RBR

Rural Business Research

Intelligence from the Regions – October 2015

Status

Twice a year staff of the RBR provide up to the minute information from their Regions on what is happening on farms and local markets together with a summary of current attitudes and concerns. The website; http://www.ruralbusinessresearch.co.uk will carry the latest collated report. Comments are welcome as well as any queries; please contact the Editor; philip.robertson@nottingham.ac.uk

This information is provided by RBR staff and every effort is made to check its accuracy and validity. It should be recognised that whilst some of the information is anecdotal, that is its value in giving a current and real insight into what is happening within the industry. As with all information it should be used with care and in context.

Contents

Please use the hyperlinks below to access individual pages

Key Points

- The 2015 harvest marketing season began with a notable carryover of 2014 crops after some producers were reluctant to sell grain at the low prices available in 2014.
- Cereal yields have generally been above average with numerous reports of record harvests on individual farms.
- There are reports of farmers using higher seed rates for the 2016 oilseed rape crop to mitigate the possibility of poor establishment due to Cabbage Stem Flea Beetle (CSFB).
- Some arable farmers have intimated they are sowing crops for harvest 2016 on an entirely speculative basis, hoping for a shift in currency markets, or a poor harvest in a major grain growing country to lift the price of arable commodities.
- The increases in areas grown (2015) of peas and beans may be reversed in 2016 due to farmers experiencing difficulties in marketing these crops. Alternative greening options may be considered, e.g. hedges, to meet EFA requirements.
- The phasing in of the National Living Wage during the period 2016-2020, is regarded by potato growers as a huge cost concern unless profitability improves sharply.
- 2016 will see a large shake up in the sugar beet industry, with many growers either reducing or temporarily ceasing production or ceasing production altogether.
- Industry reports suggest considerable demand for new installations of hydroponic systems for soft fruit production.
- Low milk prices are of great concern for many milk producers, especially those who have recently made large capital investments into their dairies.
- There have been reports of dairy producers considering alternative markets, for example producing milk with higher levels of butterfat and protein in order to target new and specific markets and to be less reliant on supermarket pricing.
- Although end beef prices and cull cow prices are currently low, the prices of calves and good store cattle remain disproportionately strong.
- Lower lamb prices in 2015 do not seem to have dented producer confidence.
- Plentiful pigmeat supplies, subdued consumer demand, a weak EU market and an unfavourable exchange rate remain the main factors keeping prices low.
- Tenant farmers have reported concerns about demands for rent increases, despite greatly reduced crop prices.
- Banks are advising farming clients to be aware of possible added pressure on cash-flow if BPS payments are late and to seek to increase overdraft limits accordingly.

Summary

- **Arable**

- Low cereal and rape prices are of concern to growers, although recent news predicting a possible drought in Russia has been a source of optimism for arable farmers. High input costs, despite the lower oil price and cheaper imports due to the strength of £ Sterling, are squeezing margins.

- For many cereal growers, high yields have helped to mitigate the worst effects of low prices.

- Farmers generally completed the harvest of milling wheat in time to ensure that hagberg numbers and specific weights were preserved. However, later harvested wheat was typically of poor quality, including low specific weight.

- Early indications are that 2015 oilseed rape yields are above average despite the neonicotinoid ban. However, this may mask the fact that some areas of oilseed rape had to be re-drilled in order to attain these yields with a resultant increase in costs.

- On finding cabbage stem flea beetle (CSFB) larvae in isolated plants in spring through to early summer of 2015, oilseed rape growers were concerned about the likelihood of yield reduction due to this damage (in addition to any damage during the previous autumn establishment). These larvae were indicators that the pressure from the pest could be even greater in autumn 2015.

- At harvest, there were social media reports of CSFB in stores of harvested oilseed rape.

- There are reports of farmers using higher seed rates for the 2016 crop to mitigate the possibility of poor establishment due to CSFB. Some areas of the **South East** are now seeing much higher levels of CSFB attack following the ban on neonicotinoids seed dressings, with many crops requiring multiple treatments of insecticide to protect the crop from attacks.

- Some arable farmers have intimated they are sowing cereal and oilseed rape crops for harvest 2016 on an entirely speculative basis, hoping for a shift in currency markets, or a poor harvest in a major grain growing country to unexpectedly lift the price of arable commodities.

- Many arable farmers in England grew peas or beans for the first time in 2015, or returned to producing these crops after a break of many years in order to meet the 'three crop rule'. These crops are often difficult to harvest, but the task was made harder in 2015 due to the wet conditions at the time of harvest.

- The small market for the pea and bean crops for animal feed has seen farmers struggle to find an outlet for these crops, with many farmers deciding against growing them for the 2016 harvest in order to meet their greening requirements. Instead, they are planning (hoping) to rely on other greening features such as hedges to meet their EFA requirements.

- The Defra June Survey has reported an 8% reduction in potato plantings for 2015; this major change reflects farmers' experiences with the crop in 2014.

- Potato growers are under immense price pressure which is stifling growth with very few looking to expand their businesses due to cash flow pressures on their businesses.
- Looking ahead to the phasing in of the National Living Wage during the period 2016-2020, potato growers see this as a huge cost concern unless profitability improves sharply.

- Although sugar beet is a spring crop, some producers on light land in the East of **England** were drilling their 2015 crop before the 2014 harvest had concluded.

- Faced with lower prices for sugar beet and reduced tonnage of contracts with British Sugar, producers had to choose whether to reduce production or take a single year break from production in 2015. For many, the decision to reduce or temporarily cease production was made easier because they have limited capital invested in drilling and harvesting equipment; among those ceasing production completely are the larger scale producers. The impact on contractors and haulage contractors will be significant.

