Department for Environment Food & Rural Affairs

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Forecasts of Farm Business Income by type of farm in England – 2016/17

Data on farm business incomes are used to monitor and evaluate Government and EU policies and to inform wider research into the economic performance, productivity and competitiveness of the agricultural industry. The data are provided to the EU as part of the Farm Accountancy Data Network (FADN) and are widely used by the industry for benchmarking.

This statistical notice provides forecasts of Farm Business Income for 2016/17 alongside results from the Farm Business Survey for the years 2011/12 to 2015/16 (Table1). These figures are for March/February years with the latest estimates covering the **2016 harvest** and including the 2016 rate of the Basic Payment Scheme (which is included within total farm output and therefore contributes to Farm Business Income). Actual survey results for this time period will be published at the end of October 2017.

The forecasts for 2016/17 are derived from information available in early February 2017 for prices, animal populations, marketings, crop areas, yields and input costs and are intended as a broad indication of how incomes for each farm type are expected to move compared with 2015/16. The forecasts are subject to a margin of error, reflecting, in particular, the fact that farm income is derived as the relatively small difference between total output and total input; small percentage changes in either of these can result in large percentage changes in income. It should also be noted that within each year there is a wide range in income across farms around the average figures published here.

Key points

- The fall in the value of the pound has been a key driver in increasing average Farm Business Income on cereal, general cropping, mixed, specialist pig, lowland grazing livestock and grazing livestock farms in the Less Favoured Area (LFA).
- Average incomes are expected to have fallen on dairy farms due to lower milk prices and reduced output. Lower egg prices and higher feed costs are the main driver for a fall in average incomes on specialist poultry farms.
- The 2016 Basic Payment is expected to be around 19 percent higher than in 2015 for all farm types, reflecting the weaker exchange rate when payment rates in sterling were determined at the end of September.

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SUMMARY BY FARM TYPE

£38,000 ↑ 7%

Cereals Lower cereal yields and reduced output for oilseed rape (area and yield) offset by higher prices for cereals and an increase in the Basic Payment driven by the weaker pound. Input costs unchanged, lower fertiliser prices offset by increases in other costs.

£77,500 ↑ 24%

General cropping Largely driven by increased potato prices which together with higher cereal prices are expected to offset reduced oilseed rape and sugar beet output. Input costs are expected to be broadly unchanged.

£57,000 ↑ 163%

Pigs Increased output due to higher prices which are also expected to impact on closing valuations. Input costs are also expected to increase, particularly feed. *Contract rearers are well represented in the FBS sample, dampening the full impact of the increase in national pig prices.*

£74,000 ↓ 31%

Poultry A fall in egg prices, only partially offset by higher production, is the key driver for lower average incomes. Costs, particularly feed, are also expected to increase. *These changes should be treated with caution due to the small sample size.*

£22,500 ↓ 49%

Dairy The fall in average incomes is driven by reduced milk output combined with a 4% fall in milk prices. This is expected to be partially offset by increased output for other cattle. The EU milk reduction scheme payment is included in income.

£19,000 ↑ 58%

Grazing livestock (lowland) Cattle output is expected to rise with firmer prices towards the end of the year having a positive impact on closing valuations. Increased sheep output also expected reflecting higher prices for much of the year.

£24,500 ↑ 29%

Grazing livestock (LFA) Similar changes to lowland grazing livestock farms but these farms are expected to benefit more from firmer sheep prices via higher numbers and sales of breeding livestock.

£29,000 ↑ 58%

Mixed Improved output from both crop and livestock enterprises plus an increase in the Basic Payment is expected to increase average income on these farms.

