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Fact Sheet – Spring 2013

High investment level despite non-uniform business expectations

- More confident business development expectations in Germany and Poland
- Slight cooling off of business expectations in France and the United Kingdom
- Rising readiness to invest in Germany and France, stable level in Poland, downturn in the U.K.

High investment level despite non-uniform business expectations

Europe's farmers have different expectations regarding business developments in the coming 12 months. While farmers in Germany and Poland are looking to the future positively, their colleagues in the United Kingdom and France are less optimistic than they were in autumn 2012. In Germany expectations of business development have improved distinctly among dairy farmers and pig farmers by comparison with the autumn 2012 survey. Expectations of market crop producers in Germany remain good.

The readiness to invest of the farmers surveyed also differs. While farm managers in Germany and France plan to invest more by comparison with autumn 2012, readiness to invest has shrunk in the United Kingdom. In Poland inclination to invest remains stable.

Assessment of the business situation has improved in Germany and Poland, remains stable in France and has deteriorated in the United Kingdom

- The assessments of the current business situation differ in the individual countries (Fig. 1). Farm managers in Germany and Poland assess the present business situation more favourably than they did in the autumn survey 2012. By contrast, the farmers in France see their current situation to be unchanged by comparison with autumn 2012. The business situation in the United Kingdom has cooled down further.
- The background for the largely more positive assessment is the improved economic situation in 2012. Thanks to better prices and slightly increased production, EU farmers were able to increase added value by a moderate 1% compared with the year before. The development in Germany is particularly positive (+15%). French farmers have recorded a plus of 6%, while value added in Poland grew by 14%, but it dropped by 9% in the United Kingdom. The reason for the decline in the United Kingdom lies in the poor harvest conditions that led to massive cuts in yield.

Fig. 1: Assessment of the current business situation – Trend from 2005 to 2013

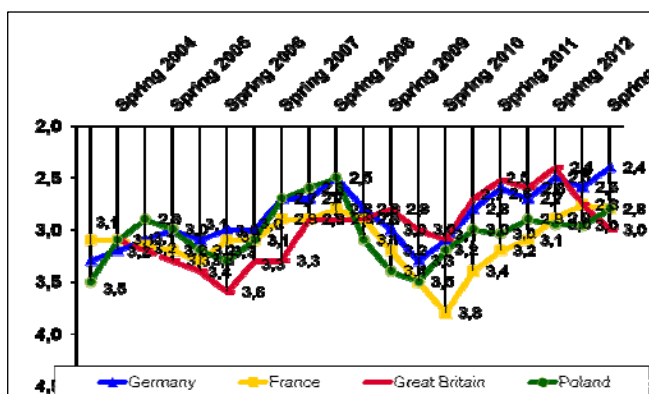
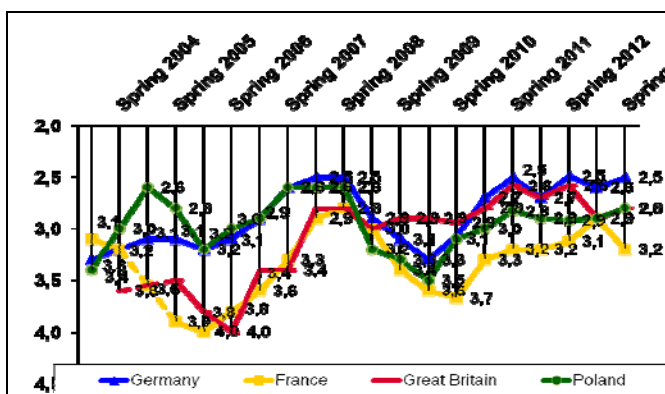


Fig. 2: Expectations of business development – Trend from 2005 to 2013



- In Germany farm managers from all production sectors assess the current business situation more positively than they did in autumn 2012. The price-cost relation between agricultural products and farm inputs has shifted in favour of agricultural products. This has relieved the pressure on animal farmers for feed costs, even though feed remains at a high price level.