❖ Horticulture

- In the **East of England** there have been reports of conflicts between the demands of food safety legislation and water management. At least one glasshouse producer has stopped irrigation using harvested rainfall due to the risk of crop contamination from bird droppings (despite using a filter system).

- Changing consumer preferences for diets with reduced sugar have impacted sales of UK grown fruit for juice.

- In the **West Midlands,** excellent yields for apples have been reported and sugar content is also good.

- The trade expects dessert apple prices to hold up well. Import substitution is still happening and the impact of the Russian ban on imports is weakening as the market has adjusted to find new buyers.

- The cider apple market has benefitted in 2015 as a result of an £8 per tonne increase in contract prices by Heineken (40% of the market); similar prices are also being provided by the other major players.

- In the **South East**, the reported grubbing of 20% of the Bramley apple area in 2014/2015 has not had a favourable effect on the price due to the abundant supply of the crop in 2015, following record breaking yields.

- The soft fruit harvest in the **South East** has been very good with high yields of good quality fruit reported, especially of raspberries. The use of polytunnels continues to expand in **Kent and Sussex** with the growing season being extended year on year by adopting this practice.

- Hop yields are reported as being variable this year, being affected by a warm dry spring followed by a cool wet summer. Global production is expected to fall due to a reduction in area, especially in Europe. This, coupled with the craft beer demand, bodes well for the financial prospects for hop production.

- British grown flowers represent only 15% of flowers sold in the UK annually, though a Covent Garden Flower market initiative (summer 2015) to promote British grown flowers was deemed a big success with the benefits of seasonality, being locally produced and freshly picked being highlighted as major selling points.

- The recent boom in selling vegetable plants is predicted to be over as the interest in 'grow your own' is reported to be declining. There have been reports of vegetable plant producers cutting back their production by as much as 25% in 2015.

- In the **South East** region, there have been reports of a number of smaller producers of bedding plants going out of business, citing the unpredictability of the market affected by larger retailers cancelling orders at the last minute.

- Accessing apprentice level training in the sector is proving difficult due to marketing inertia and a lack of skilled trainers.

❖ **Dairy**

- Smaller dairy units dominate those leaving the industry because of the effect low milk prices is having on the financial viability of their businesses. Larger units, who are striving to increase production, are on the one hand increasing profitability marginally, while on the other hand exacerbating the problem of keeping supply and demand out of balance.

- In September 2015, Defra announced it was to share £15.5 million of an EU aid package between UK dairy farmers. There is some disquiet amongst some producers who are receiving the lowest milk prices that the aid is also going to producers that are towards the top of the milk price range.

- Whilst there have been reports of larger producers investing in obtaining advice, entering into consultancy arrangements and building new infrastructure to improve overall efficiency, smaller producers are focusing on reducing expenditure, including personal drawings.

- Examples of cost saving measures employed by medium sized dairy farms include reducing labour, delaying capital investment projects and changing from year round consultancy to ad hoc consultancy services with reports that some producers are evaluating very carefully the value to their business of commercial services provided by consultants.

- Reports suggest that key performance areas in the economics of dairying such as herd fertility and essential herd health elements, including foot trimming and mobility scoring are not being subject to reduced spending despite the poor milk price.

- The range of milk prices received continues to be wide. For example, in the **North East,** two neighbouring farmers, one on a Tesco dedicated producer contract and the other on a Meadow Foods non-dedicated contract, reported milk prices in May 2015 of 31ppl and 21ppl, respectively.

- The culling rate of cows seems to be above average with producers culling cows that in more profitable times they might not have done. Cows with poor (but not bad) calving indexes and those with slightly higher cell counts than is desirable, are being culled and added to the supply chain and further depressing the market.

- It is understood that a number of large AD plants are being built on maize growing **Cumbrian** dairy farms. If the milk price fails to recover, these farms are likely to cease milk production in favour of a more certain income stream of RHI payments.

- Organic milk producers have fared much better than their conventional colleagues through the current downturn in milk prices, with their milk price staying above 30ppl. This added value of organic milk has caused some concern recently amongst OMSCo members about the potential for conventional producers to convert to organic production causing oversupply in the market.

❖ **Beef and Sheep**

- Finished beef prices and cull cow prices are currently low, whilst the prices of calves and good store cattle remain disproportionately strong.

- Dairy bred calves and stores are becoming harder to source due to dairy farms rearing their own herd replacements and also retaining male calves for store production to alleviate cash flow.

- Bovine TB continues to be a problem for livestock farmers, with current compensation payments lower than the market value of fat cattle. Bovine TB is becoming more of an issue for cattle farmers in **West Sussex** with reports of "inconclusive" test results on the rise, following the introduction of regular testing after the movement of infected beef stores to the area from the **South West**.

- In the **East of England** cattle farmers report reduced availability of stockfeed potatoes and are looking at alternative energy feeds.

- An increasing number of small scale lowland livestock producers continue to rely on diversification into tourism activities (B&B's, holiday lets, hospitality, and livery) as well as off-farm employment to sustain the farm business, as livestock margins are squeezed.

- The finished lamb price has been disappointingly low from the outset of the 2015 marketing year. However, lower lamb prices in 2015 do not seem to have dented producer confidence.

- The cost effectiveness of continuing to creep feed lambs has been questioned with farmers cutting back on the amount fed via this practice, at a time of falling returns.

- Rams have been reported as difficult to sell into a depressed market with prices down by approximately £100/head for the majority of breeds, compared with a year ago.

- Good late season grass growth has helped farmers reduce costs of flushing ewes before tupping begins with farmers also predicting a good crop of lambs in 2016.

- The wool price continues to improve with farmers now left with a positive margin after the cost of shearing is accounted for.

