

# Farming can recover from bad year

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The mild climate and lack of natural disasters worldwide in 2015 has left us with an oversupplied global market in grain, with wheat prices now at £100 a 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 perhaps in the short term affected by the slowing of China's and un-developed countries' economies.

Sadly for the sake of UK agriculture one must hope that 2015 was "a one-off", and that such clement and favourable worldwide conditions for growing crops do not occur again. On a positive note, in 2015 oil prices were "on the floor" and so far remain so for 2016, which gives some relief, and there is still comfort from the media's continued focus on food production since 2008. Also low grain prices have and will continue to cut feed bills for the battered stock sectors; the usual "horn versus corn" dynamic.

The misery for dairy farmers however continues, and beef and lamb prices in 2015 ended up down year on year; a shock to the sheep sector after such a long steady run (since Foot & Mouth in 2001) compared with other sectors. The farming environment today is not only about the unpredictable and changing weather, but now also about volatile commodity farm prices increasingly being influenced by world supply and demand. This will favour better structured and established businesses and perhaps also those serving niche markets and selling direct to the consumer with added value. It is of course, however, competing in the world market and producing more of the food consumed in the UK that will make UK farming more successful. We are now seeing increased exports following BSE in 1996 and are recovering some of the old markets we lost worldwide and in Europe, and this will encourage the "Brexit" campaigners.

As for the rest of the economy, the EU referendum will be the big issue in 2016 for farming. As



Even the market for lamb, on the rise since 2001, saw a dip during 2015 as commodity prices across the board, expect OSR and potatoes were hit by falls

seen with general elections, business decisions and investment will increasingly be delayed until after the result as we get nearer to the vote. The impact on farming now however hinges on what arrangements there will be for agricultural support, should we come out of the EU. The Conservative party in principle has always supported reducing or eliminating subsidies and enabling, as far as it is possible, UK agriculture to compete freely in the worldwide market. Little is known about what alternative regulatory or subsidy system(s) would be put in place, should we leave the EU. The reluctance to publicise or discuss options for these plans however indicates perhaps David Cameron's keenness to remain in the EU. There is always more fear of "the unknown" than the reality. However the removal of milk quota in April last year did not result in better returns for dairy farmers and has failed to demonstrate as yet the expected benefit of competing freely in the world markets. Some will argue that this is the type of pain needed whereby the less efficient go out of business and the more efficient and progressive businesses get bigger and more efficient again. The removal of any subsidies would obviously impact on land values in the short term, but in the longer term land values are likely to rise yet further.

With the exception of Oil Seed Rape and Potatoes, 2015 saw nearly all farm commodity prices drop effectively at the same time (Wheat by 19%, Barley 16%, Beef 5%, Pigs 13% and milk 18%), an effect rarely seen before, the most recent similar ex-

perience maybe being during Foot & Mouth in 2001. An unexpected and sudden impact across the board. This has created again a "battening down of the hatches" as we saw before 2008 during the twelve-year long agricultural recession. Few of course 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. During my working life I have seen three general economic recessions in the UK and the anticyclical tendency for the agricultural sector to do well during such recessions. Of course now we have just seen America raise interest rates which could be heralding, 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. In the future, if we have left the EU, we will not be so exposed to the "double whammy" phenomenon where a strong pound reduces subsidies paid in Euros, although of course still affecting the competitiveness of our exports. In 2009 I predicted a good ten-year run for agriculture based on this anticyclical tendency. Hopefully with the current uncertain future of the UK economy in 2016, we will look back on 2015 as only a blip as farm commodity prices rise again.

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