

Farm Income Trends in Wales: Variation of Income Measures and Relative Profit

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Introduction

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 - Relative FBI minus Pillar 1 Payments
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- ▶ Summary and Conclusions - What does this all mean?

The Welsh Agricultural Landscape

- The structure and economic contribution of agriculture varies between the four countries of the UK, depending on factors such as geography and climate.
- In Wales, mountainous terrain, steep slopes and high rainfall mean 79% of land is designated as Less Favoured Area (LFA), where challenging conditions make farming more difficult.
- Cattle and sheep farming on LFA land is the most common farm type in Wales, accounting for 25% of all farms.
- Within the LFA are the Severely Disadvantaged Areas (SDA) and the Disadvantaged Areas (DA).
- The SDA are the most environmentally challenging areas and are largely upland in character.
- In Wales there are sufficient farms to show SDA sheep specialist, SDA mixed cattle and sheep and DA cattle and sheep farms separately.

Less Favoured Areas in the United Kingdom

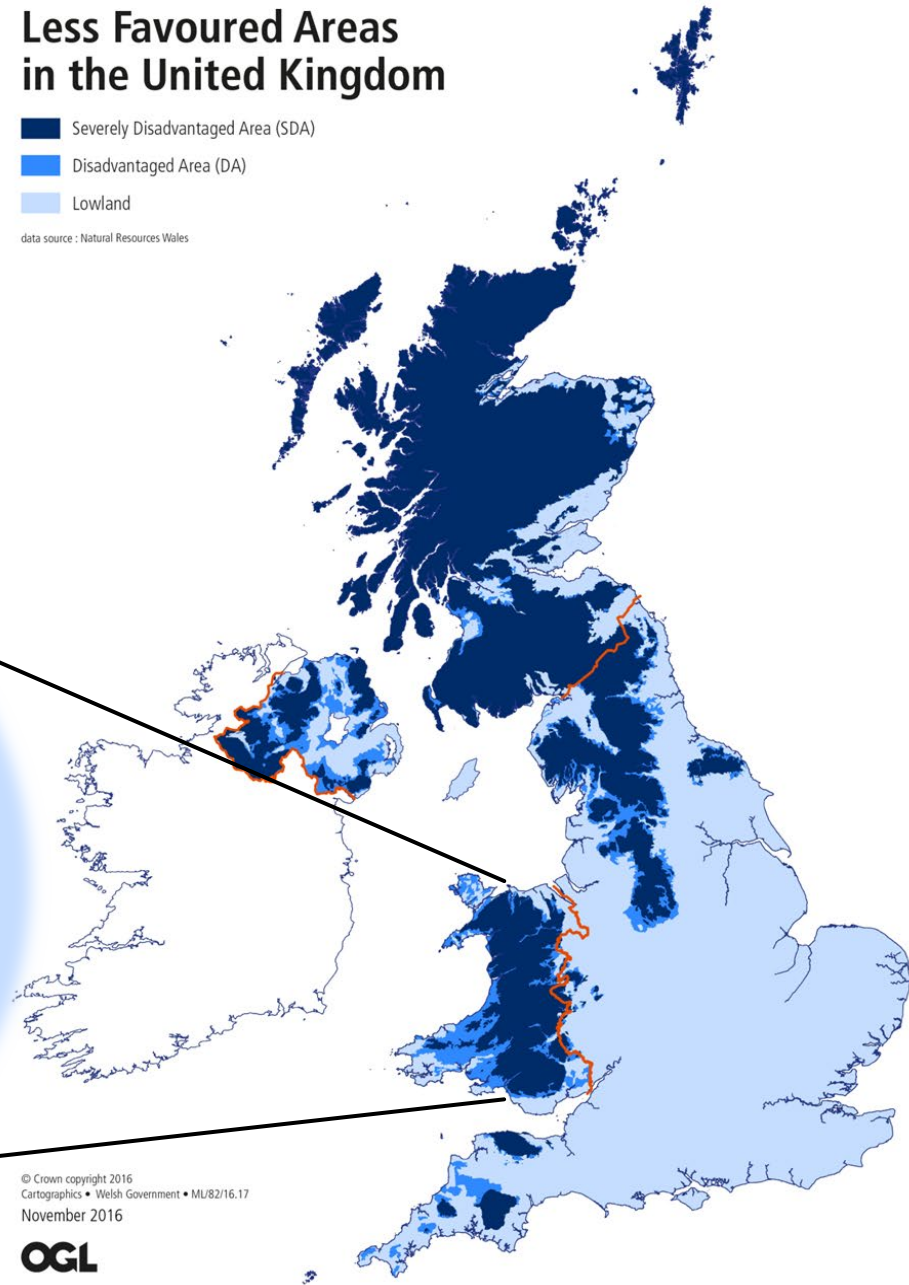
- Severely Disadvantaged Area (SDA)
- Disadvantaged Area (DA)
- Lowland