❖ **Pigs and Poultry**

- Plentiful pigmeat supplies, subdued consumer demand, a weak EU market and an unfavourable exchange rate remain the main factors keeping prices low.

- October 2015 saw prices at their lowest for six years with farmers receiving 129p/kg deadweight for their fat pigs.

- Although maiden gilt prices are down (October 2015), they are considered expensive when viewed against current margins.

- Specialist poultry producers are generally positive about profitability (October 2015).

- Many poultry producers are embracing Renewable Heat Incentives (RHI) payments to help cut heating costs by investing in biomass boilers. Despite the government's 'degression- mechanism' that led to regular cuts in RHI payments, many poultry farmers believe it makes investment sense where there is large on-site use of electricity.

- There have been reports of increased confidence in the provenance of British poultry meat with the spate of coverage in social media commenting on the welfare standards of overseas poultry production.

- Concerns were raised in the **North West** when it was reported that there were record levels of chick placings, which could increase the population of the laying flock by as much as 30%. One free range producer thought that this would be a disaster for the industry and would lead to oversupply of eggs and a down turn in prices.

- A turkey rearer in the West Midlands commented on his intention to scale-back production for the 2015 Christmas market, as the current trading environment makes it difficult to sell locally at a premium in competition with cheaper birds sold by supermarkets.

❖ CAP Reform, Basic Payment Scheme and Environmental Schemes

- Farmers have been extremely frustrated over the IT system to process the first year of the Basic Payment Scheme claim. Many farmers have needed to employ the services of an agent to help with their claim - an additional professional cost not normally required by their businesses.

- Farmers received details of the new Countryside Stewardship Scheme (CSS) in late June and at the start of harvest. Many made the decision not to apply given the short period between release of scheme details and the deadline for applications (which was later extended).

- There is feedback that farmers are finding the new environmental schemes very difficult to understand, comply with and apply for with some not bothering to apply before the September 2015 deadline.

- For environmental stewardship schemes, a common theme is the ever increasing complexity of them in relation to their financial reward.

- Some farmers have started measuring hedges and ditches as they plan to include these on BPS claims in the second scheme year (2016).

- There were mixed reactions to DEFRA's announcement that there would be no changes to next year's Ecological Focus Areas (EFA) options. One **Yorkshire Wolds** farmer argued that the environmental value of walls was equivalent to hedgerows and their exclusion meant he had to grow a protein crop in order to gain enough points.

- The CSS, which replaces the entry level scheme (ELS), is alleged by some farmers to give very few options for upland farms to enhance the environment and therefore, an opportunity to participate in the scheme.

- One major area of concern for many LFA farms has been the re-alignment process undertaken by Natural England/RPA in relation to environmental stewardship scheme payments. In many cases this has meant farms did not receive a payment during the spring or summer of 2015 and are unlikely to receive any interim payments until December of this year. In some cases this has caused considerable hardship with some farms reportedly selling cattle and sheep throughout the summer in order to maintain some form of cash flow.

❖ Renewable energy

- Although late drilled wheat is the traditional choice of crop to follow late harvested sugar beet, a number of producers in the **East of England** now grow AD maize in this position in the rotation. Despite the loss of an opportunity to grow first wheat, the later planting provides opportunities for blackgrass control and preparation of a good quality seedbed.

- For solar power, the changes to the rates of feed-in-tariffs (FITs) announced in the budget have generated a flurry of activity before they are reduced in January 2016. These changes have also created uncertainty over the future viability of this source of renewable energy, following its rapid growth in recent years.

- Early experience of the RHI scheme seems to indicate that costs exceed the financial benefits of the switch to renewable heat schemes at current energy prices.

- There have been reports of local councils issuing rate demands for fields where there are solar panels, as they are deemed to be non- agricultural, with the outcomes still pending.

❖ **Rents**

- Tenant farmers have reported concerns about demands for rent increases, despite greatly reduced crop prices. However, one General Cropping farm in the **East of England** has reported a rent reduction; the first to be observed for several years.

- Generally, land rents continue to be driven upwards through increased demand, with the impact from non-food use being great where land is within reasonable travelling distance to an Anaerobic Digester (AD) plant.

❖ **Finance**

- Generally banks are still pushing to convert overdrafts to longer term loans. Borrowings are still accessible if the age of the farmer and the budgeted figures look favourable.

- Banks are advising farming clients to be aware of possible added pressure on cash-flow if BPS payments are late and to seek to increase overdraft limits accordingly.

- Banks remain cautious with their lending for cash-flow purposes for general farming activity, and expect farmers to produce good business cases supported by detailed financial data for the business before agreeing to raise overdraft limits.

- In the **South East** region, non-farmers have become the main buyers of agricultural land with the proportion of farmer buyers being at their lowest since 2003.The growth of prime arable land values continues as prices are influenced by investment in land by purchasers from outside the industry.

Arable

Low cereal and rape prices are of concern to growers, although recent news predicting a possible drought in Russia has been a source of optimism for arable farmers. High input costs, despite the lower oil price and cheaper imports due to the strength of £ Sterling, are squeezing margins.

The 2015 harvest marketing season began with a notable carryover of 2014 crops after some producers were reluctant to sell grain at the low prices available in 2014. Whilst farmers are very concerned about the current prevailing prices, many tend not to dwell on the problem when there are pressing farm tasks to perform. For many, high yields have helped to mitigate the worst effects of low prices. Prices have been described as "unimpressive" with some reports of forward selling prices being lower than the cost of production.

The 2015 harvest was characterised by an early start and a late finish. Farmers generally completed the harvest of milling wheat in time to ensure that hagberg numbers and specific weights were preserved. However, later harvested wheat was typically of poor quality, including low specific weight.

