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1. Introduction and summary

1.1. Introduction

This monthly paper brings together key latest information relating to agriculture and the wider economy. In particular it highlights the results of recently published economic and statistical evidence and research.

1.2. Headline Summary

Forecasts of Farm Business Income by farm type were published on 31 January 2013. These figures are for March/February years with the latest estimates covering the **2012 harvest**. Average Farm Business Income is expected to fall across most farm types (with the exception of poultry, where income is unchanged) in 2012/13 as the effect of the poor growing season and harvest is felt across both the cropping and livestock sectors. The falls forecast are substantial for dairy (42 per cent), lowland livestock (44 per cent), LFA livestock (52 per cent) and specialist pigs (50 per cent). Global values for maize, wheat and soya increased sharply in the early summer of 2012 in response to the US drought. Grain and oilseed markets in the UK followed suit and since harvest have remained firm. This has offset to some extent the impact of the poor weather on arable incomes which are expected to fall by around 11 per cent. Actual farm incomes from the Farm Business Survey for 2012/13 will be published at the end of October 2013. ([see section 3.1.3](#))

The **farmgate milk price** has remained at a record high in December 2012 at 30.08 pence per litre; this is a 3 per cent rise on December 2011. Despite the usual seasonal increase, the provisional volume of wholesale milk delivered to dairies was 5.6 per cent down on last year, as poor grazing conditions and high feed prices continue to affect supplies. Milk production is at its lowest level for 9 years. ([see section 3.1.2](#))

The annual rate of **food price inflation** fell slightly to 3.8 per cent in December and is well above general CPI inflation which has remained at 2.7 per cent for three consecutive months. ([see section 4](#))

2. Overall economic position

Inflation was unchanged for the third month in a row at 2.7 per cent for the year to December 2012, as measured by Government's target measure the Consumer Price Index (CPI). The CPI rose by 0.5 per cent between November and December 2012 compared with a rise of 0.4 per cent a year ago. These 1-month changes are within the normal range for a November to December movement. The CPI rose by 2.7 per cent between December 2011 and December 2012. This is unchanged from the 12-month rate between November 2011 and November 2012.

The largest upward contribution to the 1 month change came from:

- Housing & household services: prices, overall, rose by 2.0 per cent between November and December, contributing 0.28 percentage points to the total CPI 1-month change. The upward pressure came from gas and electricity bills with a number of companies increasing their prices this month.

There were smaller upward contributions from:

- Food & non-alcoholic beverages: prices, overall, rose by 1.2 per cent between November and December this year, contributing 0.14 percentage points to the total CPI 1-month change. Fruit, meat, vegetables and dairy products were the main contributors. This increase is slightly smaller than the November to December increases witnessed in the last couple of years.
- Transport: prices, overall, rose by 0.7 per cent between November and December, contributing 0.12 percentage points to the total CPI 1-month change. Nearly all of the upward pressure came from air fares. This was partially counterbalanced by a downward pressure from motor fuels.
- Furniture & household goods: prices, overall, rose by 1.3 per cent between November and December, contributing 0.08 percentage points to the total CPI 1-month change. The majority of the upward contribution came from furniture and carpets.

The largest downward contribution to the 1-month change between November and December came from:

- Clothing & footwear: prices, overall, fell by 1.5 per cent per cent between November and December, contributing -0.10 percentage points to the total CPI 1-month change. Garments accounted for the vast majority of the downward contribution.

More details are in the full [statistical release](#).

- The unemployment rate for September to November 2012 was 7.7 per cent of the economically active population, down 0.1 from June to August 2012. There were 2.49 million unemployed people, down 37,000 from June to August 2012.
- The volume of retail sales in December 2012 is estimated to have increased by 0.3 per cent compared with December 2011, with sales values over the same period estimated to have increased by 0.7 per cent.
- Gross Domestic Product (GDP) was estimated to have decreased by 0.3 per cent in the fourth quarter of 2012. Output of the production industries was estimated to have decreased by 1.8 per cent in Q4 2012 compared with Q3 2012, while the construction sector output was estimated to have increased by 0.3 per cent in Q4 2012 compared with Q3 2012.