Detailed results

Average incomes on **cereal** farms are expected to increase by around 7 percent in 2016/17 to £38,000. This is primarily due to the weakening of sterling since the EU Referendum which has driven an increase in the price of cereals and oilseed rape along with a substantial increase in the Basic Payment. For cereals, firmer prices should more than offset the lower yields from the 2016 harvest. Total crop output however is expected to fall, driven largely by a reduced output from oilseed rape where average yields fell by more than 20 percent and crop area was around 12 percent lower than in 2015. The area of peas, beans and barley increased further in 2016, possibly reflecting the impact of greening rules and in the case of spring crops, a continuing strategy to deal with blackgrass. They are also an alternative break crop to oilseed rape in areas where cabbage stem flea beetle infestations are a problem. Total input costs are expected to remain similar to the previous year with savings on fertiliser being offset by small increases across a range of other inputs such as fuel and general farming costs.

On **general cropping** farms, incomes are expected to increase by just under a quarter to £77,500. On these farms, total crop output is forecast to be higher than the previous year. Firmer prices for potatoes and an increased crop area are expected to offset the lower average yields in 2016. This increased output from potatoes is forecast to offset both the reduced output from oilseed rape and sugar beet; the latter driven by a combination of lower prices, yields and area. These factors, together with the higher Basic Payment and broadly unchanged input costs mean that the increase in incomes on general cropping farms is expected to be higher than on cereal farms.

Average incomes are expected to fall by just under 50 percent on **dairy farms** in 2016/17 to £22,500. This reflects a combination of lower milk prices and reduced production over the 12 months from March 2016 to February 2017. At a UK level the average farm gate milk price was around 4% lower in the period March to December 2016[1] compared to the previous year. It is important to note the wide variation in milk prices with some farmers receiving considerably more or less than the average. The volume of milk produced has also fallen; for England and Wales it was 4 percent lower between March and December than for the same period in 2015. These income estimates also include anticipated payments under the EU Milk Reduction Fund which will be recorded as due in 2016/17. Output from other cattle enterprises is significant on many dairy farms and is expected to show an increase compared to the previous year. This is largely due to an increase in closing value for youngstock and particularly reflects firmer values for older store animals towards the end of the accounting period. In terms of costs, the impact of higher prices for cereals, soya and other straights in the second half of the year is expected to impact on feed costs although this is likely to be offset by reduced volumes. Input costs overall are expected to be broadly unchanged as reductions in major inputs such as fertiliser are offset by small increases across a range of costs such as other livestock costs, fuel, labour and general farming costs.

Average incomes on **Lowland Grazing livestock** farms are expected to increase by over 50 percent to £19,000 in 2016/17. Prices for store cattle have been lower for the year as a whole but have risen towards the end of the year, having a positive impact on closing values. Average prices for fat cattle have also been marginally higher than the previous year with a small uplift in throughput. A small increase in output is expected for the sheep

[1] Incorrectly stated as 2017 in the first publication

enterprise as prices for fat and store lambs have been higher for most of the year due to tighter supplies plus a weaker currency which reduced imports and assisted exports. Despite a larger lamb crop in 2016, less favourable grazing conditions throughout the summer have slowed finishing and meant numbers sold were similar to the previous year with slightly lower weights. Consequently there are expected to be more lambs on farm at the end of the accounting period. Input costs are expected to be slightly higher with small increases across a number of items, the most notable being feed and other livestock costs. A similar trend is expected for cattle and sheep enterprises on **LFA Grazing Livestock** farms. However these farms are expected to benefit to a greater extent from firmer lamb prices which will have had a positive impact on breeding stock prices, an important source of income on upland farms. Average agri-environment payments, which represent a major source of revenue on these farms, are expected to fall in 2016/17.

Average Farm Business Income is forecast to increase on **specialist pig farms** from £21,600 in 2015/16 to £57,000 in 2016/17. This is almost entirely due to firmer pigmeat prices driven by weaker sterling and tighter supplies. Compared to the previous year, finished pig prices have been on average around 5 percent higher, although throughput has been slightly lower. Weaner, store and cull sow prices have also increased. The extent of these increases is not fully reflected in the forecasts shown here as contract rearers are well represented in the FBS sample of pig farms. The business models for contract rearing operations are varied but it has been assumed that the enterprise output on these farms will not be impacted by the increase in pig prices. Input costs on specialist pig farms are also expected to increase, particularly feed which represents a substantial proportion of their costs. This is assumed to track the increased value of key feed ingredients such as wheat and soya. Note that a change in livestock valuation is also responsible for some of the increase seen here as the value of weaners and growing pigs is estimated to be considerably higher at closing, compared to opening valuation.

