



## **INTELLIGENCE FROM THE REGIONS – February 2009**

### **Status**

*Three times a year staff of the RBR provide up to the minute information from their Regions on what is happening on farms and local markets together with a summary of current attitudes and concerns. It has been decided to give this information a wider dissemination. The site will carry the latest collated report. Comments are welcome as well as any queries, please contact the Editor; ***martin.seabrook@nottingham.ac.uk***.*

This information is provided by RBR staff and every effort is made to check its accuracy and validity. It should be recognised that whilst some of the information is anecdotal that is its value in giving a current and real insight into what is happening within the industry. As with all information it should be used with care and in context.

## **YORKSHIRE / NORTH EAST**

### **Beef**

Prices have started very strongly in 2009; shortages of stock appearing to be a key factor in driving up prices. This has been due to the contraction in supply of beef from both the suckler sector and the dairy sector. In the latter there has been a big reduction in the supply of beef-cross calves due to the contraction in the size of the dairy sector and the switch to dairy bull inseminations in order to stem the shortfall of breeding dairy stock. Some farmers are concerned that the high prices will not be maintained due to consumer resistance given the state of the economy.

Store cattle marketing and purchasing was made difficult during the Autumn period during the Bluetongue restrictions. Farmers from the east of the region who usually travel south for cattle had to source from the north instead until vaccines became available. The trade for fat cattle was good so a number of bulls, which should have been destined for breeding, went into the food chain. Suckler beef producers should be much better off because of the increase in the prices paid for store cattle.

Bluetongue vaccinations are causing problem with the bigger cattle producers. It is not just the cost of the vaccine but the logistics of getting cattle in, administering and then repeating the vaccinations two weeks later.

### **Sheep**

In the last month dead weight prices have climbed steadily, with hoggets now making prices some 50% higher compared to the same period in the previous year. This has meant that there are better returns to cover the increase in input prices that occurred in 2008. Also, at the start of 2009 some of the input prices such as feed and fuel are lower than in 2008.

Sheep prices have been considerably helped by the weakness of the pound which makes New Zealand lamb more expensive and also boost the significant export market.

### **Dairy**

The 2008 increase in average prices for milk received and for some a return to profitability has meant a level of confidence to re-invest in machinery. However the outlook is now much more pessimistic with many milk purchasing companies reducing the prices paid for milk. DFB was the first company to do so and caused consternation in the dairy sector by back-dating the reduction in milk price. Many loyal DFB suppliers are now concerned about the future of the company especially if some of the remaining larger suppliers switch to other buyers or pull out of milk altogether. Arla and First Milk announced price cuts early in the New Year.

Cull cow prices remain strong at the start of 2009. These are back to pre 1996 prices before BSE; December 31<sup>st</sup> saw the end of the OTMS scheme with a rush to get any pre 1996 cows in before the closedown. Some farmers with older cows, which were still performing, took the decision to keep them and then pay the disposal fee when the time comes.

Dairy farmers are disappointed at the time it has taken for lower cereal prices to reflect in concentrate prices. Many believe prices are not coming down as quickly as they went up last year.

Farmers in the region are still leaving the industry as many see the high cow prices too good an opportunity to miss. Others are getting out instead of investing in slurry storage to comply with Nitrate Vulnerable Zone (NVZ) requirements.

### **Pigs**

Producers should now be able to benefit from the fall in feed prices however it must be remembered that for much of 2008 they would have had significantly higher feed costs. Individual situations vary so much because of the tendency for many producers in the intensive meat sector to lock into long term fixed price feed contracts. So some farmers would have had relatively good feed contracts for much of 2008 but perhaps will be locked into relatively high feed contracts in 2009.

### **Poultry**

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### **Arable**

One farmer was harvesting oats on November 22, the straw was baled the same day and the following day the bales were covered in snow. The arable situation is much less buoyant than the livestock sector. A very difficult harvest was followed by a reduction in commodity prices.

Some farmers still have sugar beet to lift because of the wet conditions.

Farmers who forward purchased fertiliser now feel they have done the wrong thing as prices have dropped in December and January. Whilst fertiliser prices did start to fall in December they are still significantly higher than the previous year. For instance, 20.10.10 is still about 80% higher than the previous year. Farmers in the region looked for alternatives to P and K because of high prices. One farmer used sewage sludge where soil tests were particularly low.

