



Headline summary

The monthly farming and food brief summarises the latest statistical and economic information relating to the agricultural sector. In particular, it highlights the results of recently published evidence and research.

International commodity markets remain stable

We are in a period of relatively stable international commodity markets. Cereal prices have been slowly falling from the highs of summer last year, though are still above the February 2012 price, though for the recent weakening in the Sterling exchange rate will exert upward pressure on prices.

Emerging anecdotal evidence suggests increased demand for British meat following horse meat contamination

In the UK, beef farmers and local butchers appear to be benefiting from consumer concerns regarding horsemeat, with declines in sales of frozen and processed meat products reported. Domestic sheep and cattle prices have seen small increases on the back of strong demand (at least partly linked to changing consumer buying patterns) and limited supplies (because the impacts of the poor weather are still working through the system). ([see section 2.1.2](#))

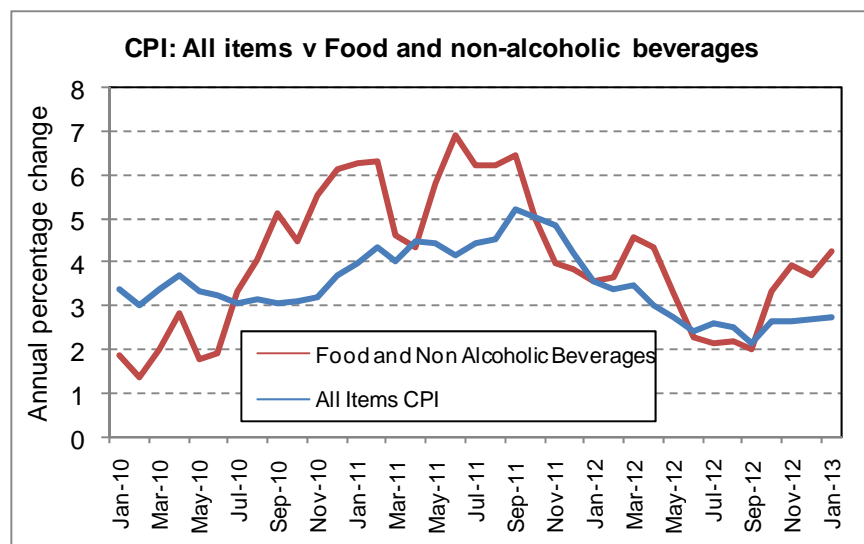
Food price inflation continues to rise

The annual rate of food price inflation rose to 4.2 per cent in January and is well above general Consumer Prices Index inflation which has remained at 2.7 per cent for the fourth month in a row. (see chart right, and [section 4](#))

New research

Defra research released this month on the *economic performance of dairy farms* finds a high level of variation in efficiencies across farms. Under 2 per cent of the variation is related to large-scale geographic factors (e.g. regional differences in soil and climate), with just over 70 per cent related to other between-farm factors (such as differences in management ability). After allowing for these factors, larger farms tend to be slightly more efficient on average. Nevertheless, the best small and medium sized herds achieve similar performance to the largest ones. ([see section 2.1.3](#))

Defra has also published [detailed evidence](#) to support the *Campaign for the Farmed Environment*. Whilst not all of the formal targets have been met, there is good evidence of the positive impact of the Campaign. ([see section 3.1.1](#))



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1. Overall economic position

Inflation rate unchanged

The headline rate of inflation remained unchanged for an unprecedented fourth month in a row - the Consumer Prices Index (CPI) showed that prices grew by 2.7 per cent in the year ending January 2013.

In some months, an unchanged headline rate can mask some large upward and downward pressures on inflation. This wasn't the case this month where there were only some fairly modest movements. 'Alcohol' (where prices rose following sales over the Christmas period) and 'air fares' provided the biggest upward pushes on inflation. 'Miscellaneous goods and services' and 'clothing' prices provided the biggest downward pushes.

