Department for Environment Food & Rural Affairs

February 2014

Farming and Food Brief

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.

Recent flooding issues

The high rainfall experienced since mid-December has resulted in extensive flooding in the Severn valley, Thames valley and Somerset levels, as well as other smaller areas. Whilst flooding is not uncommon in these areas, the duration of the floods in 2014 has been exceptional. Most of the flooding has been limited to the low lying areas near water courses, which tend to be grazing land, although a small proportion of arable fields were affected. Elsewhere the high rainfall across much of the south has led to saturated soils. It is still too early to tell what the full extent of the impact on arable crops might be although crops were well established, which should help mitigate the impact in all but the worst impacted areas. There are potentially larger impacts on the livestock industry with losses to feed and bedding supplies and cases where livestock has had to be moved off the farm. Losses to grassland may cause longer term feed supply problems although the NFU fodder bank may mitigate this to some extent.

Further details of the £10m Farming Recovery Fund were announced at the National Farmers Union Conference on 25 February 2014. The fund will assist with 4 key areas of recovery offering support with uninsured losses to help get farms back into production again. It will help with restoring grassland, and productive arable and horticultural land. Restoring field access for vehicles and improving field drainage.

To provide fast support for those farms that have been flooded, there will be an immediate response fund with grants for up to £5000 which will cover up to 100 per cent of the eligible costs. There will then be a second part of the fund which will be held back initially so that funds are still available to help those farms which continue to be affected but where it is too soon to be able to assess the full extent of the damage.

Impact of grants on farm performance

Defra has published detailed evidence on the impact of grants on farm economic performance. Farm Business Survey (FBS) data for 2003 to 2011 was used to examine the impact of grants on the economic efficiency of farms. These grants relate to buildings, machinery and improvements such as land drainage and are thought to be predominantly from RDPE funds. Most grants were fairly small with around 80% equivalent to no more than 10% of the farms annual turnover and 65% no larger than £10,000. Perhaps because of this, no statistically significant positive impacts on economic performance were observed. However farms receiving grants were more likely to undertake major investment than those not receiving grants. Farms applying for grants tended to be significantly better economic performers prior to receiving the grant than those farms not receiving grants. (see section 2)

Updated TB statistics

All TB statistics that were suspended last month have now been re-introduced. There have been significant revisions to the number of herds that are not officially TB free during 2012 and 2013. The headline incidence rate was not affected. The provisional incidence rate for January to November 2013 is 4.5% compared to 4.8% for January to November 2012. The number of new herd incidents during the period January to November 2013 was 4,456 compared to 4,758 for January to November 2012. The number of cattle compulsorily slaughtered as reactors or direct contacts was 30,220 during January to November 2013, compared to 34,896 during January to November 2012. (see section 3)

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1. Overall economic position

Consumer Price Index

- 1.9% growth in Consumer Prices Index (CPI) in the year to January 2014, down from 2.0% in December 2013.
- The fall in the rate resulted from price movements for recreational goods & services, furniture & household goods and alcoholic beverages & tobacco. These were partially offset by price movements for miscellaneous goods & services.

More details are in the full statistical bulletin from the Office for National Statistics.

Unemployment Rate - September to November 2013

The percentage of the economically active population aged 16 and over who were unemployed (the unemployment rate) was 7.1%. The unemployment rate is down 0.5 percentage points from June to August 2013 and down 0.6 from a year earlier. There were 2.32 million unemployed people aged 16 and over, down 172,000 from a year earlier.

Retail Sales

Year-on-year estimates of the quantity bought in the retail industry showed strong growth for the second consecutive month in January 2014, increasing by 4.3%. With store price inflation growth, as measured by the implied price deflator, slowing to 0.2% (the lowest since September 2009), the amount spent in January 2014 increased by 4.4% compared with January 2013.

Year-on-year there was notable growth in non-food stores (8.0%), where; stores selling household goods increased by 9.8%, the largest year-on-year increase in these stores since July 2007 and; other goods stores increased by 14.8%. However, the growth experienced by both store types was in part a consequence of a weak January 2013 where heavy snowfall during the latter part of this month could have affected sales.

GDP – Preliminary Estimate, Q4 2013

Change in gross domestic product (GDP) is the main indicator of economic growth. GDP increased by 0.7% in Q4 2013 compared with Q3 2013. GDP was 2.8% higher in Q4 2013 compared with the same quarter a year ago. GDP is estimated to have increased by 1.9% in 2013, compared with 2012.