data source : Natural Resources Wales



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Pillar 1 Payments - Policy Data Needs

- ▶ The CAP provides direct income support to farmers and is made up of two separate strands commonly referred to as the two 'pillars' of the policy.
- ▶ Pillar 1 provides direct income support to farmers mainly through the Basic Payment Scheme. Eligible farmers receive an annual payment in return for complying with a few basic agricultural and environmental conditions.
- ▶ Although the UK has left the CAP, the same system of support is being maintained domestically while the UK countries develop new policies.
- ▶ Many Welsh farmers have relied heavily on the CAP for income, particularly P1 payments, more so than in any other UK country. Therefore, the Welsh Government has been developing proposals for future agricultural support since the EU referendum.
- ▶ For Wales, the UK Agriculture Act provides for the continuation of payments to farmers after 2020 with powers to modify retained EU laws on direct payments and rural development.
- ▶ There is an ongoing need for 'sustainability payments' as farmers transition away from the CAP style system to a new system of support.
- ▶ An analysis of farm incomes within Wales with and without P1 payments over the past decade is critical in informing the decision making in future agricultural support.

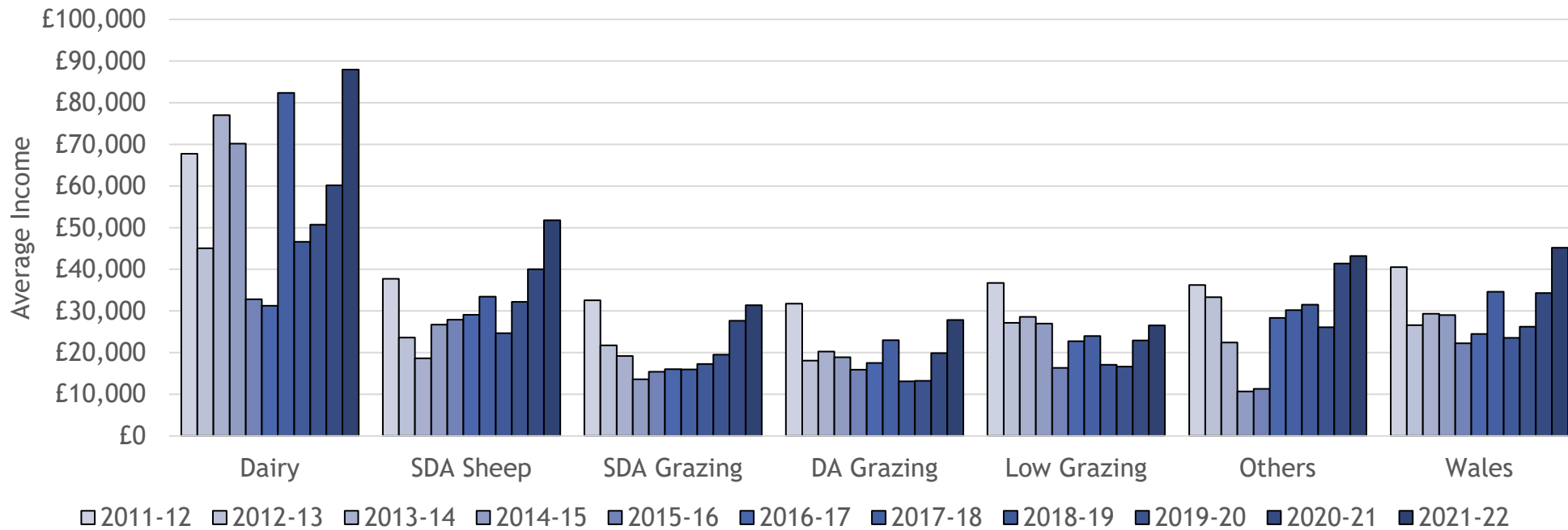
The Welsh Farm Business Survey (FBS)

