THE 2003/2004 SURVEY

Headlines of the 2003/2004 Survey

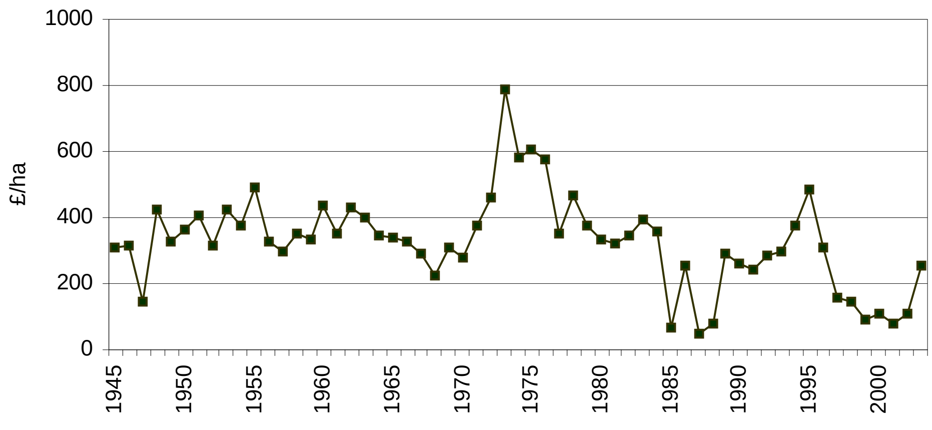
- **Single year recovery in net farm income on most types of farm**
- **Reduced cereal production in Northern Europe and oilseed production globally**
- **Substantial increase in the price of most farm commodities**
- **Improved sterling exchange rate with the euro**
- **Improved market conditions for meat and eggs**
- **Reduced costs due to lower crop areas and harvest volumes**
- **Continued increase in non-agricultural income**

Farm Performance 2003/2004

In 2003, a series of unusual and concurrent market and weather conditions prevailed across the world. In Northern Europe, the weather limited the production of most crop and livestock commodities and prices increased. At the farm level, the price increases exceeded the reduction in the tonnage of crop and livestock sales and a single year recovery in net farm income resulted.

The 2003/2004 result appears as something of an anomaly since there is no evidence of a reversal of the long-term cost-price squeeze on commodity prices. Greater annual variations in farm performance are likely in future years due to the greater price volatility that is likely to occur following the move towards free market conditions. Figure below shows the 2003/2004 net farm income of farms in the Eastern counties in the context of the long-term farm income trend.

Net Farm Income in the Eastern Counties 1945 to 2003 in Real Terms



The unusual impacts of weather on crop growth through 2002 and 2003 which influenced this result include:-

- poor autumn drilling conditions in 2002 resulting in a reduced UK cereal area
- high winter kill of winter wheat grown in the former Soviet Union
- drought across EU countries in summer 2003

Market effects, not easily separated from the effects of the weather, included:-

- reduced cereal supply due to the reduction in the UK crop area
- the relatively weak value of sterling against the euro
- reduced worldwide production of oilseeds
- outbreaks of avian influenza in the Netherlands and the Far East

Contrasting with the long-term reduction in agricultural commodity prices, the outlay of time and investment in non-agricultural activities in recent years is starting to yield a financial return for many farm businesses.