2. Farming

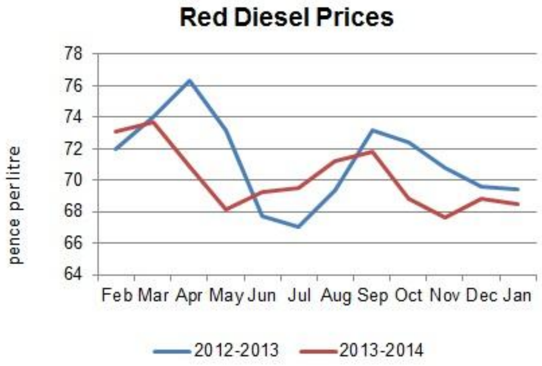
This section brings together the latest economic position for the farming sector (including UK and international input and commodity price intelligence) and the highlights of recently published evidence and research.

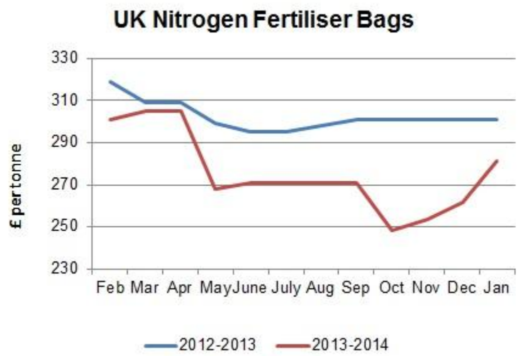
2.1. Economic

UK Prices – Inputs

- **Red Diesel:** In January 2014, the average price for red diesel fell to 68.47 pence per litre. Current prices are 1.3% lower than January 2013.

- **Fertiliser**: The average price for 34.5% UK Ammonium Nitrate bags rose to £282 per tonne. Current prices are 6% lower than January 2013. Increased demand and supply problems in the Middle East have seen a sharp increase in prices. *(Source: Dairy Co Datum)*





Contact: Julie Rumsey, Farming Statistics (Accounts and Prices), Julie.Rumsey@defra.gsi.gov.uk

2.1.1. Prices and Market Information – Commodities

Cereals

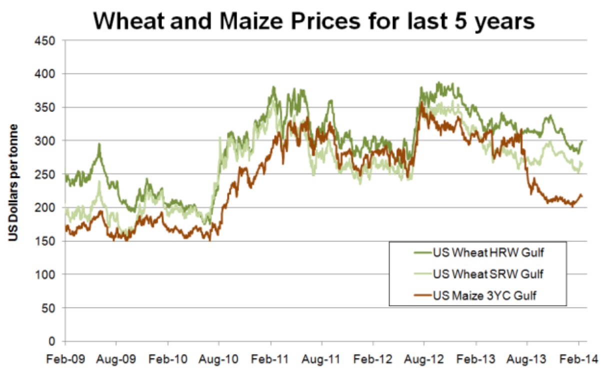
- The January average price of Hard Red winter wheat was $297 per tonne, 4.5% lower than December. For Soft Red winter wheat the average January price was $261, a decrease of 5.1% from December. Prices available to mid February show an increase of 2.8% for Hard Red Winter wheat on the January average price and an increase of 1.5% for Soft Red Winter wheat.

- Maize prices have fallen from a record high of $358 per tonne in July 2012 to $218 per tonne in mid February (4.3% higher than the January average price).

- The USDA published their *World Supply and Demand Estimates* on 7 February. For **Wheat** the USDA have revised their global ending stock downwards by 1.7Mt to 183.7Mt (175.8Mt last season). This reduction was due to lower forecasts for the US and EU caused by increased export numbers. However, despite these reductions the global wheat market is relatively well supplied with a stocks to use ratio of 26.1% (26.4% in January).

- For **Maize** the USDA forecast lower global ending stocks of 157.3Mt compared to the 160.2Mt forecast in January. February's lower forcast is due to an increase in global demand. Increased import demand (and animal feedstuff usage) in the EU, Egypt and Mexico contributed to a 3.7Mt increase in demand. Demand is now forecast to be 81Mt higher than last season at 943.3Mt.