As the harvest dragged on into September, some farmers reluctantly harvested their crops at very high moisture contents, with the inevitable prospect of high drying costs.

Lack of rain in May and June was a concern for farmers on lighter soils in **Norfolk** who observed visible crop stress. Despite generally high cereal yields, considerable variation in yields is expected with soil type being a major factor.

Straw prices in the **South West** are reported to be lower than in 2014.

In the **North East** region the weather delayed the cereal harvest by up to 2-3 weeks. However, once harvest started cereal yields were reported to be well above average; straw yields have also been good. Farmers have been thankful for the above average crop yields as cereal prices remain low and are causing concerns for the inevitable impact on overall farm profitability. Good yields of oilseed rape were recorded all over the region with numerous farmers reporting yields of 5t/ha.

Most **East Midlands'** farmers have recorded bumper cereal yields for the 2015 harvest, aided by excellent growing conditions throughout the season. Record yields have, in some cases, forced farmers to sell some grain at prices below £100 per tonne due to lack of storage space. Straw prices have fallen to below £40 per tonne in this region mainly due to the higher yields meaning there is abundance from this year's harvest. Farmers seem to be chopping less straw in recent years, as other markets i.e. renewables, have become available.

In the **West Midlands** region, yields have been reported as generally good for cereals, with some farmers reporting record wheat yields and of good quality. Upland farmers in the west of the region in particular have reported good crops with above average yield and quality for barley. Plentiful soil moisture and cool temperatures during grain filling stage combined to make for a bountiful harvest. At one point during the growing season, conditions were ideal for Septoria and the disease looked for a time to be a threat to cereals. This, on the whole, was averted thanks to robust practices of timely applications of fungicide.

In the **South East** region, around three quarters of crops were harvested by mid-August, which were largely wheat and oilseed rape. The remainder were harvested during the difficult wet weather spell, a large proportion of which were spring crops included in the farmers cropping plans to comply with the 'three crop rule'. There have been reports in **Hampshire** of milling wheat being too wet to make the grade and having to be sold as feed due to the damp end to harvest. Some reported yields in the **South East** have been as much as 50% above average, with many commenting on yields being up by around a fifth after a very favourable growing season with low plant stress. There have been many record harvests reported by arable farmers in **Kent** with yields of more than 11t/ha being commonplace.

On finding cabbage stem flea beetle (CSFB) larvae in isolated plants in spring through to early summer of 2015, oilseed rape growers were concerned about the likelihood of yield reduction due to this damage (in addition to any damage during the previous autumn establishment). These larvae were indicators that the pressure from the pest could be even greater in autumn 2015. At harvest, there were social media reports of CSFB in stores of harvested oilseed rape. A number of farmers have found that crops that survived the winter seem to produce relatively high yields. In the **North East**, CSFB was reported to have caused some losses in oilseed rape crops but of these only a few warranted re-drilling. However, there are reports of farmers using higher seed rates for the 2016 crop to mitigate the possibility of poor establishment due to CSFB. Some areas of the **South East** are now seeing much higher levels of CSFB attack following the ban on neonicotinoids seed dressings, with many crops requiring multiple treatments of insecticide to protect the crop from attacks.

Some arable farmers have intimated they are sowing cereal and oilseed rape crops for harvest 2016 on an entirely speculative basis, hoping for a shift in currency markets, or a poor harvest in a major grain growing country to unexpectedly lift the price of arable commodities.

Farmers in the southern parts of the **East of England** region report that the combination of large herds of wild fallow deer, coupled with the absence of a control strategy, represents a threat to the arable cropping this autumn.

The small market for the pea and bean crops for animal feed has seen farmers struggle to find an outlet for these crops, with many farmers deciding against growing them for the 2016 harvest in order to meet their greening requirements. Instead, they are planning (hoping) to rely on other greening features such as hedges to meet their EFA requirements.

An **East Yorkshire** vining pea farmer reported a bumper crop this year which extended the harvest period by over 10 days because yields were so high.

Many arable farmers in England grew peas or beans for the first time in 2015, or returned to producing these crops after a break of many years in order to meet the 'three crop rule'. These crops are often difficult to harvest, but the task was made harder in 2015 due to the wet conditions at the time of harvest. In the **North East** region there were large areas of beans still to be combined at the end of October.

The Defra June Survey has reported an 8% reduction in potato plantings for 2015; this major change reflects farmers' experiences with the crop in 2014.

Potato growers are under immense price pressure which is stifling growth with very few looking to expand their businesses due to cash flow pressures on their businesses.

Looking ahead to the phasing in of the National Living Wage during the period 2016-2020, growers see this as a huge cost concern unless profitability improves sharply.

In a market of low prices, **East of England** potato growers have reported difficulties with contracts in which potatoes were sold in advance as well as very low prices for free buy potatoes. As a result, cash flow has been a concern on some potato farms.

In the **East Midlands** region, the dry conditions in the first three weeks of October have meant good lifting conditions; the last week of wet weather at the end of October has slowed down the potato harvest. Yields are reported as average to good with decent tuber sizes. Smaller producers have continued to leave the industry as it looks to be another year without major profits for growers.

In the **West Midlands**, potato yields have been average, but quality is good. Prices have fallen from their peak in the summer, though they are around 15-20% higher (October 2015) than for the previous season.

In the **South West** region poor prices and future prospects have meant farmers continue to exit the potato industry, which is increasingly becoming more specialised.

Although sugar beet is a spring crop, some producers on light land in the **East of England** were drilling their 2015 crop before the 2014 harvest had concluded.

Faced with lower prices for sugar beet and reduced tonnage of contracts with British Sugar, producers had to choose whether to reduce production or take a single year break from production in 2015. For many, the decision to reduce or temporarily cease production was made easier because they have limited capital invested in drilling and harvesting equipment; among those ceasing production completely are the larger scale producers. The impact on contractors and haulage contractors will be significant.

