The state of the Southwest farming economy

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Although agriculture is a more significant part of the rural economy of Southwest England than on a national scale, it would be easy to overstate its importance. Within the Government Office region (GOR), the focus of this short review, agriculture provides 3.4 per cent of total employment and contributes 1.2 per cent of the region's Gross Value Added (GVA), a standard measure of economic output. That disparity in proportional shares, incidentally, also points to differences in the relative efficiency with which the industry uses its labour resource, and this despite remarkable reductions in the agricultural workforce over many decades. Without economic recovery in the sector, this can only result in further substantial decline in the numbers actively employed in farming over the years to come.

In the more rural parts of the region agriculture is, of course, of much greater economic significance than these figures suggest, and it has important economic linkages both upstream (agricultural inputs and supplies) and downstream (food processing and manufacturing) which are not captured in these statistics. Moreover, as one of the larger GORs, the region not only has by far the largest number of people directly employed in agriculture (at some 80 thousand) but agriculture also accounts for a larger proportion of the working population than in any other GOR in England. Similarly, agriculture's proportional economic significance is greater in the Southwest than over most of the rest of the country, a characteristic shared with the East Midlands. This article looks mainly at the current economic position of the farming industry and in the context of the pressures for change which the industry faces over the short to medium term with particular mention of agriculture's relationship with the environment, seen as a critical issue shaping both policy and farming practice over the coming years.

The impact of recent events

In the course of the last few years farming has been subjected to an unprecedented degree of scrutiny and comment, as the immediate problems resulting from BSE gave way to the economic downturn from 1996/97 (officially recognised as the worst since the 1930s) and this was capped by the FMD epidemic of 2001. Unfortunately the Southwest farming industry shared
fully in all of these problems and, moreover, currently bears the brunt of the escalating incidence of TB breakdowns, the latest problem to afflict livestock farmers. These sorts of problems inevitably have a direct bearing on farming change and, inter alia, on their wide-ranging implications for

rural economies, rural communities and the environment. Many of these issues are explored in other contributions to this publication.

All of these major events have had dominantly negative effects on the buoyancy of the farming economy, both through their direct impacts through to the farm gate (in terms of depressed product prices, actual loss of production and higher costs) and also, though less tangibly, because of their impacts on the people who make their living in farming. In other words, the exogenous drivers of change combine with internal household drivers within the farm family, to produce complex and diverse patterns of behaviour and response. Two policy initiatives, both of which are considered in detail in other articles, deserve at least a mention here because of the direct impacts they will exert on the farming industry in the near future. The first, the Strategy for Sustainable Farming and Food, grew out of the government's response (in 2001/02) to the apparently escalating problems of the farming industry noted above while the second, the EU's 2003 Reform of the CAP, will result in one of the most radical overhauls of the farm support mechanism ever. In this sense, therefore, the farming industry is on the cusp of far-reaching changes in its policy framework, quite apart from changes in society and economy.

Profits under pressure: retrospect and prospect

The annual Farm Business Survey (FBS), which involves some 400 farmers in the region, provides detailed information on economic aspects of farming at business level. The latest results show that during 2001/02, the latest period for which full survey results are available, there was a substantial improvement in DEFRA's lead indicator of farm performance, Net Farm Income (NFI), albeit from a very low base (Table 1). Incomes rose for most farm types except for *mixed* systems, which recorded a small decrease on the previous year. Further improvements are forecast in the year to March 2003, with a projected rise in NFI of a quarter to about £17,600 per farm, taking a weighted average of all farm types in the region. This compares with an average of £14,200 per farm in the previous year and just £7,000 in 2000/01. All farm types are expected to have shared in this recovery with the notable exception of *dairy* farms which have suffered during the last eighteen months a further decline in milk prices after the short period of modest recovery in 2001/02.

In the context of the farming recession that has persisted since 1996, a rise of nearly a quarter in the average level of NFI over the past year is clearly very welcome news. However, it is also clear that this level of income is still a long way short of the sort of return which is needed if the region's farming industry is to return to long term economic sustainability. This becomes more evident when it is understood that NFI does *not* equate with a gross wage or salary: rather, it is the surplus generated by the farm's trading to pay for (a) the manual labour of the farmer and spouse (who, together, typically provide an input equivalent to nearly 1.3 'full-time equivalents'); (b) some sort of premium for their managerial skills; and (c)

a return on their investment in livestock, machinery and working capital (typically averaging about £140 thousand per farm).