- The USDA have increased their **Soyabean** production forecast to 287.7Mt due to higher production forecasts for Brazil (positive higher



Source: International Grains Council

yields) and Paraguay which more than offset a decline in Argentina (adversely affected by hot dry weather in mid January. Global ending stocks are forecast at 73Mt, 0.7Mt higher than the January forecast and 14.4Mt higher than for 2012-13.

Contact: Allan Howsam, Farming Statistics (Crops), allan.howsam@defra.gsi.gov.uk

- **Animal Feed** (source Defra)**:** During December 2013 (the latest period for which data is available), the total GB retail production of animal feed was 995 thousand tonnes, down 2.8% on the same period in 2012. Total GB integrated poultry feed production was 231 thousand tonnes, down 1.3% during December 2013 compared to the same period in 2012.

- **Flour** (source Defra)**:** During December 2013, the total amount of wheat milled in the UK was 583 thousand tonnes, 3% lower than in December 2012. The total amount of home grown wheat milled in the UK for December 2013 was 486 thousand tonnes, up 10% compared with December 2012. There were 97 thousand tonnes of imported wheat milled in December 2013, down 40% compared with December 2012. The poorer quality 2012 UK crop resulted in greater use of imported wheat, however December 2013 has shown millers continuing to revert back to using a greater proportion of home grown wheat from the better quality 2013 wheat crop. Flour production for the same period was 457 thousand tonnes, 4.7% lower than in December 2012.

- **Brewers, Distillers and Maltsters** (source Defra)**:** During December 2013, the total usage of barley by brewers, distillers and maltsters was 158 thousand tonnes, down 3% compared to December 2012.

Contact: Tom Johnson, Farming Statistics (Crops), tom.johnson@defra.gsi.gov.uk

Livestock *(source: Defra)*

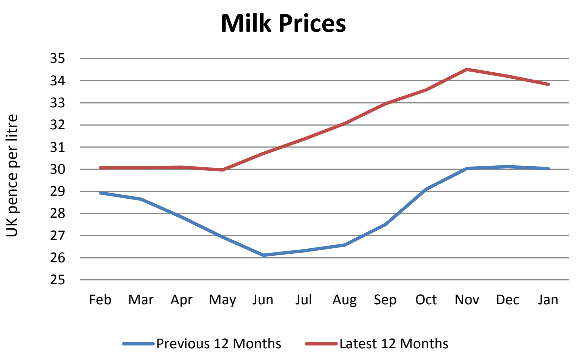
- **Sheep:** UK home-killed production of mutton and lamb was 1.2% higher in January 2014 compared to January 2013.

- **Cattle:** UK home-killed production of beef and veal in January 2014 was 1.5% lower than January 2013 at 81 thousand tonnes.

- **Pigs:** UK home-killed production of pigmeat was 1.7% higher in January 2014 compared to 2013, with average carcase weights for clean pigs remaining strong.

Livestock products

- **Milk volumes:** The provisional volume of wholesale milk delivered to UK dairies during January 2014 was 10.4% higher than the same period last year, at 1.2 billion litres, 110 million litres higher than January 2013. This represents the highest January figure for 12 years. Relatively low feed costs and high farmgate prices have contributed to the strong performance. Cumulative production for the ten month period (Apr-Jan) of 11.3 billion litres was 438m litres (4%) higher than 2012/13 (source: RPA).



- **Milk prices:** The average UK milk price for January 2014 shows a slight decrease of 1.1% on the previous month at 33.8 pence per litre (exc. bonuses). With ample milk supplies for the time of year, wholesale markets have cooled, with prices for butter and cream falling in line with reduced demand. Compared to January 2013, the monthly price represents a rise of 12.6 per cent (3.8 pence per litre) (source: Defra).

- **Eggs:** During the fourth quarter of 2013, 6.6 million cases of eggs were packed in the UK, of which 5 million (74%) were packed in England and Wales. 52% of eggs packed were produced intensively and 42% of eggs packed during Q4 2013 were free range. Annual UK packing station throughput totalled

26.9 million cases, an increase of 3.8% on 2012. The average packer to producer price during Q4 2013 for all egg types was 88.2 pence per dozen. This was a 1.1% fall on the previous quarter (source: Defra).

- **Poultry:** UK Poultry meat production in January 2014 was 1.4% higher compared to January 2013.