A quick summary...

- The FBS incorporates financial and physical data from a representative sample of approximately 550 farms in Wales. Farms are randomly selected from the June Census returns to provide a representative sample of Welsh farms covering the main farm types.
- The FBS in Wales is run by Aberystwyth University on behalf of Welsh Government.
- Letters are sent to potential participants and, if the farmer agrees, a convenient visiting date is arranged by phone. During this recruiting visit the farm area, farming system, opening stock numbers and bank details, as well as other relevant information is obtained.
- An Investigational Officer visits the farm once a year and enters the financial details into a laptop computer and notes stock numbers, crop areas and other physical farm data.
- Cooperating farms are provided with management accounts and gross margins for dairy, beef and sheep enterprises together with comparative data for similar farms.

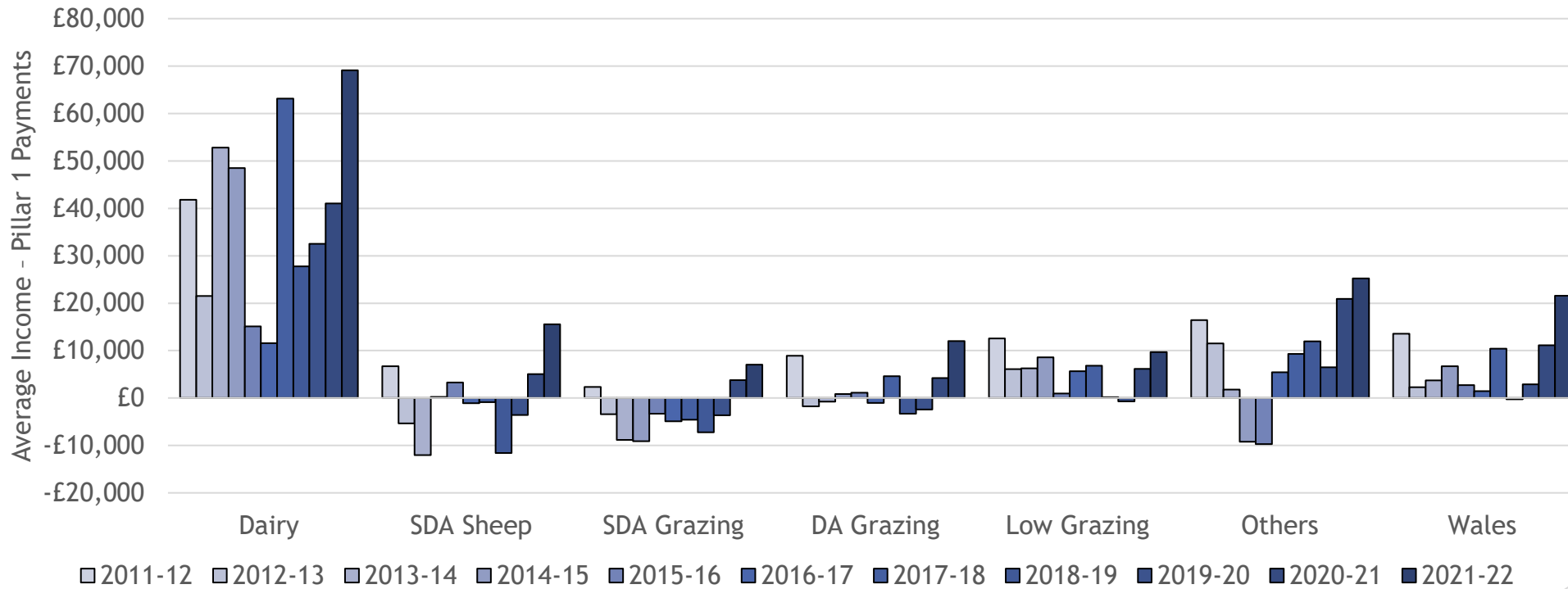
Long Term Trends

Average Farm Business Income (FBI)



