THE 2004/2005 SURVEY

Headlines of the 2004/2005 Survey

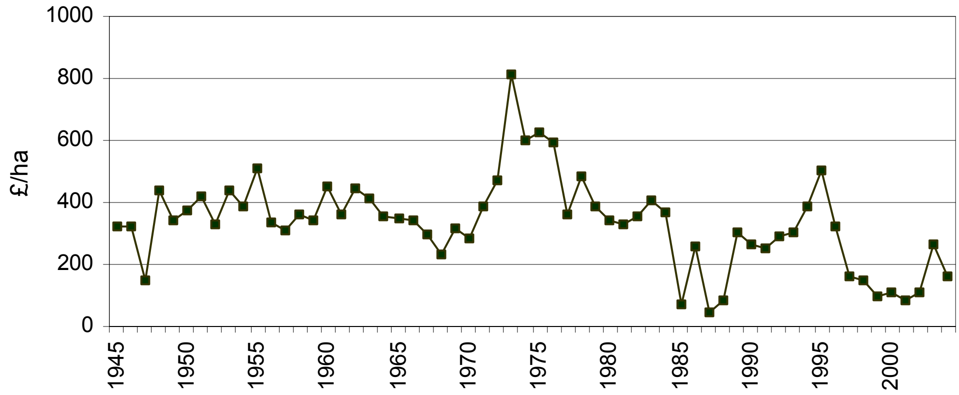
- **Low commodity prices were the driver of reduced farm income**
- **Combinable crop gross margins fell to record low levels**
- **Wet conditions for the 2004 harvest reduced crop value and increased costs**
- **Non-agriculture was an important contributor to net farm income**
- **Farms reduced costs by 'spreading' labour and machinery over a greater area of land**
- **Unit costs of labour and machinery increased in the year**

Farm Performance 2004/2005

Farm performance was determined by the extremely wet 2004 harvest and reduced value commodity crops sold.

The Figure below shows the reduction in average net farm income on farms in the Eastern counties in 2004/2005.

Net Farm Income in the Eastern Counties 1945 to 2004 in Real Terms



The mix of crop and livestock enterprises determined the fortunes of individual farm types. Low cereal, oilseed and protein crop prices impacted directly on the profitability of Mainly Cereals farms and reduced returns on all farms growing these crops. Due to the favourable performance of sugar beet, the Mixed Cropping farms saw improved returns in 2004. However crop gross margins on the Fen Arable farms were too low to justify the inherent high fixed costs that these farms carry.

Small improvements in the performance of livestock enterprises on Dairy with Arable and Mixed Farms were not sufficient to overcome the reduction in arable margins and incomes on these farms drifted downwards in 2004/2005.

Cropping

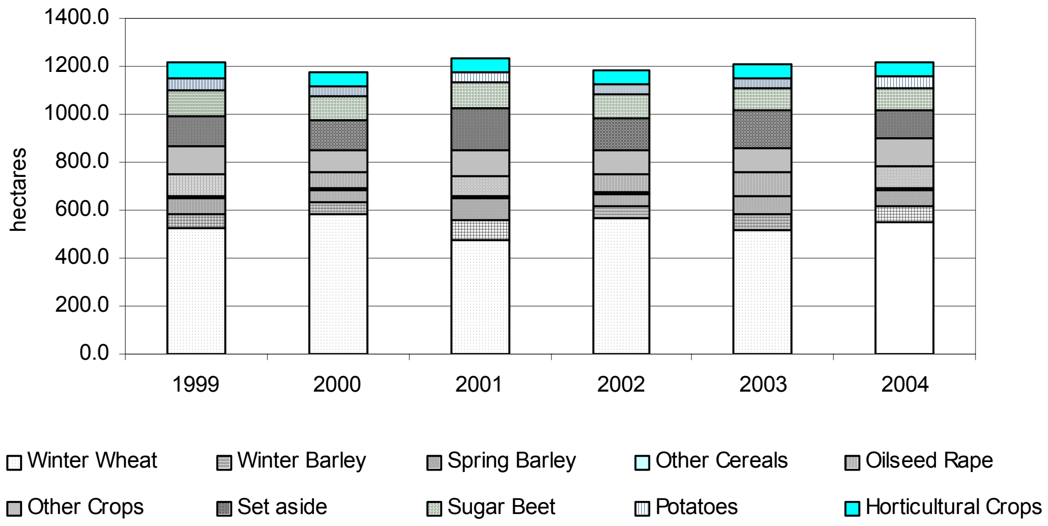
Drivers of Cropping

The drivers of crop choice in 2004 were:-

- Favourable prices for 2003 harvest crops
- Dry conditions in autumn 2003
- The late announcement of reduced set-aside requirement
- Preparation for CAP reform and decoupling in 2005

The 2004 cropping is compared with the cropping over the five previous years.