Looking ahead, a new measure of consumer price inflation (which will initially be known as CPIH) including owner occupiers' housing costs will be launched in March 2013. Additionally, a new measure based on the Retail Prices Index (using a new method of calculation known as the Jevons formula) will also be launched in March. This index will be known as RPIJ.

More details are in the full [statistical bulletin](#) from the Office for National Statistics.

Small decrease in unemployment rate

The unemployment rate for October to December 2012 was 7.8 per cent of the economically active population, down 0.1 percentage points from July to September 2012. There were 2.50 million unemployed people, down 14,000 from July to September 2012.

Retail sales down

In January 2013, year-on-year seasonally adjusted estimates of the quantity bought in the retail sector fell by 0.6 per cent, putting a halt to the year-on-year growth seen in the retail sector since August 2011.

Fall in production output

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, while construction sector output was estimated to have increased by 0.3 per cent in Q4 2012.

2. 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.

2.1. Economic

2.1.1. UK Prices – Inputs

- **Red Diesel:** The average January price for red diesel remained at a similar level to the previous month at 69.41 pence per litre.
- **Fertiliser:** The average price for 34.5 per cent UK Ammonium Nitrate bags remained stable for the fifth month running at £301 per tonne. This keeps the monthly price below the 2011/12 equivalent. (*Source: Dairy Co Datum*)

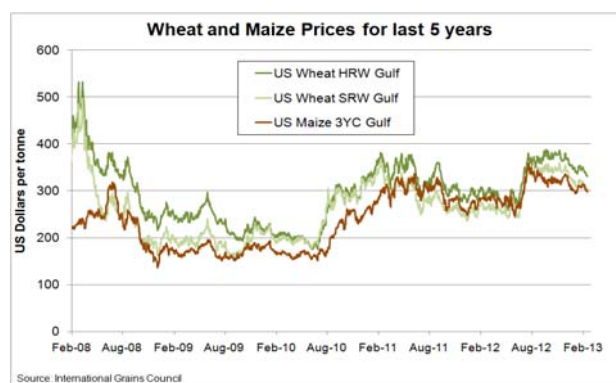
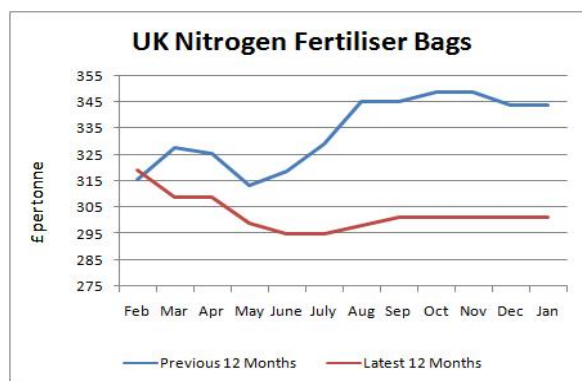
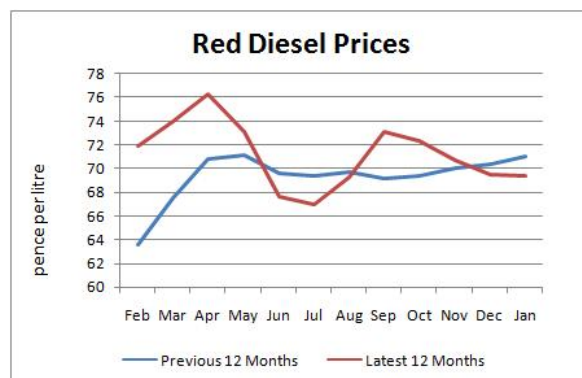
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2.1.2. Prices and Market Information – Commodities

The **United Nations Food and Agriculture Organisation (FAO)** Food Price Index averaged 210 points in January 2013. This was 12 per cent lower than its record high in February 2011. It remained unchanged between December 2012 and January 2013. Following three months of consecutive declines, the Index stabilized in January, as a rebound in oils/fats prices offset a decline for cereals and sugar. Dairy and meat values remained generally steady. ([United Nations FAO – 7 Feb 2013](#))

Cereals

- The January average price of Hard Red winter wheat¹ was \$346 per tonne, 3.1 per cent lower than December. For Soft Red winter wheat the average January price was \$330, a 4.2 per cent decrease on December. Prices available to mid February show a decrease of 2.7 per cent for Hard Red winter wheat and 2.5 per cent for Soft Red winter wheat on the January average price.
- Maize prices have fallen from a record high of \$358 per tonne in July to reach \$299 per tonne by mid February.