3. Farming

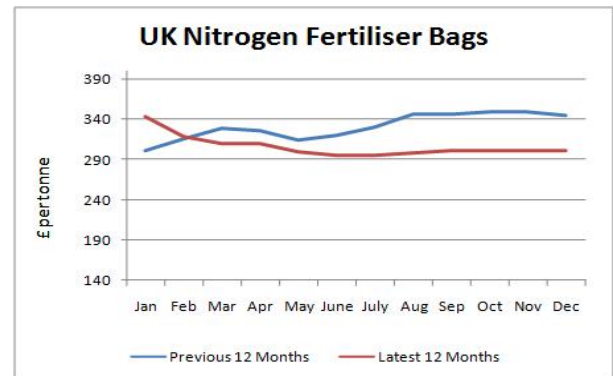
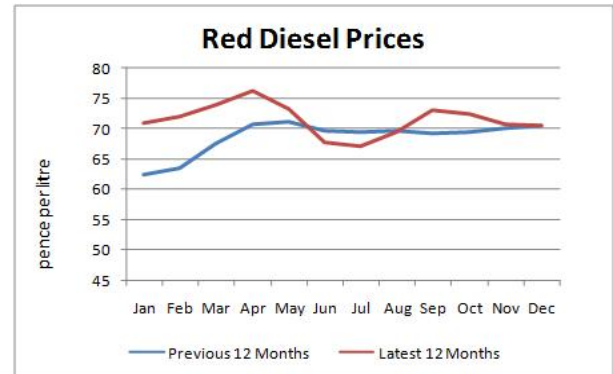
This section brings together the latest economic position for the farming sector (including UK and international input and commodity price intelligence) and the highlights of recently published evidence and research.

3.1 Economic

3.1.1 UK Prices – Inputs

- **Red Diesel:** The average December price for red diesel remained at a similar level to the previous month at 70.5 pence per litre.
- **Fertiliser:** The average price for 34.5 per cent UK Ammonium Nitrate bags remained stable for the fourth month running at £301 per tonne. This keeps the monthly price below the 2011 equivalent. (Source: Dairy Co Datum)

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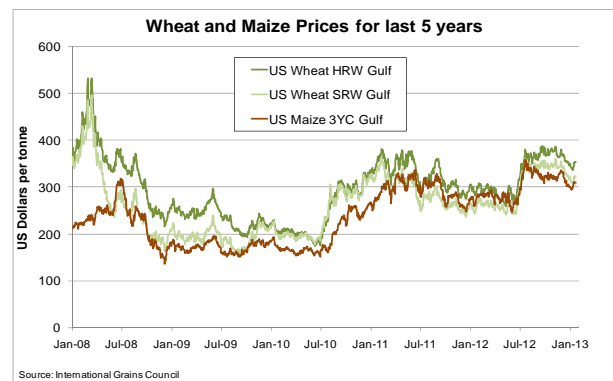


3.1.2 Prices and Market Information – Commodities

Cereals

The December average price of Hard Red winter wheat¹ was \$357 per tonne, 4.2 per cent lower than November. For Soft Red winter wheat the average December price was \$330, a 5 per cent decrease on November. Prices available to mid January show a decrease of 3.3 per cent for Hard Red winter wheat and 4.3 per cent for Soft Red winter wheat on the December average price.

- Maize prices have fallen from a record high of \$358 per tonne in July to reach \$309 per tonne by mid January.



The latest report released on 11 January from the US Department of Agriculture (USDA) revised their US wheat ending stocks by 1Mt lower than previous estimates to 19.5Mt. The recent decline in US wheat prices has stimulated additional animal feeding and export competitiveness. However there is some doubt to how much international demand remains this season.

The USDA also revised its end of season maize stocks 1.1Mt lower to 15.3Mt which is the equivalent of only three weeks supply so the timing of the 2013 harvest will be critical.

For South America, the USDA revised the Argentine 2012/13 wheat crop down by 500kt to 11Mt (2011/12 crop 15.5Mt) due to heavy rain in December and reports of lower yields. The maize crop is forecast at a record 28Mt for 2012/13 as higher yields more than compensate for a lower harvested area.

¹ Wheat and maize prices are sourced from the International Grain Council (IGC)

The 2012/13 soyabean harvest was revised 1Mt lower from the December estimate to 54Mt due to a lower projected area. For Brazil, the USDA forecast the 2012/13 maize crop at 71Mt, 1Mt higher than previous forecasts and the soyabean at a record 82.5Mt (66.5Mt in 2011/12) due to favourable rain increasing yield prospects.