Crop Areas in the Eastern Counties 1999 to 2004



Source: Defra, June Agricultural Survey

At 640,000 hectares, the area of winter wheat and winter barley drilled was five per cent higher than the previous year. Cropping choices may well have been influenced by the short-lived rise in crop prices experienced in 2003.

The area of oilseed rape was virtually unchanged but less winter and spring barley was grown.

Following the December announcement of a reduction in the set-aside rate, from the default ten per cent rate to five per cent, the area of this crop dropped to 121,000 hectares and by 24 per cent. With limited cropping choices, farmers produced an increased area of spring break crops including peas, beans, and linseed. Possibly exploring new market opportunities ahead of decoupling in 2005, a greater area of other cereals and break crops was produced.

The sugar beet area further declined due to higher yields within a fixed quota regime. Potato and horticultural crop production was further concentrated into South Lincolnshire, Norfolk, Cambridgeshire and Suffolk.

Crop and Livestock Gross Margins

Crop Gross Margins

The table below shows the record low gross margins from combinable crop production in 2004.

Comparison of Real Gross Margin per Hectare for Harvest Years 1999 to 2004

	1999	2000	2001	2002	2003	2004
			£ per hectare			
Winter wheat	789	653	611	584	760	552
Spring wheat	544	557	493	574	611	434
Winter barley	672	555	481	506	581	460
Spring barley	577	586	454	548	638	452
Winter oats	706	536	519	491	577	424
Oilseed rape	759	589	501	632	688	415
Peas (combined)	672	532	446	496	658	633
Field beans	670	587	450	502	600	480
Linseed	572	419	310	261	526	464
Set aside	339	243	229	244	258	225

Due to reduced crop prices, and only average yields, most combinable crops earned their lowest gross margin ever recorded in the survey.

Unusually favourable returns were made from linseed and peas (harvested dry rather than for vining). Linseed prices had recovered as supply and demand is now more balanced following reduction in the area payment for this crop between 2000 and 2002. Crop yields had improved and linseed is regaining popularity. The improved performance of the pea crop related mostly to peas grown for specific premium markets such as marrowfat varieties for human consumption.

Sugar Beet and Potatoes

Due to the record crop yield of 60 tonnes per hectare, sugar beet gave an above average gross margin of £1,254 per hectare, despite a reduction in the crop price. The 2004 performance of the sugar beet crop was a timely reminder of the importance of the sugar beet crop to some farms in the Eastern counties ahead of reform of the EU sugar regime.

The potato gross margin is known for its volatility and variability, due to seasonal variation in price for this perishable crop, and variable quality determined by factors including the weather at harvest, irrigation practice, local soil conditions and quality after storage. In 2004, the usual variation between farms was apparent, however, the overall result was that gross margin was close to average due to below average price and above average yield.

Livestock Gross Margins

The decline in the numbers of livestock of all types continued in 2004. Due to small improvements in prices received for milk and meat, livestock enterprises performed at slightly above average levels.

Non-agricultural Income

The long-term trend towards greater non-agricultural output continued in 2004. And as crop and livestock returns fell in 2004, the share of the total net farm income contributed by non-agricultural activity increased in 2004.

As in previous years, the main sources of non-agricultural income were rental of houses and property, contracting and agri-environment scheme participation.

Tenure determined the type of activity carried out. Wholly owner occupied farms earned more from property rental than other types of farm, whilst mixed tenure farms earned more from contracting.

Fixed Costs and Investment

There was a continued reduction in the expenditure on labour employed on machinery and on contract services. Farmers achieved these cost reductions despite higher wage rates for employed labour and energy costs for the running of machinery. There is evidence that farmers tended to spread fixed costs over a larger area of land.

Possibly in response to higher crop prices in 2003, farmers invested rather more in tractors and cultivation equipment in 2004 than in previous years. However, the net investment in machinery per hectare declined during the year.