Fuel prices made some farmers rethink their field operations with a number using minimum cultivations on their lighter land for the first time.

### **Horticulture**

A horticulture unit, which propagates its own stock, has decided not to heat the glasshouses all winter due to high fuel prices. They have calculated it will be cheaper to buy plugs in the spring.

### **Diversification**

Farmers who diversified into horse haylage also suffered with the weather and input prices in 2008. Weather made harvesting very difficult and many have made sub standard crops, which they are trying to sell into a very "fussy" market.

Two farm shops in the region reported Christmas poultry sales down which they think was due to the economic situation. They commented that it would be

tempting for many to buy a supermarket bird for a third of the price they were being charged for free range turkeys

## **NORTH WEST**

### **Beef**

The weather conditions in the autumn forced livestock to be housed earlier. Liveweight gains have been lower than expected in a normal year. Finished cattle prices continue to improve, mostly due to lack of supplies as producers have cut back in recent years.

### **Sheep**

Lamb prices continue to improve, mostly due to a lack of supplies as producers have cut back in recent years, and also to the strong export market for lambs due to the fall in the sterling exchange rate.

### **Dairy**

Farmers have had a longer winter housing period due to the wet weather which has required more fodder. Dairy replacement stock is in short supply and prices remain strong. Bluetongue restrictions caused problems in the dairy sector especially those, which sell calves. North West producers supplying Gisburn market were particularly affected, as Scottish purchasers couldn't travel into the area. This effectively halved the purchases at the market and prices fell.

### **Arable**

Harvest quality was seriously down, with substantial quantities failing to meet grade conditions, and consequently being sold at low prices.

Delayed harvest and poor drilling conditions meant that large areas either did not get planted or have subsequently failed. Sharp cold snaps without snow cover have further damaged crops and in the perceived low grain price/high input price environment these areas may well not get replanted.

Harvest quality of potatoes was good however some crops were difficult to lift due to the wet weather with some crops are still in the ground.

In late November a farmer in Lancashire had failed to lift two-thirds of his potatoes because they were under water. The only consolation was that the geese were not feeding on them because there was such a big area of stubble for the geese to graze on.

### **“Credit Crunch”**

Generally there are gloomy expectations of a continued cost/price squeeze in agriculture, with added problems of more restrictive and hence costly credit and prospective slack demand in niche and diversified markets. There is limited relief provided by land prices and rents, and prices of capital equipment, but these are failing to fully reflect the economic conditions. More relief has been provided by a weakened sterling, which has already provided a welcome increase in the SFP, sufficient to offset the modulation for 2008, and which should keep export markets relatively strong. However, prospects of severe restrictions on pest and

herbicides have served to deepen the gloom for cereal and livestock farmers respectively.

## **EAST MIDLANDS**

A **major** concern which continues for a significant number of farm businesses is the great difficulty to have effective Broad Band access. With an increasing number of Defra forms, information sources etc. being only available on-line; this is a potentially an incredible impediment to efficient farming.

Farmers are pleased that in general, Single Farm Payments are being paid in a timelier manner. This is more pertinent given the big increase in the cost of establishing winter sown crops and purchased feeds for the winter period and the effect that these price increases have had on cash flows.

There are signs that recent rent reviews have resulted in substantial increases in rent, presumably on the back of increased output prices (some of which have subsequently fallen back).

### **Beef**

Output prices continue to out-perform those of recent years with a consequent increase in the optimism of producers. However, farmers who traditionally buy store cattle in the spring are very nervous about the high prices that these cattle may be at in a few months time.

Hay and straw prices are significantly up compared to a year ago due to shortages stemming from the wet summer of 2008 and increased demand in response to the recent cold weather. These commodities are very significant, especially to hill farmers, and these price increases will severely erode the gains made from better outputs.

### **Sheep**

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### **Dairy**

Farmers are becoming concerned that farm-gate milk prices may have peaked and the recent price reductions may continue. If this trend continues then the exodus from dairying could gather pace as farmers decide not to invest in capital projects such as waste management facilities.

### **Arable**

Cereal farmers are increasingly unsettled by the volatility of cereal prices. Faced with the prospect of reduced financial outputs from the 2009 crop, some arable farmers reduced their winter cereals area, but now see forward cereal prices increasing and they are beginning to rue their decision.