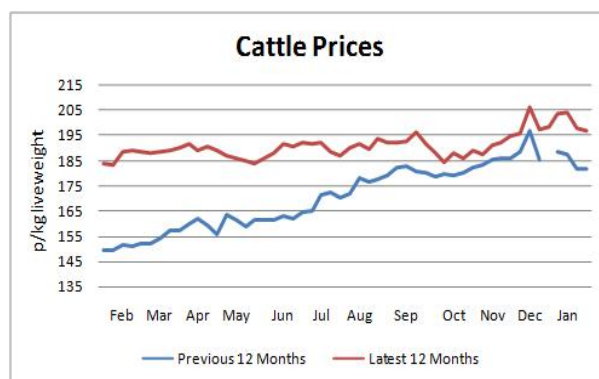
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- **Animal Feed (source Defra):** During November 2012, total GB retail production of animal feed was up 6.2 per cent compared to the same period in 2011. There has been an increase in the retail production of animal feed in recent months due to the wet weather and livestock having to be housed longer. The poor quality of the current forage crop has also been a factor. Total GB integrated poultry feed production was up 1.2 per cent during November 2012 when compared to the same period in 2011.
- **Flour (source Defra):** During November 2012, the total amount of wheat milled in the UK was 551 thousand tonnes, 13 per cent higher than in November 2011. For the same period, imported wheat milled increased by 123 per cent, due to the poor quality UK wheat harvest for 2012. Millers are experiencing difficulties sourcing quality UK milling wheat, so imports are being used to meet the shortfall.. The total amount of home grown wheat milled in the UK for November 2012 was 428 thousand tonnes, down 1 per cent compared with November 2011. Flour production for the same period was 439 thousand tonnes, 12 per cent higher than in November 2011.
- **Brewers, Distillers and Maltsters (source Defra):** During November 2012, the total usage of barley by the brewers, distillers and maltsters was up 5 per cent compared to the same period in 2011, indicating continued recovery of this sector after the downturn which began from the middle of 2009.

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Livestock (source: Defra)

- **Sheep:** In 2012 UK sheep and lamb home-fed production was 5.0 per cent lower than in 2011 at 286 thousand tonnes. The poor weather conditions in the second half of the year led to difficulties in finishing lambs resulting in reduced slaughter numbers and lighter carcass weights. Overall lamb slaughterings were 4.4 per cent lower than last year and adult sheep slaughterings 8.3 per cent down.
- **Cattle:** In 2012 UK home-fed production of beef and veal was 5.6 per cent lower than 2011 levels at 879 thousand tonnes, as prime cattle slaughterings fell by 7.2 per cent, calves by 8.6 per cent and cull cows throughputs were virtually unchanged. In general heavier prime cattle carcass weights helped boost production. Cattle prices have followed the normal seasonal trend and have fallen, although supplies remain tight which has the potential to result in further upwards pressure on prices as the year progresses.
- **Pigs:** UK home-fed production of pig meat was 782 thousand tonnes in 2012, 3.0 per cent higher than 2011. With carcass weights slightly down on last year this rise was driven by increased throughputs. UK clean pig slaughterings were up 2.3 per cent on the year, reaching a high of over 10 million head for the first time since 2002. A small dip in prices followed the normal seasonal pattern, with prices falling as consumer budgets are constrained post-Christmas.



Livestock products

- **Milk:** In December 2012, despite the usual seasonal increase, the provisional volume of wholesale milk delivered to dairies was 5.6 per cent down on last year at 1.04 billion litres, as poor grazing conditions and high feed prices continue to affect supplies. Milk production is at its lowest level for 9 years.

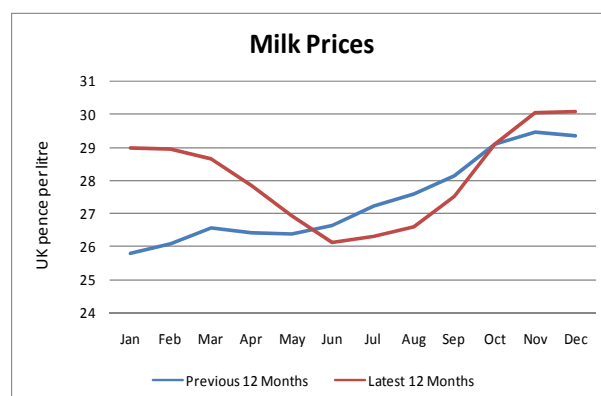
Overall cumulative production for the first nine months of the milk year was 2.9 per cent down on last year at 9.81 billion litres. (Source: RPA).

Following the record farmgate price of 30.04 pence per litre in November 2012, the average UK milk price for December 2012 edged up slightly to 30.08 pence per litre and represents an annual rise of 3 per cent on December 2011. (Source: Defra).

- **Poultry meat:** In 2012 poultry meat production rose by 3.2 per cent to 1.6 million tonnes as broiler meat production rose by 1.8 per cent to 1.3 million tonnes and turkey meat production rose by 15 per cent to 197 thousand tonnes.