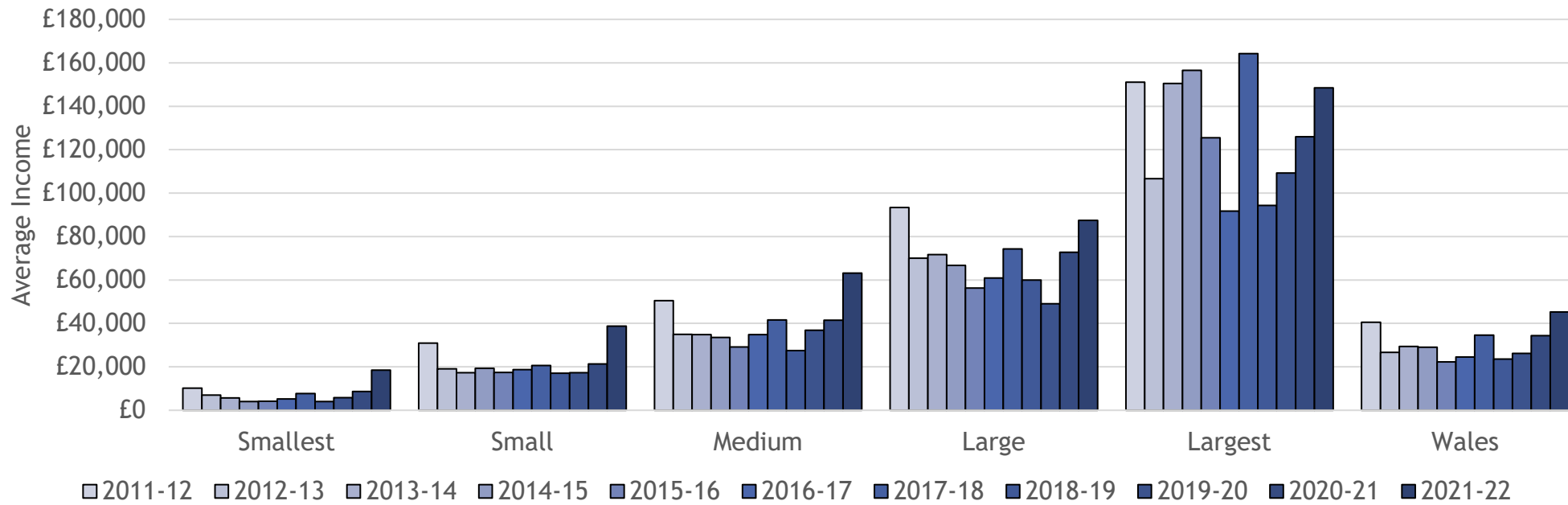
Long Term Trends

Average FBI - Pillar 1 Payments