There is some indication that cereal farmers are becoming more interested in taking out options in an attempt to "iron out" price volatility.

Some arable farmers are becoming disenchanted with oilseed rape. Despite the recent good prices, poor yields and the stagnation of any increases in potential

yields, unlike winter wheat, means farmers are considering either reducing their area of oilseed crops or withdrawing from them altogether. Winter beans with their lower requirement for expensive fertiliser are increasingly being considered as the main break crop.

### **“Credit Crunch”**

There are no reports of farmers having problems with bank loans or overdrafts that are connected to the credit crunch.

## **WEST MIDLANDS**

### **Beef**

All types of cattle are in short supply which is keeping the price strong even if the quality is not the best. All auctioneers in the area are requesting additional cattle numbers each week to meet demand. The situation has conspired to a marked improvement in beef prices. Even set against increased feed, fertiliser and fuel prices margins are up. The industry may not be immune from the financial crisis as there are fears that demand could be adversely affected with consumers substituting beef with cheaper sources of meat.

### **Sheep**

The price of lamb is holding strong at the moment and there is a good demand from buyers at the livestock markets with more fat hoggets, cull ewes, in-lamb ewes and store hoggets required week-on-week to meet increasing demand.

### **Dairy**

Although there were significant improvements in farm-gate prices in 2008, milk prices have come under severe pressure recently and a number of buyers have announced cuts in the face of falling dairy commodity prices. Concentrate feed bills have fallen reflecting the reduction in grain prices; and fuel prices are also down. However, dairy farmers are not convinced that they are any better off than they were 12 months ago and the exodus from the industry continues. There is growing concern relating to the new NVZ requirements, leading to many having to invest heavily in increasing slurry storage capacity and other improvements to cope with dirty water effluent.

Calf prices show an improvement on those of 12 months ago and the increased value of younger cull cows has helped maintain revenue. The cost of dairy heifer replacements continues at very high levels reflecting the shortage that has been prevalent in recent years.

The delay by Defra in announcing a TB eradication plan remains a cause of anxiety among dairy farmers in the region.

A shortage of straw as a result of the difficult harvest in 2008 has led to a shortage in some areas and, where available, the cost is very high.

## **Pigs**

This enterprise that has been hard hit by the escalation in concentrate feed prices so the reduction that lower cereal prices should bring will be welcomed. Pig prices have increased on those of the previous year, and concerns about the future of the industry have eased. One pig producer reported of postponed plans to give up pig production because prices had improved unexpectedly and costs especially of feed and fuel prices had fallen since last autumn.

## **Poultry**

Egg producers seem to have been better protected against cost increases with significant improvements in farm-gate prices. Demand for free range eggs continues to increase. The ban on traditional cages in 2012 and the high capital investment associated with the installation of enriched cages could lead to a number of producers either adopting free range systems or leaving the industry altogether.

## **Arable**

The 2008 harvest was characterised by the very wet conditions from mid-August to mid-September, which led to serious problems and delays. It is estimated there will more spring crops than planned to go in the ground in the coming months; with some farms only managing to drill just over half their expected area of winter wheat earlier the autumn. Arable farmers are concerned by the proposal from Defra of a set-aside replacement plan which would involve growers putting up to 5% of land into an environmental scheme. The proposal, designed to offset the loss of environmental benefits following the abolition of set-aside, is seen by many as unnecessary, particularly at a time of food shortages.

Considering how late the majority of the winter oilseed rape was drilled it has established itself relatively well. Although plants are smaller than usual for this time of year establishment has been mostly good which will hopefully carry the crop forward in the spring.

Potatoes have yielded well with variable levels of quality, although it has been reported that even good quality has not been reaching good prices. Compared with twelve months ago prices are down around 25%.

The proposed changes to the EU pesticide registration rules, which could result in reduced availability, are seen as a detrimental step in maintaining productivity.

There is a sense of relief that fuel prices have dropped although there is the expectation that they will rise again. Nitrogen fertiliser prices are dropping slowly but farmers will be slow to benefit as considerable amounts have been bought in advance.

Sharp price rises is an issue with machinery costs being a major input item for arable farmers.