- In their latest report, released on 8 February, the US Department of Agriculture (USDA) left their forecasts of World wheat end-stocks (for the end of the crop year in June) virtually unchanged at 176.73Mt (176.64Mt in January) as a small increase in opening stocks offset slightly lower production and higher feed consumption.
- The USDA also revised its World maize end-stocks to 118.0Mt, an increase of 2.05Mt due to increases in the US, Brasil and Mexico. As result of better area and yield data, production was increased in Brazil, Mexico and Former Soviet Union and these increases offset a fall in production in Argentina. In addition,

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

demand in the feed sector was reduced, mainly due to reduced usage in Brazil. However the EU 27 are expected to use more maize for feed (50.5Mt compared to earlier forecast of 48.5Mt).

- For soyabeans the UDSA estimated a 1Mt production increase for Brazil and a 1Mt decrease for Argentina. Production for these countries are now estimated at 83.5Mt and 53Mt respectively. A record South American crop is hoped for to relieve tightness in US supplies.

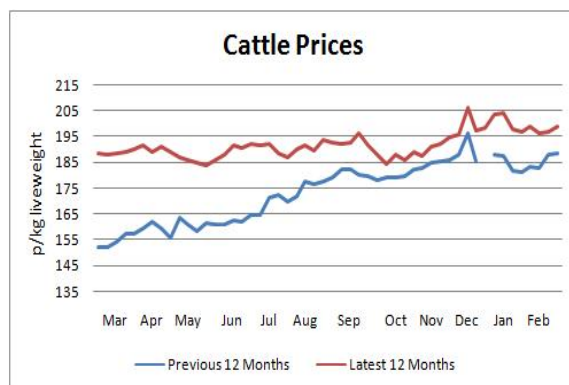
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- **Animal Feed (source Defra):** During December 2012, total GB retail production of animal feed was up 4.7 per cent compared to the same period in 2011. There has been an increase in the retail production of animal feed in recent months due to the 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 0.8 per cent during December 2012 compared to the same period in 2011.
- **Flour (source Defra):** During December 2012, the total amount of wheat milled in the UK was 593 thousand tonnes, 9 per cent higher than in December 2011. For the same period, imported wheat milled increased by 136 per cent, due to the poor quality UK wheat harvest. 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 December 2012 was 436 thousand tonnes, down 8 per cent compared with December 2011. Flour production for the same period was 470.5 thousand tonnes, 7.8 per cent higher than in December 2011.
- **Brewers, Distillers and Maltsters (source Defra):** During December 2012, the total usage of barley by brewers, distillers and maltsters was up 3 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 January 2013 sheep and lamb home fed production was 7.9 per cent higher than January 2012 at 26 thousand tonnes, with numbers going to slaughter up, a carryover from last year's disrupted marketings as a result of the poor weather conditions. Demand is still running ahead of supplies resulting in a continued upward trend in prices.
- **Cattle:** In January 2013 UK home-fed production of beef and veal was 2.9 per cent lower than January 2012 at 82 thousand tonnes as supplies of cattle remain tight. Although cull adult cattle numbers remain high, prime cattle slaughterings were 3 per cent lower compared to 2012. With demand for quality assured beef increasing and supplies still tight, farmgate prices have shown a rise.
- British beef farmers and local butchers appear to be benefiting from consumer concerns regarding horsemeat, with declines in sales of frozen and processed meat products reported. Peter Hardwick, head of trade development at trade body EBLEX, said, while care was needed in interpreting recent increases in liveweight beef prices, the recent increases appeared to be linked to the horse meat scandal. He said the most immediate impact of the scare appeared to be that consumers were shunning imported beef products. He stressed that it takes considerable time for beef supplies to respond to any sustained increase in demand for domestic beef, raising the prospect of upward pressure on prices. ([Farmers Guardian](#) – 19 Feb 2013)
- In a survey of 2,257 UK adults by **Consumer Intelligence**, 24 per cent said they would buy less processed meat following the horsemeat scare, with 21 per cent saying they had already started buying less meat in general, and 62 per cent saying they were more likely to buy their meat from independent shops. ([BBC News](#) – 18 Feb 2013)