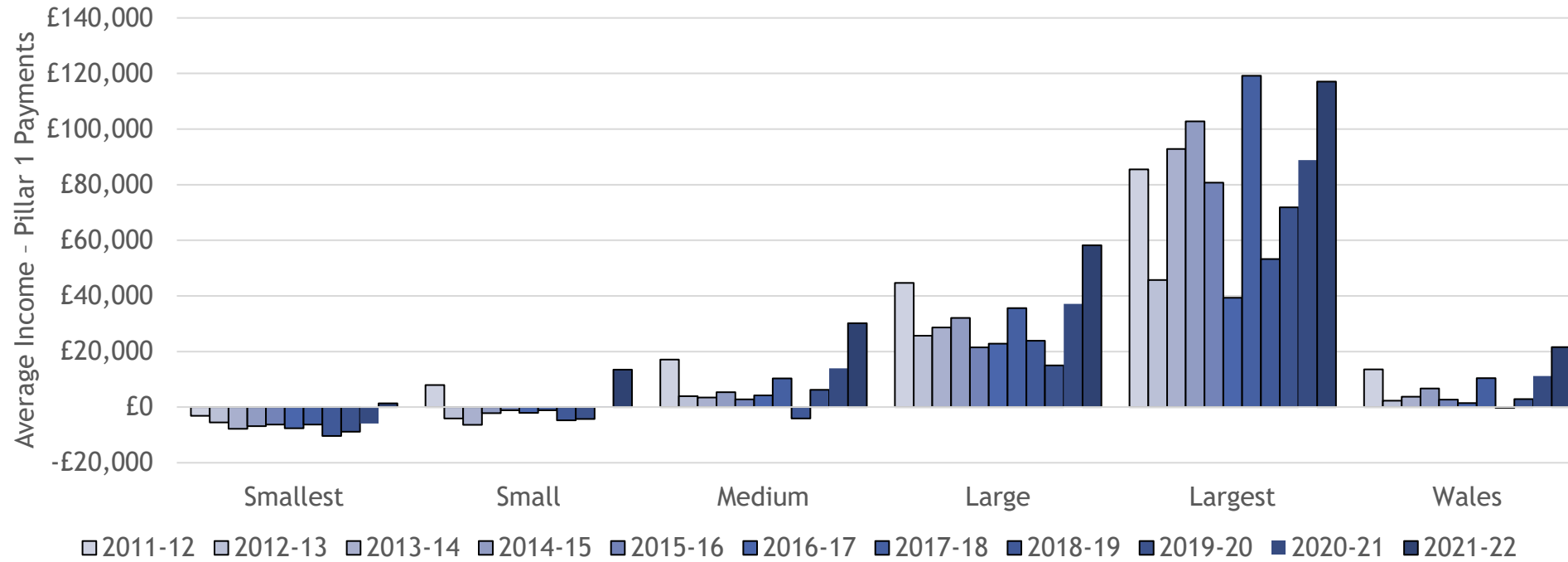
Long Term Trends

Average Farm Business Income (FBI)