2016 Crop Establishment and Development

In the **North East** and **East of England** farmers report concerns about the difficulties of controlling slugs in all crops and CSFB in oilseed rape.

Autumn cultivations for the 2016 harvest in the **West Midlands** have been affected by the wet weather in September and drilling has slipped back from the most optimal drilling dates.

In the **South East** region, favourable weather has enabled good progress to be made with drilling crops for the 2016 harvest with crops emerging well at establishment.

Horticulture

In the **East of England** we have encountered conflicts between the demands of food safety legislation and water management. At least one glasshouse producer has stopped irrigation using harvested rainfall due to the risk of crop contamination from bird droppings (despite using a filter system).

Strawberry growers report pressure to supply over an extended season with consequential risks of investment in polythene and cold storage.

Industry reports suggest considerable demand for new installations of hydroponic systems for soft fruit production.

Changing consumer preferences for diets with reduced sugar have impacted sales of UK grown fruit for juice.

In the **East of England**, amenity horticulture businesses are reporting higher sales than in the difficult trading conditions of 2014. However, growers continue to express concerns about margin driven supermarket buyers with very little product knowledge or technical understanding.

The dry weather at the beginning of October has been much welcomed by growers planting daffodil bulbs in the **South West**.

Top Fruit

In the **West Midlands** there have been reports of 'frost ringing' on apple juicing varieties from the occurrence of frost in April. Codling moth was present for longer than usual this year, increasing input cost for insecticides.

The dry July slowed apple growth, followed by a speedier period of growth towards the end of the growing season. Large day: night temperature differences helped produce good fruit colour. The onset of a dry spell from the third week in September coincided with apple picking and helped with ease of picking. Excellent yields have been reported and sugar content is also good.

The trade expects dessert apple prices to hold up well. Import substitution is still happening and the impact of the Russian ban on imports is weakening as the market has adjusted to find new buyers.

The main benefit to the cider apple market this year is the £8 per tonne increase in contract prices by Heineken (40% of the market); similar prices are also being provided by the other major players. Cash flow problems have been eased for some cider apple producers where their customer has made an advance payment of 25% up front in August, with an expected price per tonne of approximately £122 payable for the 2015 crop.

In the **South East**, the fact that 20% of the Bramleys apple area was reported to have been grubbed in 2014/2015 has not had a favourable effect on the price due to the abundant supply of the crop in 2015, following record breaking yields.

There have been reports that cherry farmers enjoyed a very good harvest **(South East)** due to exceptionally favourable growing conditions, combined with the use of newer, hardier varieties and the practice of utilising dwarfing root stocks.

Soft fruit

The soft fruit harvest in the **South East** has been very good with high yields of good quality fruit reported, especially of raspberries. The use of polytunnels continues to expand in **Kent and Sussex** with the growing season being extended year on year by adopting this practice.

Other Horticulture

Hops

Hops yields are reported as being variable this year, being affected by a warm dry spring followed by a cool wet summer. Global production is expected to fall due to a reduction in area, especially in Europe. This, coupled with the craft beer demand, bodes well for the financial prospects for hop production. There is on-going concern over the lack of availability of pesticides for pest control in hops.

Cut flowers

British grown flowers represent only 15% of flowers sold in the UK annually, though a Covent Garden Flower market initiative (summer 2015) to promote British grown flowers was deemed a big success with the benefits of seasonality, being locally produced and freshly picked being highlighted as major selling points.

Field scale vegetables

There have reports from **Hampshire** of good yields for organic potatoes with the Desiree variety tuber size being particularly good.

Cauliflower growers are continuing to struggle after spring 2015 with poor sales due to the volume of cheaper imports from Europe.

Although spring 2015 was not considered to be very cold, yields of field scale vegetables fell short of expectations.

Glasshouse production - edibles

The recent boom in selling vegetable plants is predicted to be over as the interest in 'grow your own' is reported to be declining. There have been reports of vegetable plant producers cutting back their production by as much as 25% in 2015.

Organic vegetable box producers continue to rely on the 'worldwide opportunities for organic farmers' (WWOOF- a membership charity, teaching people about organic growing and low-impact lifestyles through hands-on experience in the UK) scheme for labour and in many cases businesses would not be able to operate at a profit or at their current scale if it were not for the influence of WWOOF.

Bedding plants and hardy nursery stock

In the **South East** region, there have been reports of a number of smaller producers of bedding plants going out of business, citing the unpredictability of the market affected by larger retailers cancelling orders at the last minute, due to for example a poor weather outlook or embarking on a different strategy of focusing more on shrubs, thus driving down prices.

The trend of banning the use of crop protection products continues to make life harder for growers in an already financially challenging sector.

Accessing apprentice level training in the sector is proving difficult due to marketing inertia and a lack of skilled trainers.

Dairy

Low milk prices are of great concern for many milk producers, especially those who have recently made large capital investments into their dairies.

Smaller dairy units are leaving the industry because of the effect low milk prices is having on the financial viability of their businesses. Larger units, who are striving to increase production, are on the one hand increasing profitability marginally, while on the other hand exacerbating the problem of keeping supply and demand out of balance.

In September 2015, Defra announced it was to share £15.5 million of an EU aid package between UK dairy farmers. There is some disquiet amongst some producers who are receiving the lowest milk prices that the aid is also going to producers that are towards the top of the milk price range.

Whilst there have been reports of larger producers investing in obtaining advice, entering into consultancy arrangements and building new infrastructure to improve overall efficiency and help make their businesses more sustainable, smaller producers are focusing on reducing expenditure, including personal drawings.