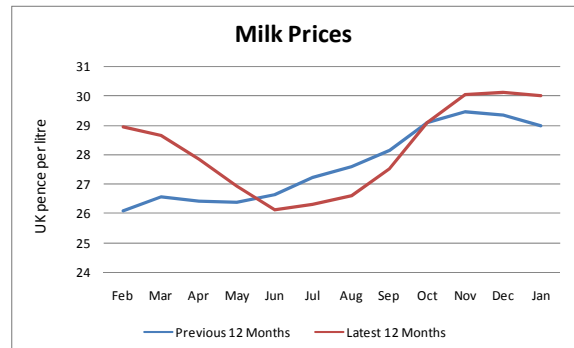


- **Pigs:** In January 2013 UK home-fed production of pig meat was 76 thousand tonnes, 2.2 per cent higher than January 2012, with average weights and the number of pigs available for slaughter remaining strong.

Livestock products

- **Milk:** In January 2013, the provisional volume of wholesale milk delivered to dairies continued to be approximately 5 per cent lower than the same period last year at 1.06 billion litres. Cumulative production for the first ten months of the milk year was 3.2 per cent, or 354.5m litres, below last year's level at 10.9 billion litres.

The average UK milk price for January 2013 remained at similar levels to the previous two months, at 30.00 pence per litre. This represents an annual rise of 3.6 per cent on January 2012. (source: Defra).



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2.1.3. Dairy farms: economic performance and links with environmental performance.

Defra have produced a [report](#), using Farm Business Survey data, to examine the economic efficiency of dairy farms, in terms of the ratio of output value to total input cost and relates this to agri-environment scheme membership.

There is a high level of variation in efficiencies of dairy farms. Under 2 per cent of the variation in output is related to large-scale geographic factors (e.g. regional differences in soil and climate). Just over 70 per cent is related to other between-farm differences in efficiency, such as differences in management ability and local geographic effects (e.g. small-scale variation in land quality), whilst around a quarter represents year-to-year variation in the performance of farm businesses.

A number of factors help to explain the variation in efficiency between farms, including the following:

Debt: low efficiencies are strongly associated with high debt.

Farmer age: farm business performance increases slightly with age.

Tenure: owner-occupied farms perform better than tenanted farms on Full Agricultural Tenancies, which in turn perform better than those on Farm Business Tenancies. This contrasts to the situation with cereals and grazing livestock farms, where tenanted farms showed higher efficiency.

Moorland area: farms containing moorland have lower agricultural efficiencies, but there is no significant difference for the farm business as a whole, after including income from SPS, agri-environment schemes and diversification.

Specialisation: on average, farms with a range of agricultural activities (including those growing their own fodder crops and rearing dairy calves) perform better than those focused entirely on milk production, although the magnitude of the difference varies between years.

Diversification: diversification outside agriculture is associated with reduced agricultural efficiency, but has no significant impact on business-level efficiency.

Foot and Mouth Disease: farms culled for FMD had reduced agricultural performance between 2003 and 2005, whilst the deleterious effect on the business as a whole seems to be longer lasting.

Organic status: organic dairy farms perform better at both the Farm Business level and for the agricultural cost centre. The magnitude of the advantage varies from year to year.

Average efficiencies increase slightly with the **economic size** of the farm up to around £500,000 costs per annum, provided the effects of the confounding factors described above are allowed for. Similarly, analysis of costs shows that larger herds tend, on average to have lower costs and higher margins, but that there is a high level of variation, with the best small and medium sized herds achieving similar performance to the largest ones.