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3.1.3 Farm Business Income by type of farm in England – 2012/13 Provisional Estimate

Forecasts of [Farm Business Income](#) by farm type were published on 31 January 2013. These are based on information available in early January 2013 for prices, animal populations, marketings, crop areas and yields and are intended as a broad indication of how each farm type is expected to fare compared with 2012/13. The figures 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 so that small percentage changes in either of these amounts can result in large percentage changes in income. Actual farm incomes from the Farm Business Survey for 2012/13 will be published at the end of October 2013.

Average Farm Business Income is expected to fall across most farm types (with the exception of poultry, where income is unchanged) in 2012/13 as the effect of the poor growing season and harvest is felt across both the cropping and livestock sectors. The falls forecast are substantial for dairy (42 per cent), lowland livestock (44 per cent), LFA livestock (52 per cent) and specialist pigs (50 per cent). For the arable sector average incomes remain relatively high compared to earlier years but for the livestock sectors these estimates suggest average incomes will be lower than any since 2009/10.

For the cropping sector higher output prices are expected to partially offset the impact of lower yields and quality. However the additional impact of higher costs is likely to result in a small fall in incomes. Larger falls in income are expected in the livestock sector largely due to a significant increase in costs, notably for feed.

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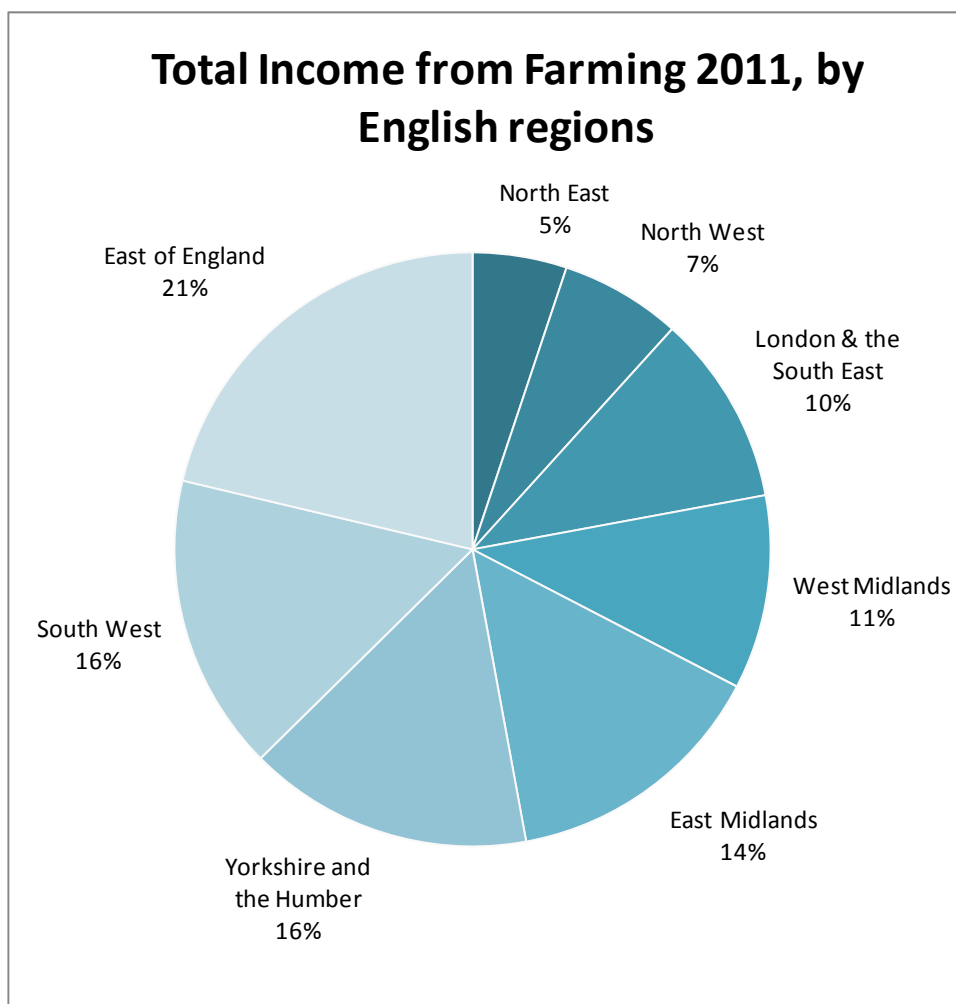
3.1.4 Agriculture in the English regions 2011 – Second Estimate

The [latest statistics](#) on agriculture in the English regions were released on 17 January 2013. It contained revised estimates on agriculture for NUTS1 regions in England, including the structure of the industry and production and income accounts for 2011, using the European Union Nomenclature of Units for Territorial Statistics (NUTS) regions.