Examples of cost saving measures employed by medium sized dairy farms include reducing labour, delaying capital investment projects and changing from year round consultancy to ad hoc consultancy services with reports that some producers are evaluating very carefully the value to their business of commercial services provided by consultants.

Reports suggest that key performance areas in the economics of dairying such as herd fertility and essential herd health elements, including foot trimming and mobility scoring are not being subject to reduced spending despite the poor milk price.

Some producers have commented on the positive effect of the current depressed market for milk as it forces them to scrutinise their costs more closely and review current strategies for milk production.

There have been reports of dairy producers considering alternative markets, for example producing milk with higher levels of butterfat and protein in order to target new and specific markets and to be less reliant on supermarket pricing.

Some dairy farmers believe there has been a "dampening effect" on global milk production brought about by the current low world milk price. However, there is a belief that once the world milk price eventually increases, some countries, particularly those in Western Europe, will look to increase production once again, which may cause further price volatility in the future.

The low milk prices continued as production and milk supply remained higher than in previous years because of the favourable grass growing conditions and poor export markets. First Milk maintained its capital retention of 2ppl throughout 2015 adding further to the problems of dairy farmers already beset with the poor prices. Payment by instalment has continued, leading to some farmers waiting an additional 4-6 weeks for the balance of their milk cheque. Some producers supplying First Milk are giving their 12 month notice and looking elsewhere for buyers. Farmers selling milk to the co-operative are effectively writing off their preference shares / capital investments as lost money.

The range of milk prices received continues to be wide. For example, in the **North East,** two neighbouring farmers, one on a Tesco dedicated producer contract and the other on a Meadow Foods non-dedicated contract, reported milk prices in May 2015 of 31ppl and 21ppl, respectively.

An Arla supplier whose milk price has dropped to 20ppl was very concerned about financing his recent investments; A lot of his recent borrowings were based on a conservative milk price of 28ppl (two years ago). The farm is now in severe financial difficulties.

The trade for newly calved heifers continued to fall as a consequence of the falling milk prices. Top quality heifers in the **North East** were still around £1800/head and above but poorer quality heifers sold for less than in previous years, with reports of animals being sold for £875/head.

During the summer, the cull cow trade suffered due to oversupply and falling milk prices, whilst at the same time the calf trade flourished. One milk producer in the **Yorkshire Dales** reported selling on the same day a 29 day-old Limousin bull calf for £525 and a 570kg cull cow for £5 less than the calf.

The culling rate of cows seems to be above average with producers culling cows that in more profitable times they might not have done. Cows with poor (but not bad) calving indexes and those with slightly higher cell counts than is desirable, are being culled and added to the supply chain and further depressing the market.

One **North West** auctioneer recently had five different herd disposal sales over a three week period. Whilst trade for the best quality heifers remained strong, the older cows were much more difficult to sell with plenty selling for less than £500/head. The continuing milk price reduction saw more producers cease milk production in the **North**

West, with seventeen producers in Cheshire leaving the industry; the biggest recorded reduction of any county.

It is understood that a number of large AD plants are being built on maize growing **Cumbrian** dairy farms. If the milk price fails to recover, these farms are likely to cease milk production in favour of a more certain income stream of RHI payments.

Organic milk producers have fared much better than their conventional colleagues through the current downturn in milk prices, with their milk price staying above 30ppl. This added value of organic milk has caused some concern recently amongst OMSCo members about the potential for conventional producers to convert to organic production causing oversupply in the market.

Bovine TB continues to be a huge worry and to add significant management and financial cost to farmers in the **South West** and other regions. Bovine TB and Johnes disease continue to be of concern to farmers in the **West Midlands** with BTb showing no marked reduction in the number of cattle slaughtered on previous years, while the prevalence of Johnes disease in dairy herds is on the rise.

East of England dairy producers feel particularly vulnerable to low milk prices due to the region being served by a low number of buyers. Anecdotal evidence in the region is that dairy farms are leaving the industry at an unprecedented rate.

Beef and Sheep

The general situation in England is that there has been good grass growth at the latter end of the growing season, which will boost stocks of silage as the winter housing and feeding period begins.

Although end beef prices and cull cow prices are currently low, the prices of calves and good store cattle remain disproportionately strong.

Dairy bred calves and stores are becoming harder to source due to dairy farms rearing their own herd replacements and also retaining male calves for store production to alleviate cash flow.

The supply chain for Angus & Hereford (A&H) beef is in disarray after farmers responded to requests to produce more A&H beef to meet increased demand from supermarkets that never ultimately materialised. Farmers are now left with having to find alternative outlets to sell their cattle before they get too fat.

Bovine TB continues to be a problem for livestock farmers, with current compensation payments lower than the market value of fat cattle. Bovine TB is becoming more of an issue for cattle farmers in **West Sussex** with reports of "inconclusive" test results on the rise, following the introduction of regular testing after the movement of infected beef stores to the area from the South West.

In the **East of England** cattle farmers report reduced availability of stockfeed potatoes and are looking at alternative energy feeds.

Depending on location and closeness to a regular source of product, farmers are looking at alternative sources of feed such as bread or vegetables in an attempt to maximise margins.

In the **North East,** store cattle prices have remained strong throughout the year and fat cattle prices showed a welcome resurgence through the summer although plateaued into the autumn. Cereal based finishers continue to enjoy lower input prices on the back of weak cereal prices.

Reports from the **North West** indicate that the weather during the spring calving period was kind to suckler herds and despite the cool May temperatures, calves have done well throughout the summer. Store cattle prices have remained very strong throughout the year despite the late summer fall in finished beef prices. The good forage crops and late season grass are likely to bolster any possible dips in autumn store sale prices.