Contact: Julie Rumsey, Farming Statistics (Accounts and Prices), Julie.Rumsey@defra.gsi.gov.uk

Contact: Helen Hoult, Farming Statistics (Livestock), Helen.Hoult@defra.gsi.gov.uk

2.1.2. The impact of grants on farm economic performance

Farm Business Survey (FBS) data for 2003 to 2011 was used to examine the impact of grants on the economic efficiency of farms. These grants relate to buildings, machinery and improvements such as land drainage and are thought to be predominantly from RDPE funds.

Most grants were fairly small with around 80% equivalent to no more than 10% of the farms annual turnover and 65% no larger than £10,000. Perhaps because of this, no statistically significant positive impacts on economic performance were observed. However farms receiving grants were more likely to undertake major investment than those not receiving grants. Farms applying for grants tended to be significantly better economic performers prior to receiving the grant than those farms not receiving grants.

One limitation with this analysis is that the FBS data does not record the purpose of the grant, and it is known from RDPE application data that the primary objective of almost 50% of grants was to improve animal welfare or deliver environmental benefits, rather than to improve competitiveness. In the future it may be possible to obtain information on the purpose of the grants recorded in the FBS, thus permitting a more precise assessment of their effectiveness.

The full report is available here.

Contact: Steve Langton, Environmental Observatory steve.langton@defra.gsi.gov.uk

2.1.3. UK crop development

Drilling conditions in autumn 2013 were good allowing farmers to drill most of the planned winter crops and for crops to establish well under the mild conditions. The high rainfall experienced since mid-December has resulted in extensive flooding in the Severn valley, Thames valley and Somerset levels, as well as other smaller areas. Flooding is common in these areas, but the duration of the floods in 2014 has been unusual. Most of the flooding was limited to the low lying areas near water courses, which tend to be grazing land, although a small proportion of arable fields were affected. Away from the flooded areas, the high rainfall across much of the south has led to in saturated soils, ponding in poorly drained areas of fields and some problems with groundwater flooding due to the high water tables.

It is still too early to tell what the full extent of the impact on arable crops might be. Winter crops typically survive some flooding, but submersion can affect tillering, plant survival and crop viability. Good levels of early tillering, prior to waterlogging should help to mitigate the impact although in worst impacted areas crops may not be viable and could mean replacement crops being drilled in the spring.

However the regular rainfall since mid-December has effectively halted all fieldwork such as spring drilling but also pesticide and phosphate and potash fertiliser applications with only the lightest land dry enough to cultivate at the end of February. In the main, the delays have not caused a serious impact, but will concentrate the workload into a smaller window for the spring. The exception may be some fields of oilseed rape where planned herbicides were not applied before the rain and the pesticide cut-off date is now past which may result in higher levels of black-grass and seed return.

Contact: Lindsay Holmes, Farming Statistics (Crops), lindsay.holmes@defra.gsi.gov.uk

3. Environment, Health and Welfare

3.1. Health and Welfare

3.2.1. TB Statistics November 2013 – Great Britain

- All statistics that were suspended last month have now been re-introduced. There have been significant revisions to the number of herds that are not officially TB free during 2012 and 2013. The scale of these revisions is detailed on pages 2 and 3. The headline incidence rate was not affected.