## **Organic Production**

There is some concern that this sector could suffer as the economy slows down and consumers are not prepared to pay a premium for organic produce. The costs of organic feed has meant some have chosen to use "traditional" feed and move from organic production.

## **Horticulture**

### Hardy Nursery Stock

Autumn bedding plant sales were disappointing, due to a combination of a wet autumn and possibly the credit crunch. Some producers have indicated the fall in sterling have lead to significant sales overseas however, the down side has seen the cost of imported material such as canes and packaging increase by almost 100%. This sector remains concerned about recent legislation to the phasing out of critical spray products, especially for the control of vine weevil that can quickly devastate saleable plants if not properly controlled. Prospects in the run up to Easter have been buoyed by the return of small to medium sized buyers to the market, partly in response to some discounting by producers.

### Top fruit production

Overall, the 2008 crop has been variable with growers in the region seeing lower yields than by their counterparts in Kent. Yields also varied by variety with a heavier crop from Braeburn and less from Cox's. Prices have been disappointing, with strong discounting by the supermarkets and competition from abroad. Growers have expressed their concerns with the weaker marketing of apples by leading supermarkets in the run-up to Christmas resulting in much higher stocks going in to the New Year and their attempts to get producers to accept high discounting to help reduce stocks. Farm shop sales are also less, possibly because of the credit crunch.

Looking ahead it is clear that sourcing labour on top fruit, and soft fruit farms will become a serious issue as the close parity of the pound with the Euro is no longer an attractive option for many students from eastern European countries. These growers are a little more relaxed than they were six months ago following the outcome of the recent EU pesticide legislation which allows for a five year transition to develop safer replacement sprays for those due to be removed from the market. The on-going discussions on undertaking impact assessments on the "black listed" spray products is also a helpful response to their concerns as is the support of the UK government on this issue.

### **"Credit crunch"**

The general increase in land prices in 2008 reflected added interest from financial institutions. It is anticipated that 2009 will see values falling, although at a lower rate than that seen in residential and commercial sectors.

The weakness of the pound has resulted in an increase in the value of the 2008 Single Farm Payments made since December 2008. As a consequence imported food will be more expensive and exports will be cheaper. Another concern for farmers in the current economic climate affects the decision to forward sell. With volatile commodity markets and input prices very unstable forward financial planning is proving a big dilemma.

The reduction in interest rates will be welcomed, although the availability of credit for new investment may become more difficult particularly for tenant farmers.

The credit crunch has had an effect on farmers markets with evidence in recent months of a reduction in the number of customers and in the amount that they spend. Also, there has been a large reduction in pre-orders where people would order their meat in advance and collect it at the market. It is becoming a more

competitive market with more competition from the supermarkets. Farmers markets may for the first time be experiencing a down turn in their fortunes.

## **EAST**

### **Arable**

Most cropping decisions were made in the autumn when farmers decided how much winter wheat they would grow for 2009 harvest. As the winter progressed and prices weakened, they reviewed their spring cropping choices.

Prior to reform of the EU sugar regime, producers risked loss of contract tonnage entitlement if they failed to meet their contract tonnage. The current sugar contract permits under production without this risk so producers were considering a reduction in their sugar beet area.

The prospects for other crops are less attractive, due to the combination of lower crop prices but still relatively high input costs. Although seed purchases have already been made, the option remains for producers to simply leave land uncropped.

Producers have also reviewed their phosphate and potash application policy. For some, there is the option of a P and K "holiday". Over the last few months, there has been greatly increased interest in alternative nutrient sources, namely compost, poultry manure and sewage sludge. Despite relatively high transport costs, compost is now an attractive option. There is considerable demand for poultry manure, shifting the balance of power in the market from consumer to supplier, with a corresponding increase in price.

### **Diversification**

There has been a generally limited increase in 'diversification' income. It raises the question of availability of credit to the farming industry for RDPE investment

## **SOUTH EAST**

The fresh produce sector generally is feeling very anxious about the impending EU pesticide legislation whilst relieved, in the short term at least, that the government have increased the number of workers allowed in under the SAWS scheme by 5000 to 21,250 for 2009.

### **Beef**

Strong prices continue with fat cattle making 30% more than twelve months ago. The high price for fat cattle has led to a very strong store market. Feed prices are still high whilst feed wheat and feed barley prices are considerably lower; the other straights used in the compound feeds have not fallen in price significantly.

