

Was last year a blip for farmgate prices?

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THE clement climate and lack of natural disasters worldwide last year has left us with an oversupplied global market in grain, with wheat prices now at £100/tonne.

Thankfully, the UK also had a good harvest but the immediate outlook is pretty chilly. However the medium- to long-term demand for food worldwide is still encouraging, albeit affected in the short-term by a slowing of the Chinese economy.

Sadly for UK agriculture, we must hope last year was a one-off, and such favourable worldwide conditions do not occur again. On a positive note, last year's oil prices were 'on the floor', giving some relief. Also, low grain prices have, and will continue to, cut feed bills for the battered stock sectors.

However, the misery for dairy farmers continues and beef and lamb prices finished 2015 down on the year.

Today's farming environment is not only about unpredictable weather, but also about volatile commodity prices increasingly being influenced by world supply and demand. This will favour better established

businesses and perhaps also those serving niche markets and selling direct to the consumer with added value.

The EU referendum will be the big issue for farming this year. The impact on farming hinges on what arrangements there will be for agricultural support, should we leave the EU.

The Conservative party has, in principle, always supported reducing or eliminating subsidies and enabling, as far as possible, UK agriculture to compete freely in the worldwide market. Little is known about what alternative systems would be put in place in the event of Brexit.

Brexit

The reluctance to publicise or discuss options for these plans indicates David Cameron's keenness to remain in the EU and avoid providing the Brexit campaign the detail of what would surely be a gradual removal of subsidies.

However, the removal of milk quotas in April last year did not result in better returns for dairy farmers and it failed to show the expected benefit of competing freely in world markets.

Some will argue this type of pain is needed, so the less efficient stop trading and the more progressive businesses get

bigger and more efficient again. The removal of subsidies would obviously impact land values in the short-term. However, in the longer term, land values are likely to rise yet further.

With the exception of oilseed rape and potatoes, last year saw nearly all farm commodity prices drop at the same time, an effect rarely seen before.

Few are predicting how long this downturn will last and whether it will subsequently be seen as a blip or a trend, but clearly it will not be helped by the uncertainty created by the UK's referendum on the EU.

Of course, now we have just seen the US raise interest rates, which could herald, as many pundits believe, a gradual recovery in the developed western countries' economies. However, with a stock market crash and oil prices still sinking, this may take some time yet.

Of course, if we leave the EU we would not be so exposed to the 'double whammy', where a strong pound reduces subsidies paid in euros, although it would still affect the competitiveness of our exports.

Hopefully, despite uncertainty surrounding the UK economy, we will look back on last year as only a blip as farm commodity prices rise again.