It summarises key components of the production and income accounts for 2011 and describes the relative growth in Total Income from Farming in the short and medium term. The contribution that the agricultural industry makes to the regional economy is compared with that for England as a whole.

Key messages

- In 2011, Total Income from Farming significantly increased in all NUTS1 regions.
- North East and East Midlands regions had the largest increase in Total Income from Farming at 38 per cent and 33 per cent respectively.
- The North West and West Midlands regions saw the smallest increases in Total Income from Farming of 20 per cent each.



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3.2 Health and Welfare

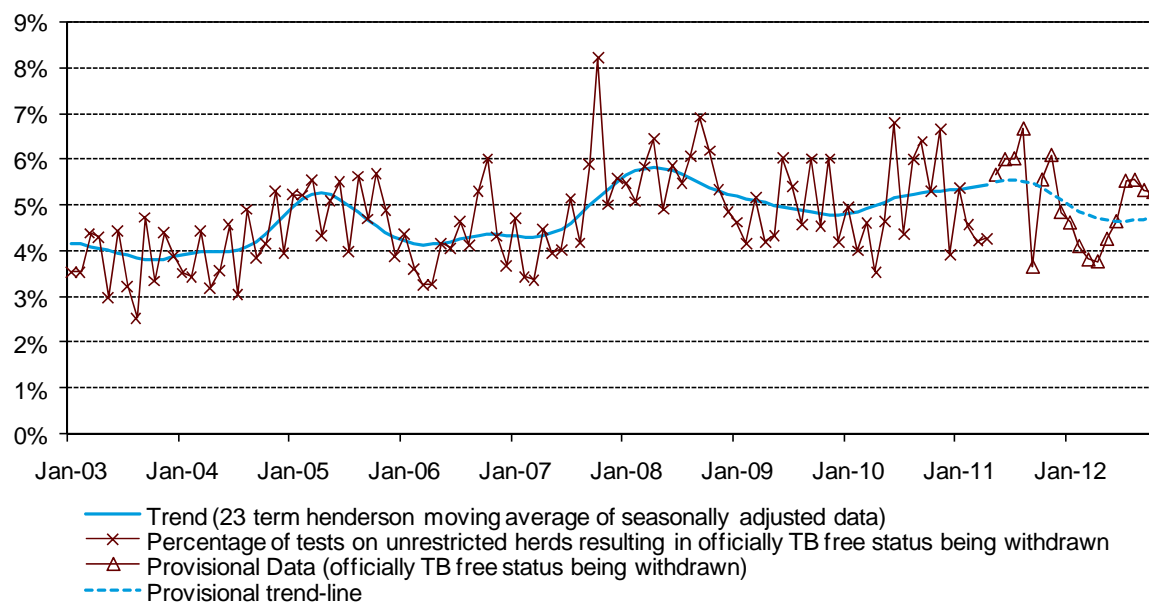
3.2.1 TB Statistics October 2012 – Great Britain

The provisional October 2012 ([published on 16 January](#)) incidence rate is 5.3 per cent, compared to 5.6 per cent in October 2011. However, care needs to be taken not to read too much into short term figures, especially as this figure includes a number of unclassified incidents. As such, the incidence rates are subject to further revisions as more tests and their results for the period become available.

The number of new herd incidents during the period January to October 2012 was 4,188 compared to 3,983 for January to October 2011. The number of tests on officially TB free herds was 60,218 in January to October 2012, compared to 50,954 in January to October 2011.

The number of cattle compulsorily slaughtered as reactors or direct contacts was 31,146 in January to October 2012, compared to 27,788 in January to October 2011.

Figure 1: Number of officially TB free status being withdrawn breakdowns, as a percentage of tests on officially TB free herds (from 2003)