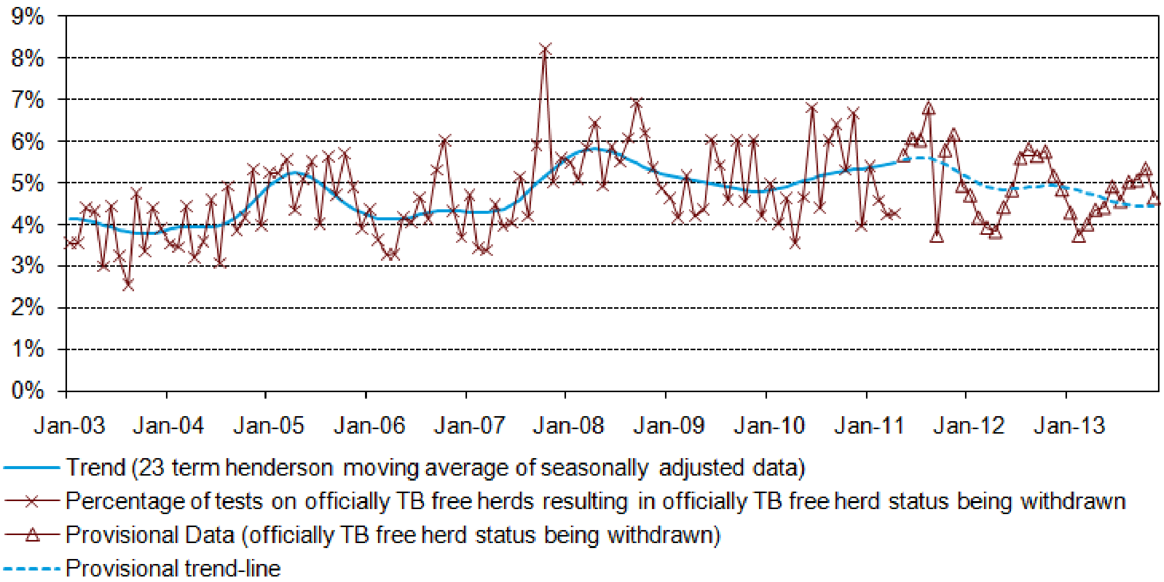
- Short term changes in these statistics should be considered in the context of long term trends. The charts and tables in this statistical notice illustrate how the trend in bovine TB incidence has changed since 1996.

- The provisional incidence rate for January to November 2013 is 4.5% compared to 4.8% for January to November 2012. 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 2013 was 4,456 compared to 4,758 for January to November 2012. The number of tests on officially TB free herds was 66,251 during January to November 2013, compared to 67,959 during January to November 2012.

- The number of cattle compulsorily slaughtered as reactors or direct contacts was 30,220 during January to November 2013, compared to 34,896 during January to November 2012.

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



Contact: Animal and Plant Health Evidence and Analysis (APHEA), tbstatistics@defra.gsi.gov.uk

4. Food

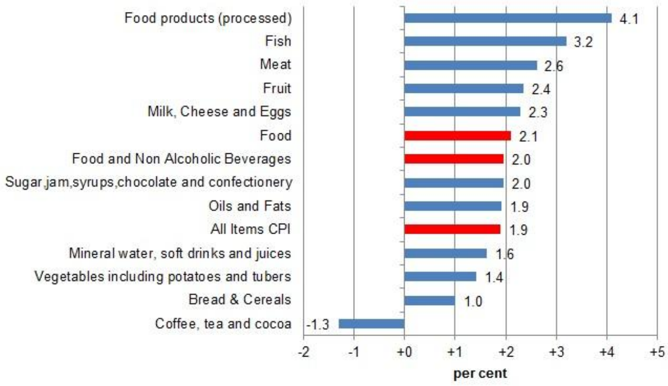
This section highlights current trends in food price inflation and drivers of future price changes together with the latest trade figures for food and drink.

4.1. Food inflation: consumer and retail prices

Food inflation rose to an annual rate of 2.0 per cent in the year to January, up from 1.9 per cent in December. Between December and January 2014 **food and non-alcoholic drink prices rose by 0.2 per cent**.

Annual all items inflation fell to 1.9 per cent from December 2013 to January 2014. The largest contributions to the fall in the CPI annual rate came from 'recreational goods and services', 'furniture and household goods' and 'alcoholic beverages and tobacco'. The largest upward contribution came from 'miscellaneous goods and services'

Annual Price rises January 2013 to January 2014



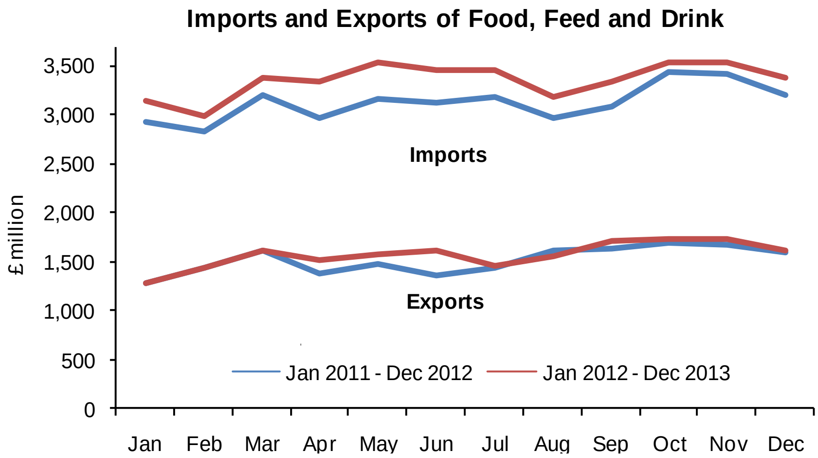
Contact: Julie Rumsey, Farming Statistics (Accounts and Prices), Julie.Rumsey@defra.gsi.gov.uk

4.2. International Trade in Food, Feed and Drink

This section shows the latest available trade figures (to December 2013).