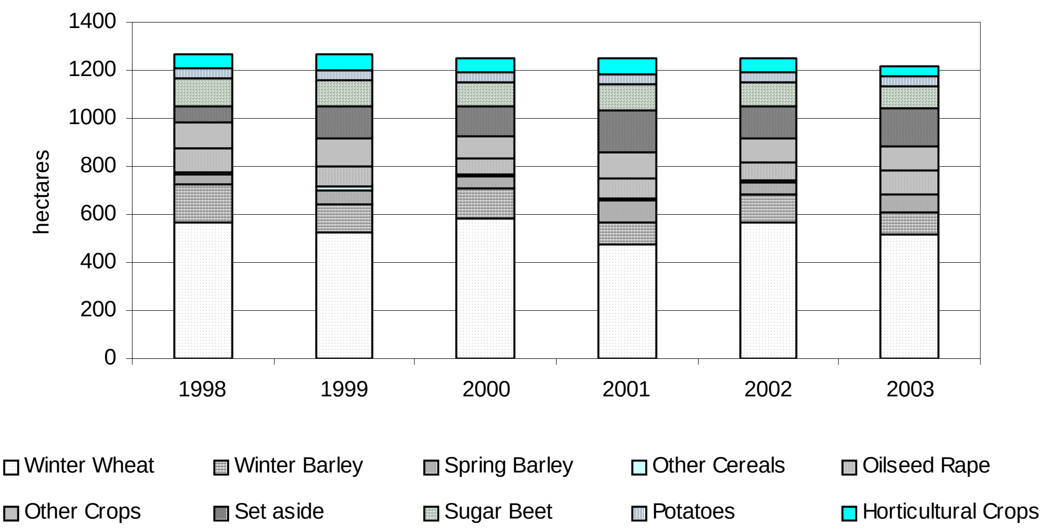
The reduced crop area, dry harvest and reduced volume of crop production reduced the costs of production and harvest of the 2003 crop. The underlying long-term trend was towards lower fixed cost expenditure, through efficiency gains within farm businesses and through farm amalgamation.

Cropping

Combinable Crops and Set Aside

The main influence over cropping decisions for the 2003 harvest was the wet weather in autumn 2002 and spring 2003, coinciding with crop establishment. A reduced area of winter crops was grown and there was a compensating increase in the area of set-aside. However, individual crop areas were within the ranges of the areas produced over recent years. Figure below summarises the annual allocation of land to crops since 1998.

Crop Areas in the Eastern Counties 1998 to 2003



Sugar Beet, Potatoes and Horticultural Crops

A reduced area of sugar beet was grown reflecting the long-term increase in yields and improved ability of farmers to match production to their contract entitlement. The area of potatoes reduced, reflecting both long-term structural changes and the 2003 weather. However, concentration of English potato production to within the Eastern counties continued. The share of the country's production increased to 38 per cent (27 per cent in 1994).

1.3 Crop and Livestock Gross Margins

Crop Gross Margins

All combinable crops performed better than in the previous three years, due mainly to higher prices and good quality. The prices of most commodity crops were exceptionally high in 2003, ultimately due to disrupted weather patterns across the world. However, commodity-specific conditions determined the price of each type of crop independently.

Reduced variable cost expenditure also contributed to the increase in crop gross margins. However, the weather limited the opportunities for crop establishment and compromised the timeliness of applications of fertiliser and seed; the resulting yields were generally below average.

The gross margins of crop and livestock enterprises are set out in Table below.

Comparison of Real Gross Margin per Hectare for Harvest Years 1998 to 2003

	1998	1999	2000	2001	2002	2003
			£ per hectare			
Winter wheat	676	734	605	561	533	701
Spring wheat	593	464	517	450	532	566
Winter barley	567	629	517	444	465	533
Spring barley	613	533	547	420	503	591
Winter oats	584	655	495	484	440	525
Oilseed rape	623	702	539	457	577	635
Peas (combined)	476	628	498	413	455	607
Field beans	521	622	545	412	460	552
Set-aside	312	318	228	212	226	240
Sugar beet	1029	900	828	843	961	1112
Potatoes	5792	1595	3791	2727	2140	4725
Dairy (£ per head)	867	722	781	832	750	778
Beef (£ per head)	147	188	208			
Beef (£ per livestock unit)				270	361	347
Sheep (£ per head)	45	41	35	22	45	59

Winter wheat remains the staple crop on many farms in the Eastern counties. The average wheat price of £86 per tonne was 13 per cent higher than the average over the previous five years. And this price increase was the main reason for the improvement in the winter wheat gross margin to £701 per hectare.

