduction. Reduced areas of most crops, compensated by a larger area of set-aside and fallow, had given rise to a lower requirement for labour, machinery use and the use of contractors.

The larger farms in the survey made considerable investment in machinery. Tractors and combine harvesters accounted for a substantial part of the increased investment. In contrast, the smaller farms tended to make only limited capital investment.

Capital Position

The value of assets held by farm businesses declined in 2002/2003. Over the year, borrowings also reduced. The net worth of farm businesses continued to decline.

The average return on tenants capital was a respectable 3.7 per cent.

Advice and Education

The table below relates the financial performance of Mainly Cereal farms in 2002/2003 to the education characteristics of the farmer.

Farm Performance and Education of Farmer

	number	farm size ha	NFI £/hectare	MII £/hectare	wheat gross margin £/hectare
School	28	199	66	2	501
College	44	354	61	32	530
Degree	19	501	39	25	542

There would appear to be some association between farmer education and the gross margin performance of farms (represented here by the winter wheat gross margin). However, the cause may be related more closely to farm size than to any particular characteristic of the farmer.

Similarly, farmers with degrees incurred higher fixed costs than those with college qualifications who, in turn incurred higher fixed costs than the school only farmers. However, the variation of the management and investment income varied less between farms. Again, it is likely that the variation in fixed costs and deployment of labour was a function of farm size.

The college educated farms were more likely to take advice than either the degree or school farmers. More than half paid for agronomy advice and nearly a quarter purchased business advice.