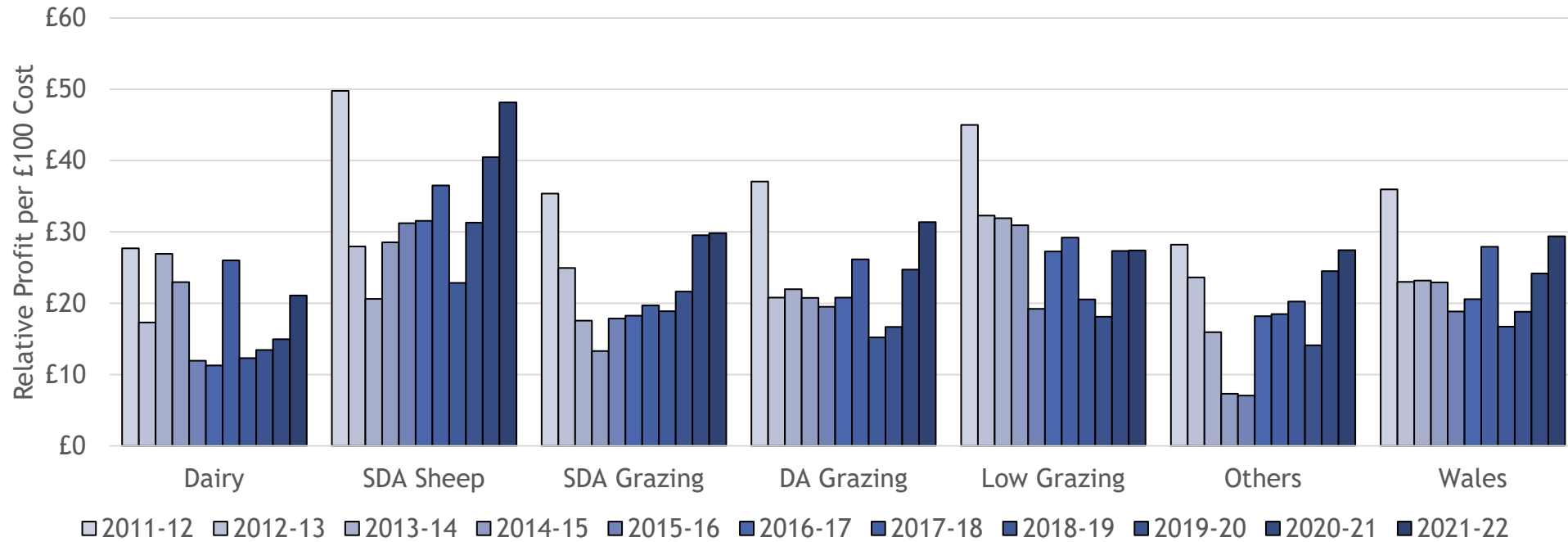
Long Term Trends

Average FBI - Pillar 1 Payments



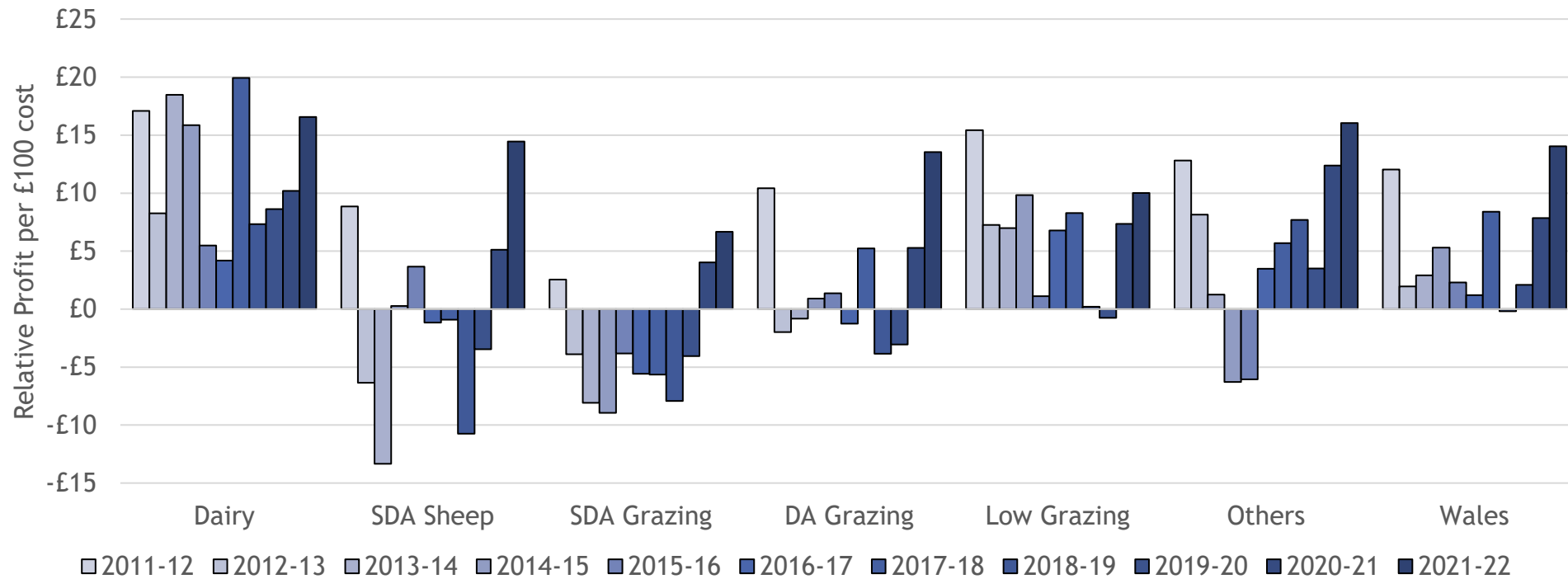