Buoyed by the strong wheat price, all cereal prices improved and cereal gross margins improved in response.

Oilseed rape took second place in the league of combinable crop gross margins, at £635 per hectare. Independently of the cereal market, international oilseed prices were also strong in 2003 and oilseed rape yields in the Eastern counties were above average.

Protein crops also enjoyed higher prices. However, greatly increased demand for peas resulted in an average price increase of over 50 per cent. In consequence, the pea crop achieved an average gross margin of £607 per hectare. The price received varied between farms according to the variety grown.

Sugar Beet and Potatoes

Under the shadow of proposals for reform of the European Union sugar regime, the sugar beet gross margin improved to £1,112 per hectare due to higher price and yield. A further explanation of the higher gross margin is that growers have improved their ability to match crop production with contract requirements without production of excess C quota beet. The higher price was due to the favourable exchange rate (since the internal sugar price is set in euros) and the exceptional sugar content achieved in the sunny but dry summer of 2003.

Record yields and high prices combined to give a potato gross margin of £4,725 per hectare. The higher yields were partly due to the concentration of potato production into the hands of specialists with expertise and irrigation facilities. Potato quality was poorer than in recent years, but this ensured that good quality potatoes were able to command a particularly high price.

Livestock Gross Margins

Livestock producers enjoyed improvements in prices for most of their products; meat, milk and eggs. The cost of most feed ingredients increased in response to the reduced supply of cereals, oilseeds and proteins described above. These cost increases occurred after the 2003 harvest and the financial consequences were not fully captured within the 2003/2004 financial year.

1.4 Non-agricultural Income

Farm businesses across the Eastern counties further reduced their dependence on agriculture and correspondingly exposed themselves to markets in other sectors of the economy. Farms of all types earned income from a range of ventures, including letting of buildings, contracting, processing and retailing of farm produce, agri-environment scheme participation and tourism.

Although nearly all farmers received some non-agricultural income, for most it provided a relatively small proportion of their total income.

Three types of non-agricultural activity stand out for their economic importance to farm businesses. Rent, from buildings or sites, was the most common and the most valuable source of non-agricultural income. Contracting, an activity which can potentially represent only a minimal change of market focus from pure agriculture, was the second most valuable source. Agri-environment scheme participation was important outside the fen areas. With the introduction of Entry Level Stewardship in 2005, this type of income source can be expected to gain importance in future years.

1.5 Fixed Costs and Investment

A seasonal impact on fixed cost expenditure was the reduction in the area of wheat and sugar beet, and in the tonnage of crops harvested. As a result, less hours were worked in total and machines ran for a reduced period of time.

In the longer term, increased availability of large machinery, and uptake of non-ploughing cultivation strategies, has allowed the trend to larger and fewer machines. Farmers have become more willing to share the benefits of larger machinery, often through contracting arrangements. These developments have given rise to the trends in deployment of fixed costs that we observe in the survey.

Falling numbers of staff, albeit at higher wage rates, have resulted in declining labour costs. Individual machines, although very expensive to purchase, are used over larger areas of land reducing average depreciation charges and asset use. The picture of fixed cost expenditure is completed by the increase in use of contractors.

About nine per cent of the Mainly Cereals farms in the survey expanded the area of land farmed by means of Contract Farming Agreements. Contract farming allowed these farms to reduce their fixed costs to an average of £429 per hectare compared to the average of £517 per hectare for all Mainly Cereals farms.

Improved root crop prices allowed investment in potato machinery and this was especially apparent among Fen Arable farmers in the Eastern counties. Uncertainty over the future of the sugar regime prevented significant expenditure on specific sugar beet machinery. The increased capital investment in 2003 may have cashflow implications on some farms in future years due to future liabilities for hire purchase agreements taken out at the time of purchase.