Expectations of business development:

Optimism in Germany and Poland, scepticism in France and the United Kingdom

- The expectations of business development in the coming 12 months **have improved in Germany and Poland, but cooled off in France and the United Kingdom** (Fig. 2). Farmers in Germany expect stable framework conditions, especially as regards producer prices, even though developments in particular on the grain and pig markets are uncertain.
- The farmers in the **United Kingdom and France** are less optimistic. As a result of difficult sowing conditions in autumn 2012 and the sustained high costs of feed, expectations of business development have cooled down further in the United Kingdom. For the UK this means the worst level since the spring survey 2008. French farm managers assess business developments in the coming 12 months more reservedly than last autumn too. Although market crop producers are exporting large quantities of grain, the stricter production regulations currently under discussion in order to implement the EU Water Framework Directive lead to fears of restrictions concerning use of mineral fertilizer and manure. French farmers fear commercial losses.
- In **Germany** expectations of pig and dairy farmers regarding business development have improved, and they remain at a sustained positive level among market crop producers. In particular product prices for milk as well as for meat have developed positively in spring 2013. The sustained shortage of supplies on the world dairy market indicates that prices will remain stable. The situation in the pig market is also fundamentally positive, though characterized by risks due to export restrictions in Russia. Furthermore, the record soy harvest in South America brings a drop in feed prices, even though current storage bottlenecks are inhibiting swift delivery. Altogether positive signals prevail and lead to a confident mood in expectations of business development.

Fig. 3: Readiness of European farmers to invest

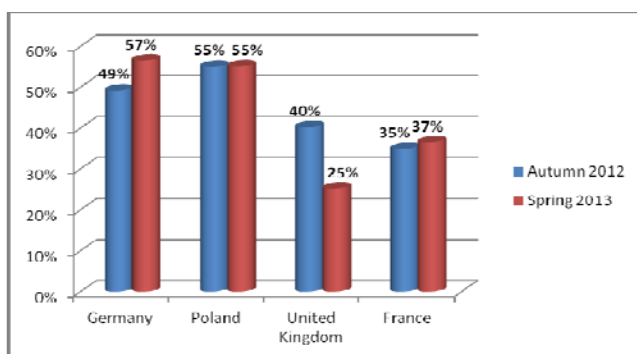
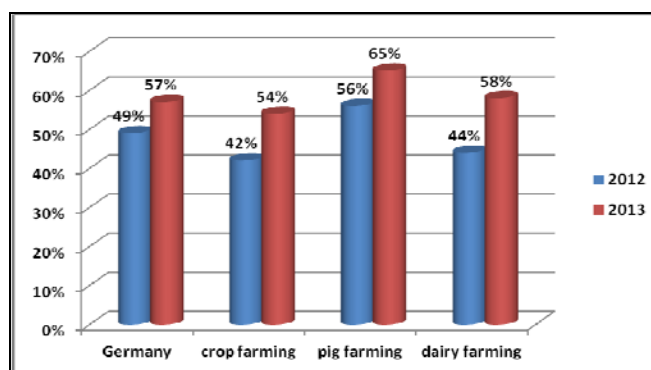


Fig. 4: Readiness to invest by production directions (Germany)



Readiness to invest rises in Germany and France, remains stable in Poland and drops in the United Kingdom

- In **Germany readiness to invest** has increased substantially: 57% of the farmers surveyed plan to invest – a plus of 6% by comparison with autumn 2012 (see Fig. 3). In France, inclination to invest has increased by a moderate 2%. After investment plans in spring 2010 had reached an all-time low at 13%, French farmers are now catching up on deferred investments. This goal makes up for the relatively modest expectations of business development for the next 12 months and leads to an increase in willingness to invest.
- In **Poland** willing to invest remains stable at a high level at 55%. The farmers surveyed in Poland are pushing ahead with business development as regards improving production efficiency and expanding existing branches of business. The current situation in the **United Kingdom** is characterized by a steep decline in investment plans. Readiness to invest plummeted from 40% in autumn 2012 to 25% in the latest survey. This is due to downturns in business results following unfavourable harvest and sowing conditions in 2012 and the sustained cost burden in animal farming. At present the top priority of farm managers is to secure their liquidity.
- In **Germany** farm managers from all segments of production plan to invest more than they did in autumn 2012 (Fig. 4). Consequently, 54% of market crop producers (by comparison with 42% in autumn 2012), 65% of pig farmers (by comparison with 56%) and 58% of dairy farmers (by comparison with 44%) state that they plan to invest in the coming 12 months. Altogether the farmers used the current favourable investment conditions, especially the current interest level, for investment purposes. Furthermore, pig farmers want to anticipate any tightening of construction law. Dairy farmers are focusing on preparing their farms for the time after the quotas are phased out. This comprises expanding production as well as optimizing existing production cycles in order to use the production factors deployed more efficiently.
- **The investment focus** of farmers questioned lies in field operations. By comparison with the autumn survey in 2012, investments in field operations in Germany and the United Kingdom have increased by 4% and in Poland by 3%. In Germany investments in bioenergy are slowing down further. Only 11% of planned investments will go into this area. The priority field in bioenergy investment lies in photovoltaics.