Economic performance of dairy farms is less strongly related to membership of **agri-environment schemes** than is the case for either cereal farms or grazing livestock farms. Nevertheless, membership of ELS does seem to be related to improved performance at the farm business level. Very few farms in the sample have joined HLS, making it difficult to assess its impact on dairy farms.

Business management practices are linked to economic efficiency. High performing businesses are more likely to:

- use management accounting practices and have a business plan;
- have a PC and use the internet for submitting forms electronically;
- plan ahead using information from the farming media and discussions with other farmers;
- adopt risk management strategies, particularly selling on contract basis with agreed price.

Farms **ceasing to produce milk** were more likely to:

- be older than average;
- be in an area with fewer other dairy farms;
- have proportionately less income from SPS and agri-environment schemes;
- receive a lower than average price for their milk;
- have lower agricultural performance.

Analysis of **costs** suggests that control of costs is critical in ensuring a positive net margin, with the best producers keeping costs low in all areas.

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3.1 Environment

3.1.1 Campaign for the Farmed Environment

The Campaign for the Farmed Environment (CFE) was launched in November 2009 as an industry-led² alternative to regulation. Formal targets were set in order to assess the Campaign's performance and a programme of monitoring and evaluation was put in place to monitor progress and to provide a wider assessment of the Campaign. Whilst not all of the formal targets have been met, there is good evidence of the positive impact of the Campaign. The full evidence base and a high level summary have been published on the [Defra website](#). The key findings are:

- **Key targets** - there has been mixed success in meeting the land management targets. There has been an increase in the area of land managed voluntarily towards environmental objectives (target met) but the area of un-cropped land has decreased (target not met). The uptake of key Entry Level Stewardship options has increased but the target was not met, however the uptake of Higher Level Stewardship options significantly exceeded the target.
- **Environmental management and outcomes** - the target to improve the management of un-cropped land has been met (although this was at a lower base level) but overall, the management of voluntary measures did not consistently apply all of the recommended management prescriptions. The field surveys suggested that a sizeable proportion of land with voluntary measures will not have maximised environmental benefits.
- **Attitudes to the Campaign** - there has been a high level of support for the aims and approach of the Campaign but this has not been translated into widespread uptake of the voluntary measures or key Environmental Stewardship option uptake. Awareness of the Campaign has been high but this contrasts with lower levels of understanding.
- **Targeted delivery** - there has been a significant difference between target and non-target counties in the uptake of both un-cropped land and managed voluntary measures, providing evidence of success of the Campaign through the targeted approach to local delivery.
- **The partnership approach** - the Campaign has had notable wider benefits including the **collaborative approach** (bringing together partners towards shared objectives) **local** engagement,

² The Campaign was proposed by farming organisations working in partnership with government and environmental groups as an industry-led alternative to regulation. The Campaign was launched in November 2009 and was initially funded until July 2012 and extended until December 2012.

participation and delivery (local liaison groups, messaging etc), wider **industry support** (including through the media, agronomists and professional farm advisers) and **behavioural change** i.e. shaping social norms within the industry towards shared objectives towards positive environmental management.