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4. Food

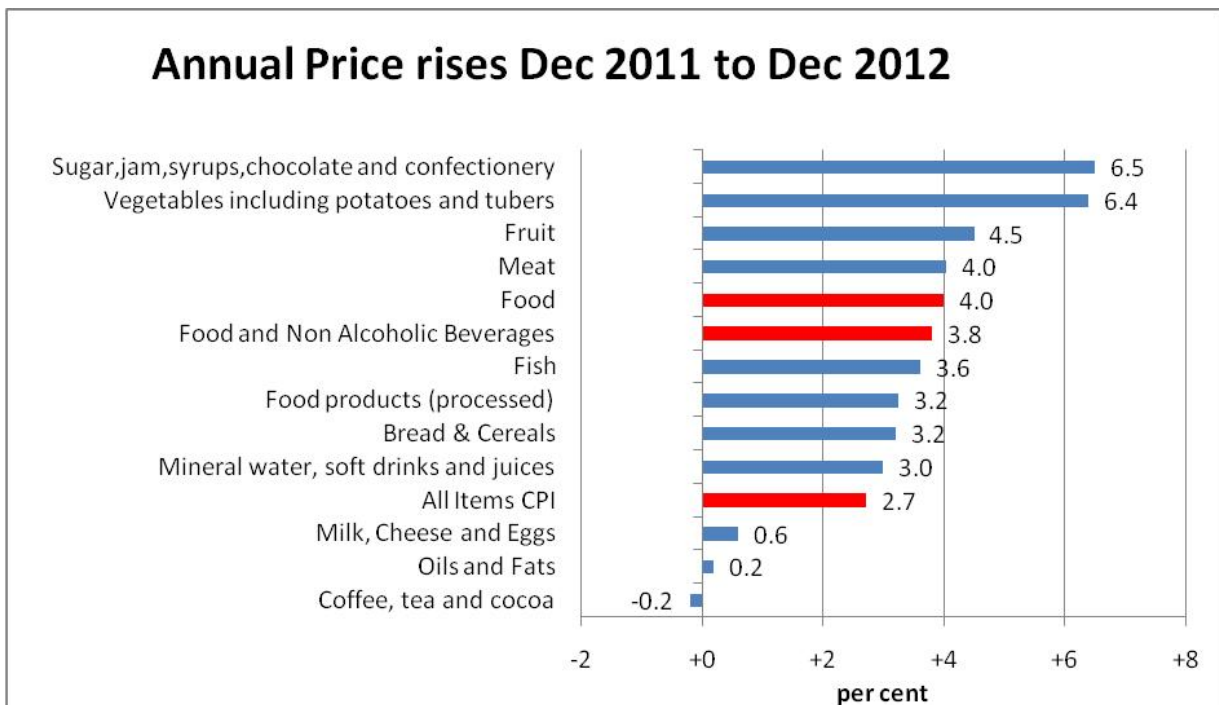
This section highlights current trends in food price inflation and drivers of future price changes together with the latest trade figures for food and drink.

4.1. Food inflation: consumer and retail prices

4.1.1. Annual Rate of Food Inflation

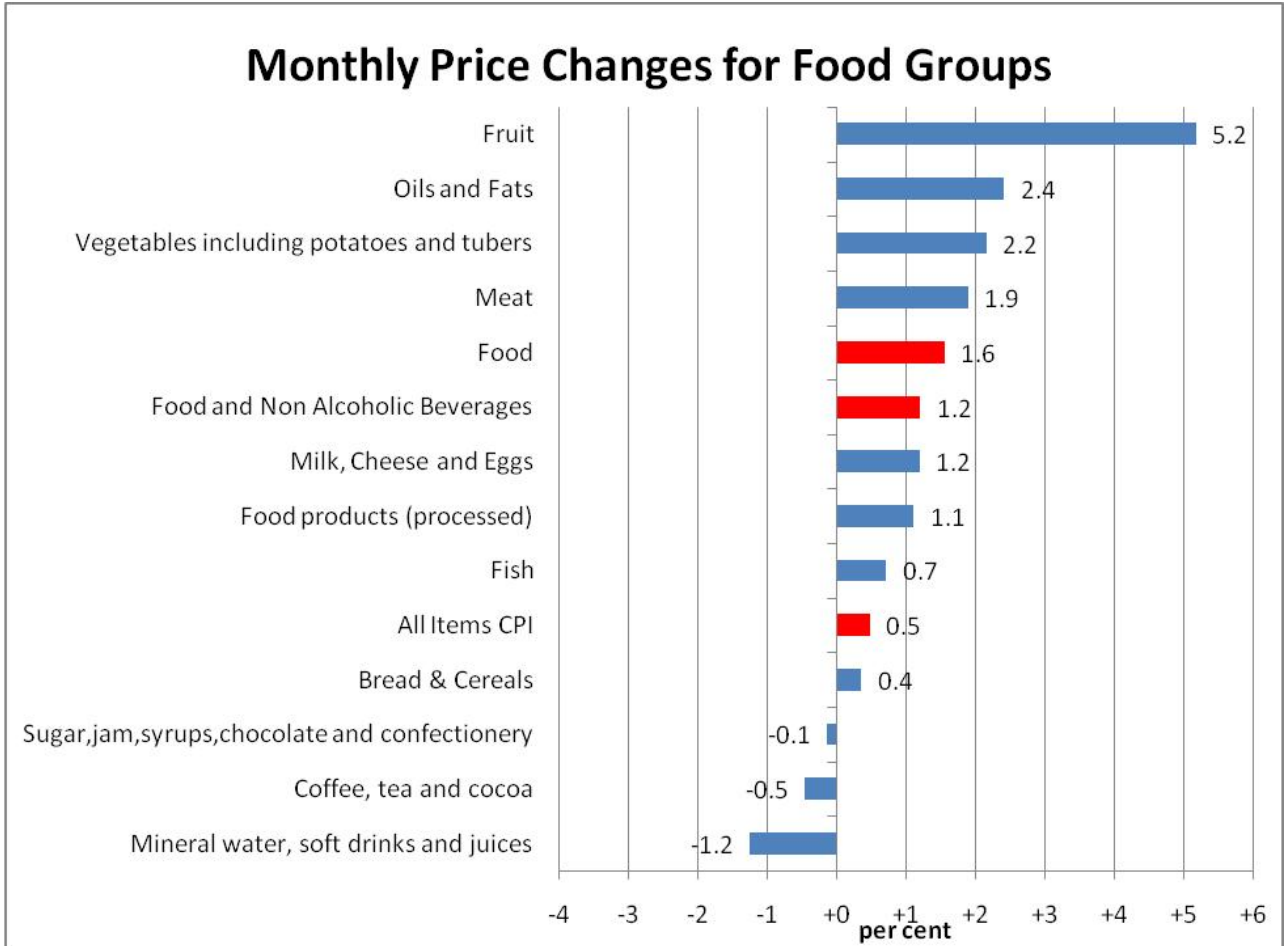
The annual rate of food price inflation fell slightly to 3.8 per cent in December but is well above general inflation which has remained at 2.7 per cent for three consecutive months.