In effect, the average farmer in the Southwest is currently subsidising their own farming business through accepting a below market return for their labour, their management and their investment! The consequences of these actual and projected improvements in income for the indebtedness of the region's farming sector are evident in the FBS information on balance sheets. Overall, these show a slight improvement in various asset: liability ratios during 2001/02, although there are small numbers of heavily-indebted farms where ratios deteriorated as external borrowings increased. In total, the region's farming sector recorded slight increases in both bank borrowing and total external liabilities, of 1.3 per cent and 3 per cent respectively, during 2001/02 (CRR, 2003).

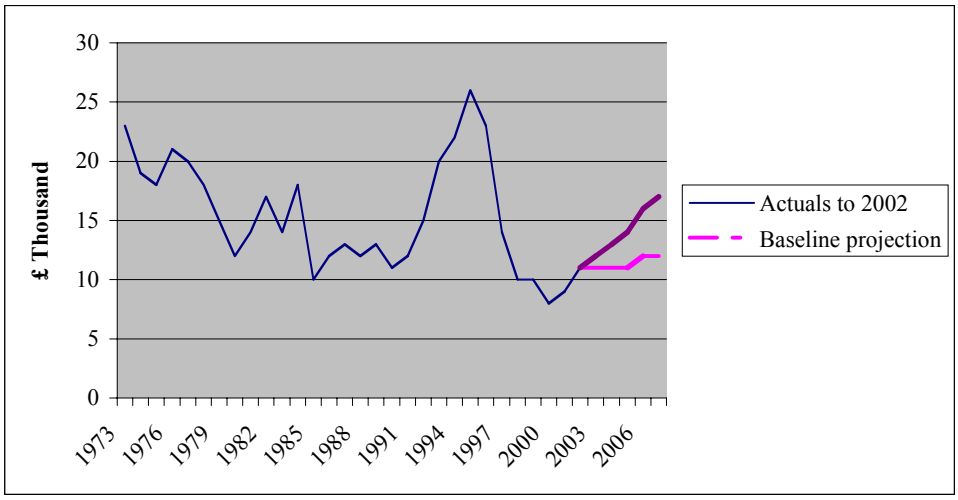
Table 1: Changes in net farm income in Southwest England, 2001/02 and 2002/03

Farm type	NFI 2000/01 £ per farm	NFI 2001/02 £ per farm	% change	Projected NFI 2002/03 £ per farm	% change
Dairy	11,700	27,700	136	20,600	-25
Cattle and sheep (LFA)	3,100	5,700	84	14,700	158
Cattle and sheep (lowland)	-4,400	-900	(a)	7,500	(a)
Cereals	0	1,300	(a)	3,000	132
Mixed	14,000	12,300	-12	34,600	182
All farm types (b)	7,000	14,200	103	17,600	24

(a) % change omitted because of negative income (b) Excluding horticulture

These survey findings can be seen in the context of a long term decline in agriculture's 'terms of trade', by which we mean the price of the industry's outputs relative to the price of its inputs. This may be seen as an inevitable consequence of agriculture's position as a primary industry in a modern economy where for many years the proportion of total household expenditure on food and drink has steadily declined and within which, moreover, the share accruing to 'value-added' activity (from food processing through eating out) has steadily risen. Unless the farming population is content to endure an ever-declining standard of living, over the medium to long term these structural changes in the food chain can only result in fewer people earning a living in agricultural production as such. In practice, and for a wide variety of reasons, 'labour shedding' in agriculture tends to lag behind the industry's relative economic decline, and this is illustrated in Figure 1 (DEFRA, 2003).