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3.2 Health and Welfare

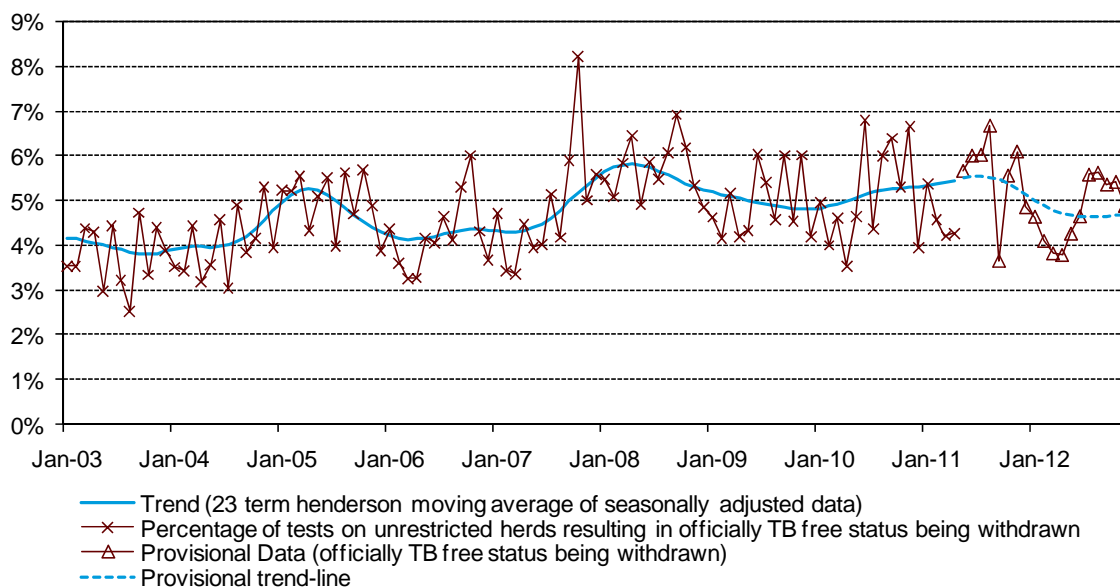
3.2.1 TB Statistics November 2012 – Great Britain

The provisional November 2012 ([published on 13 February](#)) incidence rate is 4.9 per cent, compared to 6.1 per cent in November 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 are input.

The number of new herd incidents during the period January to November 2012 was 4,761 compared to 4,469 for January to November 2011. The number of tests on officially TB free herds was 67,918 during January to November 2012, compared to 56,525 during January to November 2011.

The number of cattle compulsorily slaughtered as reactors or direct contacts was 34,897 during January to November 2012, compared to 30,979 during January to November 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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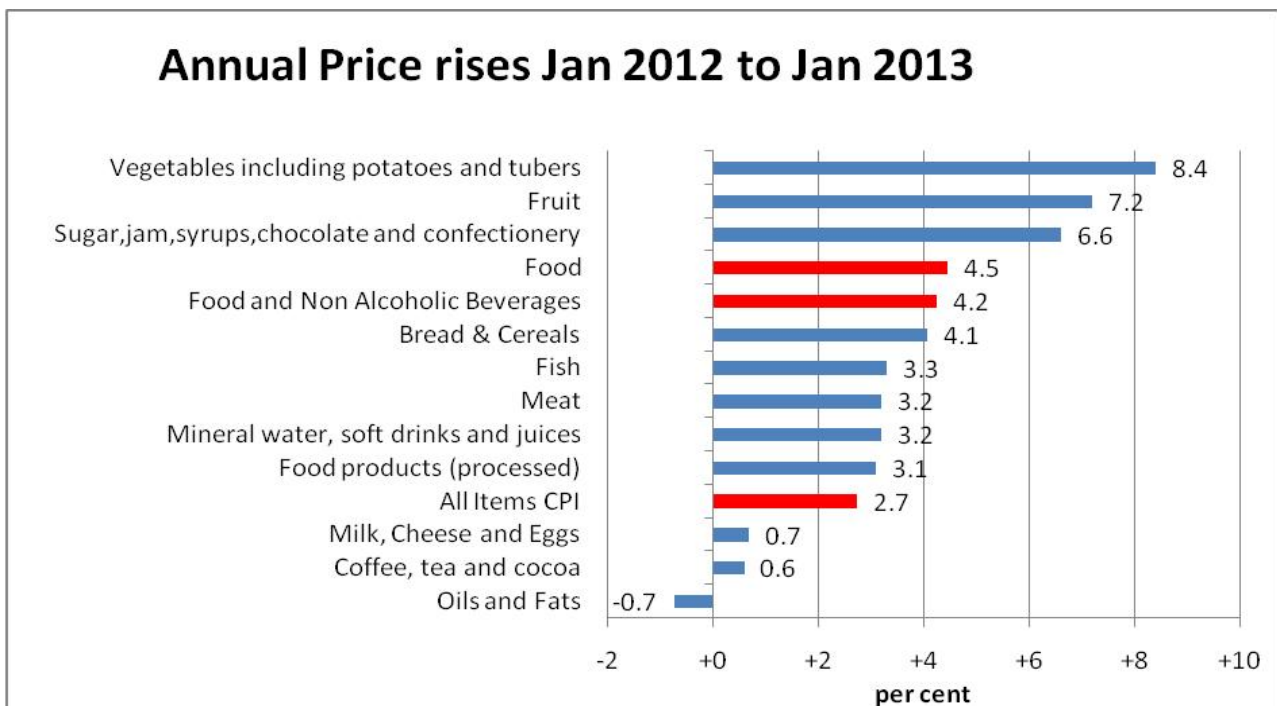
4. Food