In December:

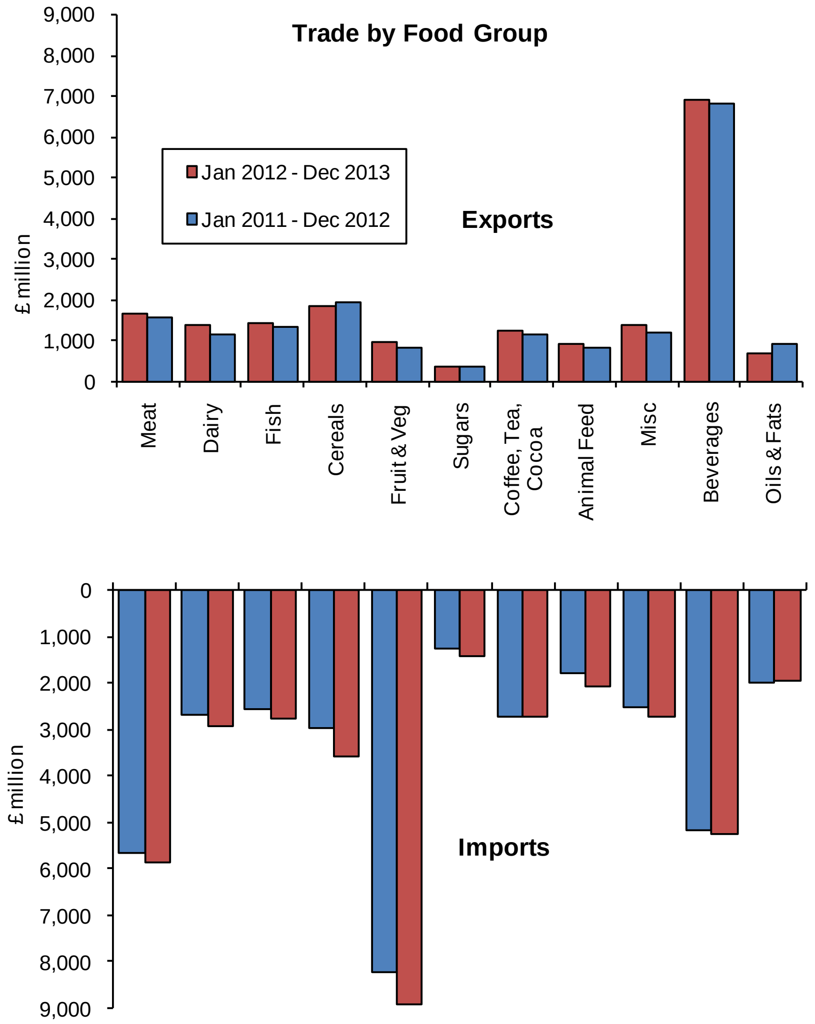
- the value of exports was £1.6 billion, 2.1% higher than in December 2012;
- the value of imports was £3.4 billion, 5.1% higher than the previous December;
- this resulted in a crude trade gap of minus £1.8 billion, 8.1% wider than in December 2012.



The following chart shows annual trade by food group for the periods January 2012 – December 2012 and January 2013 – December 2013.

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

- imports of **dairy products and eggs** rose by £261m (9.8%), while exports rose by £207m (17.7%)
- imports of **fish and fish preparations** rose by £182m (7.1%) while exports rose by £111m (8.2%)
- imports of **cereals and cereal preparations** rose by £585m (19.6%), while exports fell by £79m (-4.1%)
- imports of **fruit and vegetables** rose by £726m (8.8%), while exports rose by £106m (12.4%)
- imports of **oils and fats** fell by £53m (-2.7%) while exports fell by £227m (-24.7%)



Contact: Joanne Gardiner, Farming Statistics (Trade), joanne.gardiner@defra.gsi.gov.uk