Fig. 5: Distribution of planned investments between the production areas

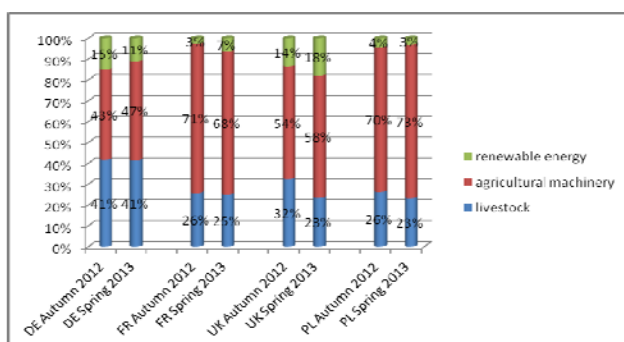
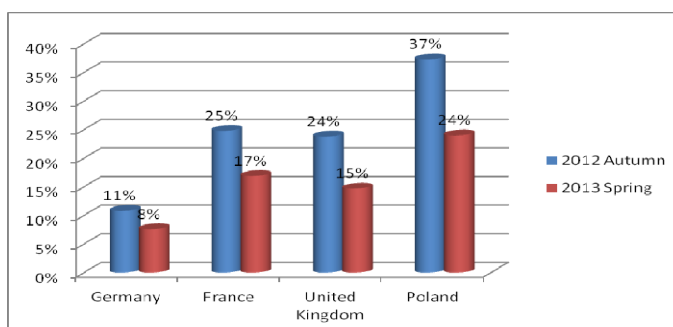


Fig. 6: Share of farmers stating that access to loans is difficult



- The prime investment target for farmers is to reduce production costs and increase productivity of production. The farmers surveyed in all countries agree that the essential technology trend for reaching this goal is fuel-saving engine technology. In Germany and the United Kingdom farmers see

advantages for improving cost effectiveness in automatic steering systems. Thus even in times of high producer prices, improving resource efficiency remains a key topic for farmers, helping them to keep production costs under control.

Largely favourable financing environment in Europe

- Access to loans has improved in all countries. The proportion of farmers stating that access to loans has become more difficult has declined in all countries (Fig. 6). There has been a distinct improvement in access to credit in France, the United Kingdom and Poland. Access to credit has improved in Germany too and tops the list in a comparison between the countries.

Conclusion

The farmers in Germany and Poland especially are looking forward confidently to the coming 12 months. By contrast, expectations of business development are more reserved in the United Kingdom due to weather extremes last year, and among French farmers due to increasing regulations for production. This means that by comparison with the boom years 2007 and 2008 in which Europe's farmers were spurred on by high production prices in equal measure, expectations in spring 2013 are substantially more differentiated. However, the price-cost ratios for most farmers have improved in favour of agricultural products, with a positive impact on farm profits. This positive market environment and the favourable investment and financing conditions have a positive effect on the readiness of farmers to invest.

Alongside investments in expansion, which in Poland and France especially are driving investment activity, pending replacement investments are being used to increase productivity and efficiency in production. Farmers are keeping an eye on the high and partly still rising costs of farm inputs, which can become a risk for farm incomes if pressure is exerted on producer prices. In particular more efficient use of fuel, fertilizer and pesticides is a key issue for farm managers in order to keep control of costs. That is why decisions on investments depend on the extent to which the technical solutions offered help to achieve the operative goals.

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