Forecasts for **specialist poultry** farms are subject to a considerable degree of uncertainty reflecting both the structure of this sector and the relatively small sample of these farms in the FBS. Average incomes are expected to fall by 30 percent to £74,000 driven by lower egg prices and increased input costs. Production of both egg and poultry meat are expected to increase. Feed accounts for over half of the costs on these farms and is expected to increase in both price and volume compared to the previous year. Avian Influenza is not expected to have a significant impact on incomes in 2016/17.

Mixed farms reflect all the enterprises found in the more specialist farm types reported above. The average income on these farms is expected to increase by more than 50 percent to £29,000. This is largely due to improved output from both crop and livestock enterprises, together with an increase in the Basic Payment. Input costs are expected to be broadly similar to last year although this masks some variation most notably for fertiliser, which in line with the other farm types, is expected to fall.

Table 1: Average Farm Business Income by Type of Farm in England (£/farm)

Farm Type	2011/12 [a]	2012/13	2012/13[b]	2013/14	2014/15	2015/16	2016/17 forecast	% Change 2016/17 / 2015/16
At current prices								
Cereals	93,700	68,200	67,700	49,600	45,000	35,500	38,000	7%
General cropping	100,500	91,500	89,200	67,600	52,000	62,600	77,500	24%
Dairy	86,600	51,200	52,600	87,800	83,800	43,900	22,500	-49%
Grazing livestock (Lowland)	32,000	16,300	16,100	15,100	18,500	12,000	19,000	58%
Grazing livestock (LFA)	29,200	19,700	18,700	14,500	14,600	19,000	24,500	30%
Specialist pigs [d]	38,100	40,900	41,700	65,200	49,400	21,600	57,000	163%
Specialist poultry [d]	46,400	94,200	90,200	157,200	126,800	106,700	74,000	-30%
Mixed	74,100	38,100	37,300	29,600	21,600	18,400	29,000	57%
In real terms at 2016/17 prices [c]								
Cereals	100,500	72,100	71,600	51,400	46,000	36,000	38,000	5%
General cropping	107,900	96,800	94,300	70,100	53,000	63,600	77,500	22%
Dairy	92,900	54,100	55,600	91,100	85,500	44,600	22,500	-49%
Grazing livestock (Lowland)	34,300	17,200	17,100	15,600	18,900	12,200	19,000	56%
Grazing livestock (LFA)	31,400	20,800	19,800	15,000	14,900	19,300	24,500	28%
Specialist pigs [d]	40,900	43,200	44,100	67,600	50,400	22,000	57,000	160%
Specialist poultry [d]	49,800	99,500	95,400	163,000	129,500	108,200	74,000	-31%
Mixed	79,500	40,300	39,400	30,700	22,000	18,700	29,000	55%

Years ending in end-February

[a] Farm typology based on 2007 standard output coefficients

[b] Farm typology based on 2010 standard output coefficients

[c] Uses GDP deflator

[d] The sample sizes for specialist pig and poultry farms are relatively small and the confidence intervals relatively large. Results for individual farms can have a large influence on the overall results.