Figure 1 Trend in Total Income from Farming and DEFRA projections to 2007



Source: DEFRA (2003). *Agriculture in the United Kingdom 2002,* Chart 2.3. London: TSO

Diversifying sources of family income

It is against this background that the established trend towards a greater involvement in farm diversification, understood here to be the use of formerly agricultural resources to produce non-agricultural outputs, and farm families' growing reliance on some form of off-farm income, is seen in context. The findings of a recent study of farm diversification have been reported elsewhere (Turner, et al, 2003) and are discussed in another article, but it is of interest briefly to look at evidence from the FBS on the incidence and level of off-farm income on this sample of full-time farms in the Southwest. Overall nearly two out of three farms have some off-farm income, although at 53 per cent this proportion is lowest on 'large' farms. On more than a quarter of farms off-farm income exceeds five thousand pounds annually. Livestock farms are more likely to have off-farm income than cereals farms, a finding which is closely correlated with the farm size factor noted earlier. Over the past decade or so there has been a steady rise in both the incidence and the value of income obtained by farm families from off-farm sources although, as these average results suggest, on only a small proportion of farms is the level of such income high enough to provide more than a supplement to living expenses. Even so, there is no doubt that these supplementary sources of income are important and valued on a substantial, and rising, proportion of the region's farms.

Agriculture and the environment

One of the many issues forcing change in farming is the dissonance between certain modern farming methods and concerns for an inter-relationship between food production and the environment that is sustainable over the long term. The CAP's past emphasis on raising the

productivity of European agriculture has had indisputable consequences for the co-existence of farming and wildlife habitats and at least some aspects of the countryside as a visual amenity. Clearly as the dominant land-using activity agriculture has profound interactions with ecosystems, with wildlife and, perhaps most profoundly, with the hydrological system.

There is now a clear consensus that farmers have a crucial responsibility for managing environmental care. A number of agricultural policy initiatives are attempting to address the problems and, under the latest reform of the CAP, cross-compliance provisions will take this approach much further though much remains to be done. The general principle has to be the integrated development of a sustainable agriculture, subsidised only for achieving wider social and environmental objectives rather than for food production *per se*, in which the preservation of habitats and the maintenance (or even re-creation) of a wildlife rich countryside are an integral part of farming. Many agencies are now working effectively together towards this goal, and under agri-environment initiatives such as Countryside Stewardship much is being achieved. The development of more environmentally-integrated systems of farming is one of the challenges facing the region's farmers over the next few years.

The challenges for the future

Quite apart from environmental issues, however, the Southwest agricultural sector, in common with that of the UK as a whole, faces a number of significant challenges which will have to be tackled over the next few years if the sector is to find a more established and sustainable future. Particular mention must be made of the following:

- Evolutionary changes in food marketing chains have tended increasingly to place primary producers at a relative disadvantage in terms of market power.

- The development of an increased consumer awareness of and concern for food safety and quality is forcing significant adaptation in the short term though may provide market opportunities in the longer term.

- Eastwards enlargement of the European Union, a political imperative, will pose new challenges for a number of primary industries, including agriculture.

- As in many other areas of economic activity, the integration and impact of continuing technical innovation, including those related to GM crops, will continue to pose major challenges. In particular, the farming and food industry must evaluate innovations not only in the context of their implications for producers and processors but also for their acceptability by consumers.

- The major external influence on European support policy in agriculture is that posed by the challenge to integrate domestic policies with the

requirements of a freer world trade under the WTO talks currently underway. It has long been clear that agricultural issues are likely to be among the most intractable of all.

- The likelihood that a greater regionalism in agricultural governance will provide a further impetus for farm production systems which are more in harmony with broader environmental and rural development objectives.

The farming recession of the last few years appears to have had a number of far-reaching effects which are evident both with respect to the current generation of farmers (falling retention in the industry) and in their adverse influence on the career aspirations of many of the next generation of potential farmers. While it may be argued that, over the long term, the industry needs fewer people working in it, there are important social and economic consequences which any such adjustment on a significant scale will bring.

Although it is likely to be many years before a fully integrated rural policy shapes the economic, environmental and agricultural activities in rural areas, clear policy pointers for Britain as a post-agricultural society are emerging. In strictly economic terms it is all too clear that the farming industry of Southwest England could be better placed for the scale of adaptation likely to be required over coming years, but it has to be acknowledged that the 'silver lining' of its recent problems may be the radical reassessment of farming futures which many, farmers and those in associated sectors, have been forced to undertake. Seen against that background, there are good prospects that the scale of change likely to be necessary can be achieved.

References

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