An increasing number of small scale lowland livestock producers continue to rely on diversification into tourism activities (B&B's, holiday lets, hospitality, and livery) as well as off-farm employment to sustain the farm business, as livestock margins are squeezed.

Lower lamb prices in 2015 do not seem to have dented producer confidence, with some producers commenting that the long-term future for sheep may not be exceptional, but is probably significantly better than for the other grass based livestock sectors such as beef and dairying.

In the **North East** region, even though weather conditions were unsettled during the lambing season most sheep farmers have reported a good trouble-free lambing with high output; however the current low fat lamb price and future market prospects is worrying most lamb producers. A Facebook campaign (British lamb week 1st–7th September) to promote local British produce was initiated by a farmer's daughter from near Hexham, Northumberland and led to a £10/head rise in fat lamb prices during that week. However, during the same period ewe lambs for breeding were £10-£20/head lower than the same time last year; evidence that confidence is low regarding future prices.

In the **North West,** lambing percentages have been reported as being good but not exceptional. Prime and store lamb prices have been very disappointing and most breeding sheep sales to date have seen sale averages fall between £10 and £15 per head year on year.

The finished lamb price has been disappointingly low from the outset of the 2015 marketing year. Late store buyers of 2014 hogs potentially lost a lot of money as the price fell in 2015. Factors influencing lower returns include the unfavourable exchange rate as the pound strengthens against the euro, making exports less competitive, and also sluggish consumer demand.

The first store lamb sale of the North took place in July with prices very strong and £2.15/head up on the previous year. One **West Yorkshire** producer could not believe how good the price was for store lambs with the fat trade in the doldrums. He had received £64/head for fat lambs and £59.5/head for store lambs in the same week which prompted his decision to sell the rest of his lambs as stores.

Late summer saw the lamb trade fluctuate from week to week with vendors unable to predict what lambs would make and thus making trading decisions difficult. One producer who produced quality lambs was getting swings of £8/week per head for lambs of the same quality.

The late summer/early autumn trade for breeding stock was down on the previous year reflecting the general reductions in the lamb trade. In a buyers' market purchasers have been more selective with their purchasing and preferring the stronger breeds as flock replacements.

The annual Hawes mule gimmer lamb sale took place in September with prices £6.61/head lower than the previous year at £93.09/head.

Cull ewe prices are down by £20/head on average compared to last year.

The cost effectiveness of continuing to creep feed lambs has been questioned with farmers cutting back on the amount fed via this practice, at a time of falling returns.

Rams have been reported as difficult to sell into a depressed market with prices down by approximately £100/head for the majority of breeds, compared with a year ago.

A trend away from higher input hybrid ewes to a more versatile, easier to manage sheep has been reported by some sheep farmers.

Good late season grass growth has helped farmers reduce costs of flushing ewes before tupping begins with farmers also predicting a good crop of lambs in 2016.

The wool price continues to improve with farmers now left with a positive margin after the cost of shearing is accounted for.

In August, Thirsk based abattoir Bowood Yorkshire Lamb went into administration with the loss of 70 jobs; the abattoir had historically purchased a lot of lambs in the region's markets.

Of some concern is the re-appearance in mid-September of Bluetongue BTV-8 in Allier, central France, which by the end of that month had spread to 17 farms in the region, with 42 cases in cattle and 3 cases in sheep confirmed by the French authorities. Although not posing an immediate threat to UK producers, Defra have monitored the situation closely and utilised meteorological modelling to assess the current and potential risks to the UK, especially the south of England.

Pigs and Poultry

The general trend has been that pig prices have fallen faster than feed prices. However, pig producers have recently reported that soya prices were down by over a fifth on a year ago. Plentiful pigmeat supplies, subdued consumer demand, a weak EU market and an unfavourable exchange rate remain the main factors keeping prices low.

October saw prices at their lowest for 6 years with farmers receiving 129p/kg deadweight for their fat pigs. One farmer commented that the only thing keeping him in business was the low feed prices. He also compared the pig and milk price situations, stating that dairy farmers, by weight of number, had the power to influence the industry by protesting, whereas he was the only pig producer in his area for 20 miles and was very isolated in terms of highlighting his plight.

Although maiden gilt prices are down (October 2015), they are considered expensive when viewed against current margins.

Specialist poultry producers are generally positive about profitability at the time of writing. Many are embracing Renewable Heat Incentives (RHI) payments to help cut heating costs by investing in biomass boilers. Despite the government's 'degression- mechanism' that lead to regular cuts in RHI payments, many poultry farmers believe it makes investment sense where there is large on-site use of electricity.

The publication of a Food Standards Agency (FSA) report in the summer revealed that almost three quarters of supermarket poultry meat was infected with the campylobacter bacterium; its exposure in the various media is expected to impact on demand.

There have been reports of increased confidence in the provenance of British poultry meat with the spate of coverage in social media commenting on the welfare standards of overseas poultry production.

In the **East Midlands** region there appears to have been a slight increase in free range egg production as farmers leave other sectors such as dairy and sheep and look for alternative land uses. Producers who have switched from caged birds have highlighted the increased costs and time taken for washing eggs which wasn't an issue for businesses that previously had caged birds.

Concerns were raised in the **North West** when it was reported that there were record levels of chick placings, which could increase the population of the laying flock by as much as 30%. One free range producer thought that this would be a disaster for the industry and would lead to oversupply of eggs and a down turn in prices. In a forthright manner, he blamed ex-dairy farmers and was strong in his views stating that they had over supplied milk until the price dropped and were now jumping on the egg bandwagon by investing in free range units which would result in the oversupply of egg markets.

During the second quarter of 2015, battery egg prices remained constant at around 64p/dozen. Pullet prices were lower by around 15p/bird (a saving of £15,000 for a 100,000 bird flock).