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. Food Inflation

The annual rate of food inflation rose to 4.2 per cent in January and is well above general inflation which has remained at 2.7 per cent for the fourth month in a row. This is the longest period for which CPI growth has remained unchanged. Annual all items inflation stands at 2.7 per cent in the year to January. Prices fell by 0.5 per cent between December 2012 and January 2013, the same fall as occurred between these months a year earlier. This means the CPI 12-month rate remained at 2.7 per cent for the fourth month in succession.



Between December 2012 and January 2013, food and non-alcoholic beverages prices rose 0.1 per cent, compared with a fall of 0.4 per cent a year earlier. Most of the upward push came from vegetables (with reports of low UK stock levels resulting in more produce being sourced from the continent). Retail potato prices have risen 31 per cent since August (from 71 pence per kilo to 93 pence per kilo in January).

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4.1.2. Industry news

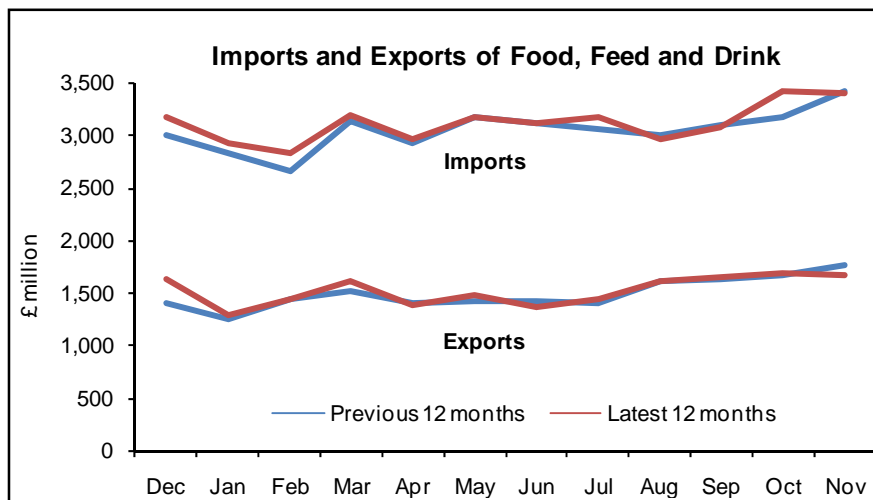
Dr Pamela Robinson, a lecturer in international supply chains at the **University of Birmingham**, said pressure to sell food more and more cheaply in economy ranges and 'two for one offers' has led to "rogue traders" adding horse meat to the supply chain. Dr Robinson, a former executive at **Tesco**, who worked in retail for 21 years, said supermarkets are going to have to admit food prices need to go up if they are to guarantee quality. She stated that the government should be getting people used to the fact that after years of food prices going down, households are going to have to spend a greater proportion of income on food. ([The Daily Telegraph](#) – 30 Jan 2013)

4.2. International Trade in Food and Drink

This section shows the latest available trade figures (to November 2012).