The most significant upward contributions to the change in the CPI 12 month rate between November and December came from housing & household services and clothing and footwear. Food and non alcoholic beverages had a small downward effect on the all items 12-month rate change. This was mainly due to alcoholic beverages falling in price this year but rising a year ago.



4.1.2. Trends and Detailed Monthly Movements

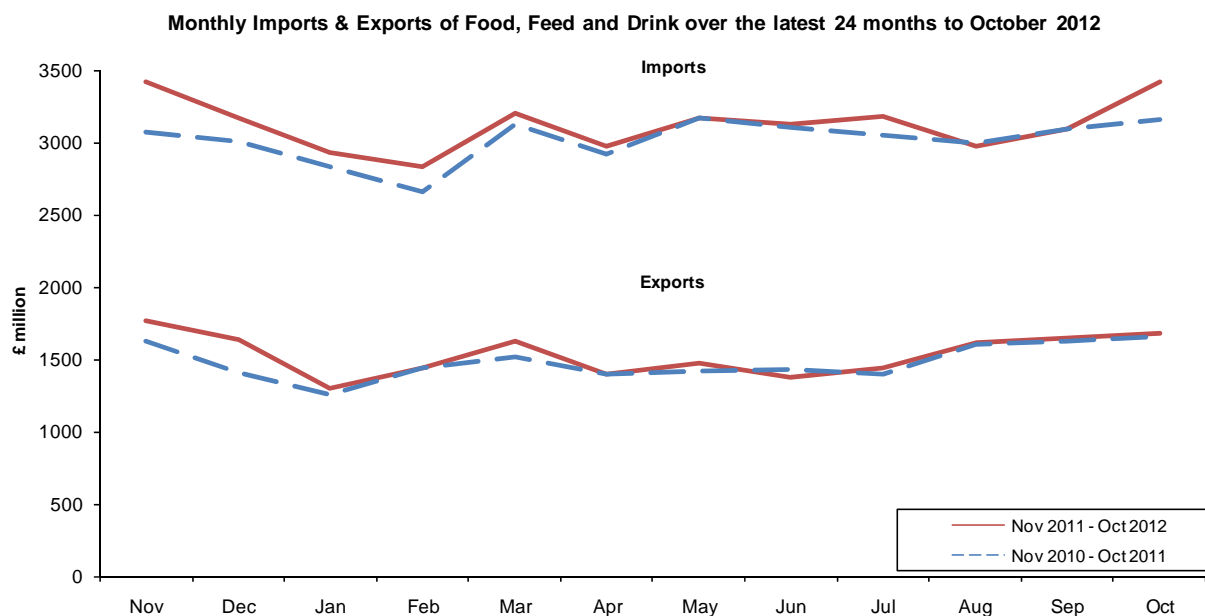
Food & non alcoholic drink prices rose 1.2 per cent between November and December this year contributing 0.14 percentage points to the total CPI 1-month change. Fruit, oils and fats, meat, vegetables and dairy products were the main contributors. This increase is slightly smaller than the November to December increases witnessed in the last couple of years.