### **Sheep**

Lamb prices are also running considerably higher than a year ago. Cull ewes are also doing well. There is concern over the prolonged cold weather and when best to house the sheep for lambing.

## **Arable**

A wet autumn and the coldest winter for years have meant establishment has been weak with wheat plants looking "wispy". Fertiliser prices are a major issue. This is particularly true of P and K. Some farmers are using lower levels and relying on the residual values in the soil in the hope that prices may come down for next season.

Oilseed rape establishment has been challenged by the cold weather and consequent pigeon feeding. Some crops have been totally destroyed and the fields will need to be re-drilled.

## **Horticulture**

### Top fruit production

Bramley prices are not good as hoped for but demand appears to be continuing the long term trend of increased fresh sales in the supermarkets. The last six weeks of 2008 saw sales 4% lower than a year ago but still almost 9% higher than 2006.

### Soft fruit production

Soft Fruit growers are taking stock of the affect that the "credit crunch" may have on demand for soft fruit this summer. Decisions need to be made as to which varieties would be best to plant in the future.

## **"Credit Crunch"**

The weak pound has brought a welcome bonus to many farmers.

## **SOUTH WEST**

### **Beef**

Beef farmers have benefited from steadily increasing prices, although local commentators are suggesting the prices are now near their peak. Feed costs of livestock have remained high despite the drop in cereal prices. This may be a reflection of the cost of imported protein, or the need for merchants and mills to recover income after the rapid rise in cereal prices at the end of 2007. Forage stocks are plentiful on many farms, but the quality is lower due to the wet summer.

### **Sheep**

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### **Dairy**

Dairy farmers have been surprised that their feed costs haven't dropped yet. With milk quota again unlikely to be reached there is very little activity in the quota market, and with downward pressure on milk price, this is unlikely to change.

Producers in many areas are becoming concerned with the changes to NVZ areas. The prospect of adding or improving on existing storage facilities will increase the rate at which dairy farms will cease milk production in some areas, but what concerns many at present is the lack of available information.

There is continuing concern at increase in Bovine TB

### **Pigs**

The cold winter will have increased heating costs for pig producers and increased mortalities for free range or outdoor units.

### **Poultry**

The cold winter will have increased heating costs for poultry growers and increased mortalities for free range or outdoor units.

Chicken produced in countries where health standards are poor could soon be entering the country; this follows the EU proposal to allow chicken that has been "decontaminated with chemicals". There are four chemicals that may be approved; this practice is currently illegal in the EU. This proposal will significantly affected UK producers, especially as suppliers seek cheaper products at a time of recession.

### **Arable**

The effects of the poor weather at harvest are still being felt by many farms across the region. The late arable harvest meant a delay in autumn cultivations and cereal planting, and large areas have yet to be drilled. There will now be changes to crop selection as farmers move to spring varieties, with some farmers questioning the value of growing a crop at all.

The quality of the cereal crop from the 2008 harvest is lower than normal. Crop drying charges will have been high on many farmers due to the levels of moisture being removed, and the costs of electricity, oil and gas.

The high price of fertilizer has led to a number of farmers moving away from autumn sown crops to lower input spring crops. Many farmers are also surprised that the prices of fertilizer have not dropped as much as might be expected. This may be down to merchants not being able to access supplies, or purchasing forward at the higher summer prices.

Cereal farms are also concerned by the new spray regulations, and the problems they could face if various products are removed from the market. Certain specialist crop growers such as potatoes could be faced with a limited number of products to use, and many are considering their options.

### **Organic Production**

There is now little price premium for organic cattle and sheep as demand for premium produce is dropping as consumers adjust their spending habits as the credit crunch bites deeper. Some farmers with farm shops are seeking cheaper feed and selling products as "free range / welfare friendly" rather than organic, this in order to maintain their customer base.

Organic milk price is also suffering from a drop in demand, with prices falling by between 2 and 4 pence per litre.

## **Horticulture**

Horticultural farms are now beginning to experience problems sourcing labour for fruit and vegetable harvesting with the falling value of the pound against the Euro and other foreign currencies reducing the number of EU workers together with restrictions on the level of non EU workers permitted.

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