In November:

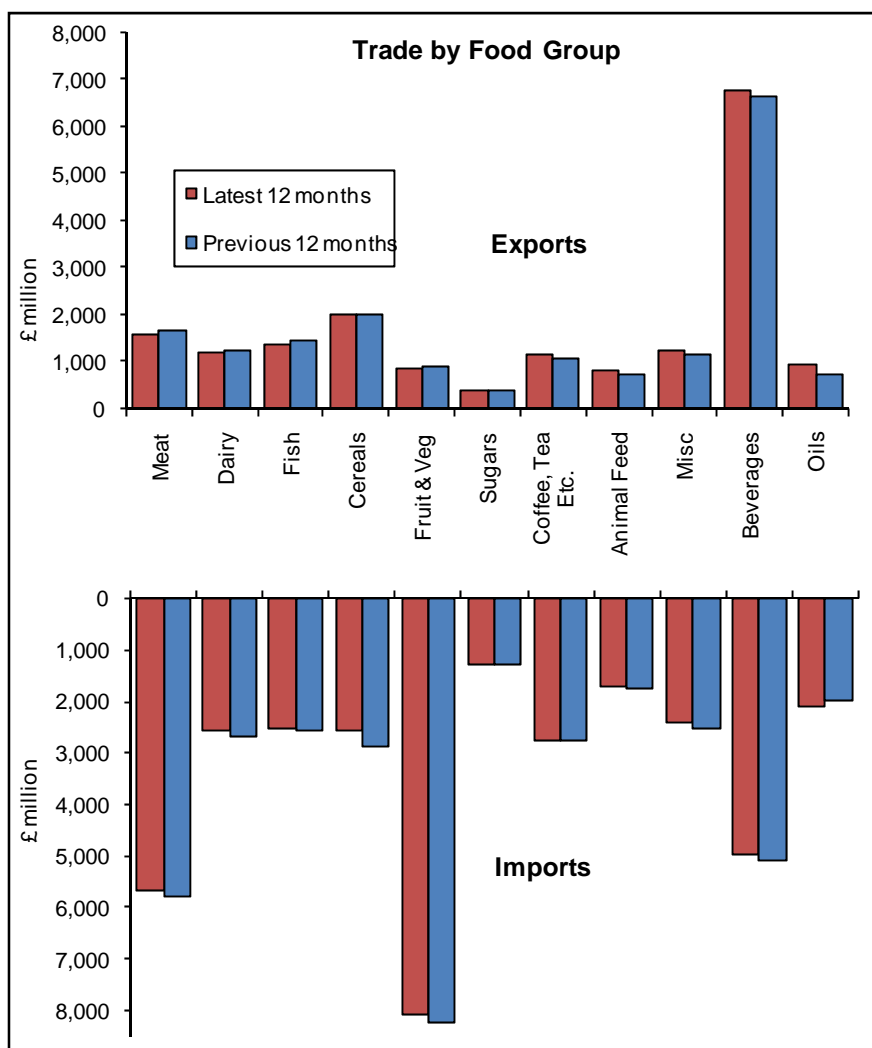
- the value of exports was £1.7 billion, 5.3 per cent lower than in November 2011;
- the value of imports was £3.4 billion, 0.2 per cent lower than the previous November;
- this resulted in a crude trade gap of minus £1.7 billion, 5.3 per cent wider than in November 2011.



The following chart shows annual trade by food group for the periods December 2010 – November 2011 and December 2011 – November 2012.

The key points on the change between these periods are as follows:

- imports of **meat and meat products** rose by £90m (1.6 per cent), while exports fell by £61m (-3.7 per cent)
- imports of **dairy products and eggs** rose by £94m (3.6 per cent), while exports fell by £64m (-3.7 per cent)
- imports of **cereals and cereal preparations** rose by £318m (12.5 per cent), while exports fell by £9m (0.4 per cent)
- imports of **beverages** rose by £125m (2.5 per cent) while exports rose by £121m (1.8 per cent)
- imports of **oils and fats** fell by £111m (-5.3 per cent) while exports rose by £229m (31.9 per cent)



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