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4.2. International Trade in Food and Drink

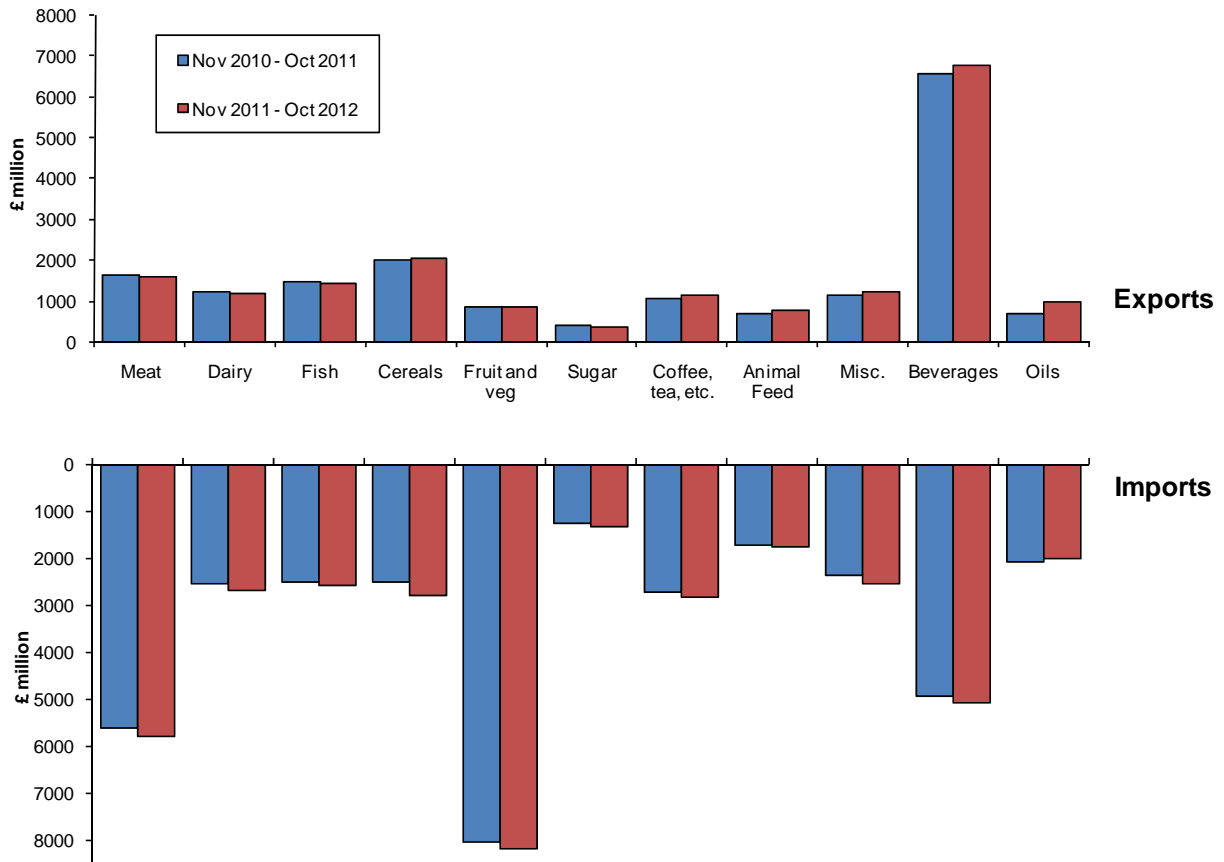
The latest trade figures show that for the month of October 2012, the value of **Exports** was £1.7 billion, 1.0 per cent higher than in October 2011 and the value of **Imports** was £3.4 billion, 7.9 per cent higher than in October 2011. This resulted in a **Crude Trade Gap** of minus £1.7 billion, 15.5 per cent wider than in October 2011.



The following chart shows annual trade by food group for the periods November 2010 – October 2011 and November 2011 – October 2012. The key points on the change between these periods are as follows:

- imports of **meat and meat products** rose by £158m (2.8 per cent), while exports fell by £51m (-3.1 per cent)
- imports of **dairy products and eggs** rose by £116m (4.5 per cent), while exports fell by £69m (-5.5 per cent)
- imports of **cereals and cereal preparations** rose by £275m (10.9 per cent), while exports rose by £58m (2.9 per cent)
- imports of **beverages** rose by £169m (3.4 per cent) while exports rose by £211m (3.2 per cent)
- imports of **oils and fats** fell by £50m (-2.4 per cent) while exports rose by £285m (41.2 per cent)

Trade by Food Group



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