A turkey rearer in the **West Midlands** commented on his intention to scale-back production for the 2015 Christmas market, as the current trading environment makes it difficult to sell locally at a premium in competition with cheaper birds sold by supermarkets.

CAP Reform and Environmental Schemes

Farmers have been extremely frustrated over the IT system to process the first year of the Basic Payment Scheme claim. Many farmers have needed to employ the services of an agent to help with their claim - an additional professional cost not normally required by their businesses.

Different submission dates for the Basic Payment Scheme (BPS) for land occupied in England and land occupied in Wales caused confusion and frustration in equal measure for farmers with land in both countries.

Farmers received details of the new Countryside Stewardship Scheme (CSS) in late June and at the start of harvest. Many made the decision not to apply given the short period between release of scheme details and the deadline for applications (which was later extended). There is feedback that farmers are finding the new environmental schemes very difficult to understand, comply with and apply for, with some not bothering to apply before the September deadline.

For environmental stewardship schemes, a common theme is the ever increasing complexity of them in relation to their financial reward. The number of conditions, timing of paperwork and level of detail, are leading farmers to question the benefits of participation and are unsure about re-entering them especially on tenanted land, unless the landlord offers some financial incentive.

Some farmers have started measuring hedges and ditches as they plan to include these on BPS claims in the second scheme year (2016). Many farmers had heeded professional advice to exclude these features from the first year claims due to the possible risk of a delay in receipt of payment.

There were mixed reactions to DEFRA's announcement that there would be no changes to next year's Ecological Focus Areas (EFA) options. One **Yorkshire Wolds** farmer with a lot of stone walls was disappointed that these could not be included. He argued that the environmental value of walls was equivalent to hedgerows and their exclusion meant he had to grow a protein crop in order to gain enough points, which he regarded as a nuisance. Others however were grateful that hedgerows would be included again.

The CSS, which replaces the entry level scheme (ELS), is alleged by some farmers to give very few options for upland farms to enhance the environment and therefore, an opportunity to participate in the scheme.

One major area of concern for many LFA farms has been the re-alignment process undertaken by Natural England/RPA in relation to environmental stewardship scheme payments. In many, but not all, cases this has meant farms did not receive a payment during the spring or summer and are unlikely to receive any interim payments until December of this year. In some cases this has caused considerable hardship with some farms reportedly selling cattle and sheep throughout the summer in order to maintain some form of cash flow. Many farmers expected the re-alignment process to result in payments commencing as of July 2015 however according to unofficial reports the RPA had "IT problems" which prevented this payment run being made. The situation has in some areas prompted farmers and Unions to look into the legality of the situation.

Hill farmers were concerned about letters received from Natural England indicating they would need to keep more detailed records of livestock grazing for their entry level stewardship agreements. One **North Yorkshire** farmer with over 1000 hectares said it simply wasn't feasible to keep a record of the number of sheep and cattle on each field at any one time and he would not be doing it.

Renewable Energy

Although late drilled wheat is the traditional choice of crop to follow late harvested sugar beet, a number of producers in the **East of England** now grow AD maize in this position in the rotation. Despite the loss of an opportunity to grow first wheat, the later planting provides opportunities for blackgrass control and preparation of a good quality seedbed.

For solar power, the changes to the rates of feed-in-tariffs (FITs) announced in the budget have generated a flurry of activity before they are reduced in January 2016. These changes have also created uncertainty over the future viability of this source of renewable energy, following its rapid growth in recent years. In some cases, some planned solar and wind projects have been withdrawn due to the reduction in the value of FITs. Farmers have expressed frustration that these opportunities have been withdrawn after they have invested considerable expenditure on professional advice as well as their own time.

Early experience of the RHI scheme seems to indicate that costs exceed the financial benefits of the switch to renewable heat schemes at current energy prices.

There have been reports of local councils issuing rate demands for fields where there are solar panels, as they are deemed to be non- agricultural, with the outcomes still pending.

Rents

Tenant farmers have reported concerns about demands for rent increases, despite greatly reduced crop prices. However, we have observed one rent reduction; the first for several years. This was on a General Cropping farm in the **East of England.**

Generally, land rents continue to be driven upwards through increased demand, with the impact from non-food use being great where land is within reasonable travelling distance to an Anaerobic Digester (AD) plant. The spread of AD installations in the past 12 to 18 months has been particularly swift, with planning applications in the pipeline for many more units. Banks are being fairly supportive of investment in AD plants according to reports, although they are demanding robust business plans with up to date financial information to ensure the viability of the investment.

There has been a notable uptake of Permitted Development rights with farmers submitting prior notification to convert existing farm buildings to up to three residential properties.

Finance

Generally banks are still pushing to convert overdrafts to longer term loans. Borrowings are still accessible if the age of the farmer and the budgeted figures look favourable.

For many farmers cash flows are already very tight and there is great concern that not only is the Basic Payment going to be less than the previous SFP but now it will be further reduced due to the unfavourable exchange rate; there is the added worry that it will arrive late due to administrative difficulties early in the year. The lack of profit in the industry is encouraging farmers to explore other business options outside of agriculture.

Banks are advising farming clients to be aware of possible added pressure on cash-flow if BPS payments are late and to seek to increase overdraft limits accordingly. However, banks remain cautious with their lending for cash-flow purposes for general farming activity, and expect farmers to produce good business cases supported by detailed financial data for the business before agreeing to raise overdraft limits.

In the **South East** region, non-farmers have become the main buyers of agricultural land with the proportion of farmer buyers being at their lowest since 2003.The growth of prime arable land values continues as prices are influenced by investment in land by purchasers from outside the industry. There have been reports that land prices can vary by as much as £4,000/acre in the same parish, depending on the future prospects for development.