Accuracy and reliability of results

The forecasts provided for 2016/17 are provisional, based on information available in early February 2017 for prices, animal populations, marketings, crop areas and yields. The relative changes, compared to the previous 12 months, are then applied to aggregate data from the most recent Farm Business Survey for each robust farm type. A level of estimation is necessary, particularly for variables where no market information is available. Outturn results (which will be published in October 2017 based on results for the 2016/17 FBS), could differ from these forecasts for several reasons. These include changes to the sample and to the weighting framework. In 2015/16, of the 1,805 farms that were included in the FBS target population around 140 farms came into the sample that weren't present in 2014/15. In addition, the FBS weights are refreshed each year in line with the latest farm population data from the June survey. Table 2 compares the forecasts made in January 2016 to the survey results published in December 2016.

Table 2: Revisions to Farm Business Income by Type of Farm in England

Average Farm Business Income per farm (£/farm)

Farm Type	2015/16 January 2016 Forecast	2015/16 December 2016 Outturn	95% Confidence Limits	Change
At current prices				
Cereals	34,000	35,500	+/- 6,900	1,500
General cropping	43,000	62,600	+/- 17,100	19,600
Dairy	46,500	43,900	+/- 12,800	-2,600
Grazing livestock (Lowland)	20,000	12,000	+/- 3,700	-8,000
Grazing livestock (LFA)	21,500	19,000	+/- 3,400	-2,500
Specialist pigs	26,500	21,600	+/- 21,900	-4,900
Specialist poultry	145,000	106,700	+/- 98,000	-38,300
Mixed	22,500	18,400	+/- 6,000	-4,100

Definition of Farm Business Income

For non corporate businesses, Farm Business Income represents the financial return to all unpaid labour (farmers and spouses, non-principal partners and their spouses and family workers) and on all their capital invested in the farm business, including land and buildings. For corporate businesses it represents the financial return on the shareholders capital invested in the farm business.

In essence Farm Business Income is the same as *Net Profit*, which as a standard financial accounting measure of income is used widely within and outside agriculture. Using the term *Farm Business Income* rather than *Net Profit*, gives an indication of the measure's farm management accounting rather than financial accounting origins, accurately describes its composition and is intuitively recognisable to users as a measure of farm income.

Farm type classification

Note that the classification of farms was revised for the 2013/14 Farm Business Survey and backdated for 2012/13 data. Please see the explanatory document on our web site for further details of these changes.

Survey coverage and weighting

The Farm Business Survey (FBS) is an annual survey providing information on the financial position and physical and economic performance of commercial farm businesses in England. It covers all types of farming in all regions of the country and includes owner-occupied, tenanted and mixed tenure farms. The FBS only includes farm businesses with a Standard Output of at least €25,000, based on activity recorded in the previous June Survey of Agriculture and Horticulture. In 2015, this accounted for approximately 56,500 farm businesses. Data are collected from a sample of around 1,800 farm businesses by face to face interviews with farmers, conducted by highly trained researchers.

Each record is given a weight to make the sample representative of the population. Initial weights are applied to the FBS records based on the inverse sampling fraction. These weights are then adjusted by calibrating certain totals to match published totals from other surveys[2]) so that they can be used to produce unbiased estimators of a number of different target variables.

More detailed information about the Farm Business Survey and the data collected can be found at https://www.gov.uk/farm-business-survey-technical-notes-and-guidance

Availability of results

All Defra statistical notices can be viewed on the Gov.UK site at:
https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/about/statistics.

Results from the Farm Business Survey including time series in spreadsheet format can be found at:
https://www.gov.uk/government/collections/farm-business-survey

User engagement

As part of our ongoing commitment to compliance with the Code of Practice for Official Statistics (http://www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html), we wish to strengthen our engagement with users of these statistics and better understand the use made of them and the types of decisions that they inform. Consequently, we invite users to make themselves known, to advise us of the use they do, or might, make of these statistics, and what their wishes are in terms of engagement. Feedback on this notice and enquiries about these statistics are also welcome.

Please contact Charles Mbakwe at fbs.queries@defra.gsi.gov.uk.

[2] Further information on calibration weighting can be found in the 'Statistical Issues' document here http://webarchive.nationalarchives.gov.uk/20130315143000/http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-farmmanage-fbs-statissues_111123.pdf