Long Term Trends

Relative Profit by Farm Type



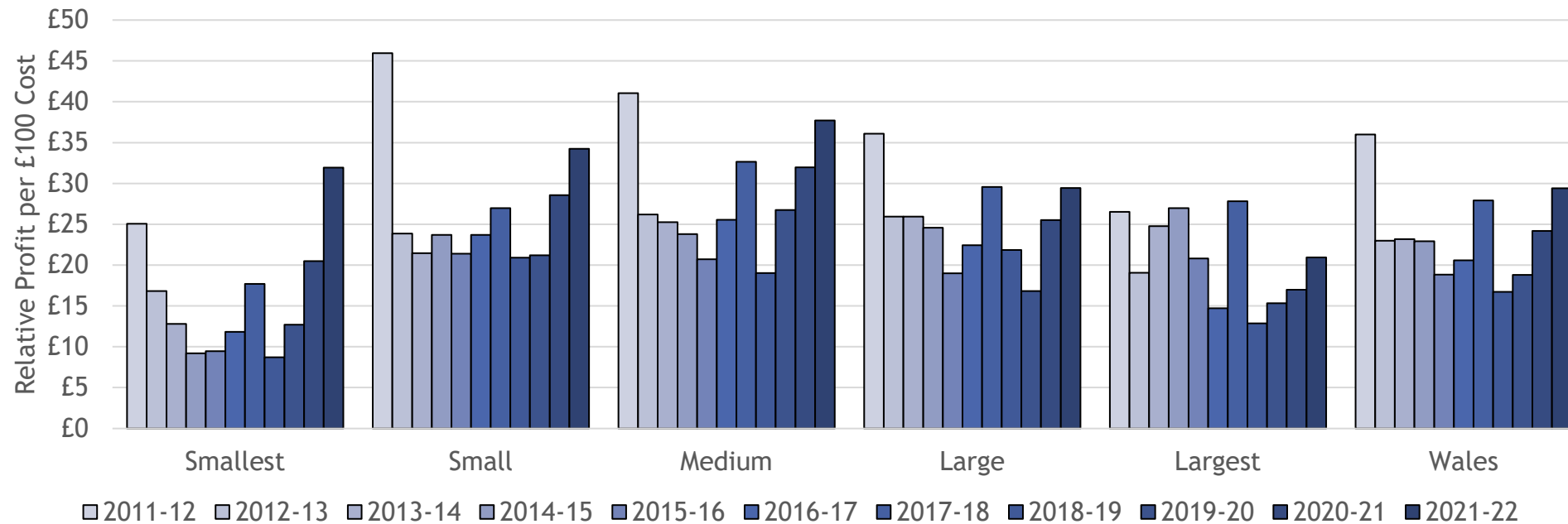
Long Term Trends

Relative Profit - Pillar 1 Payments



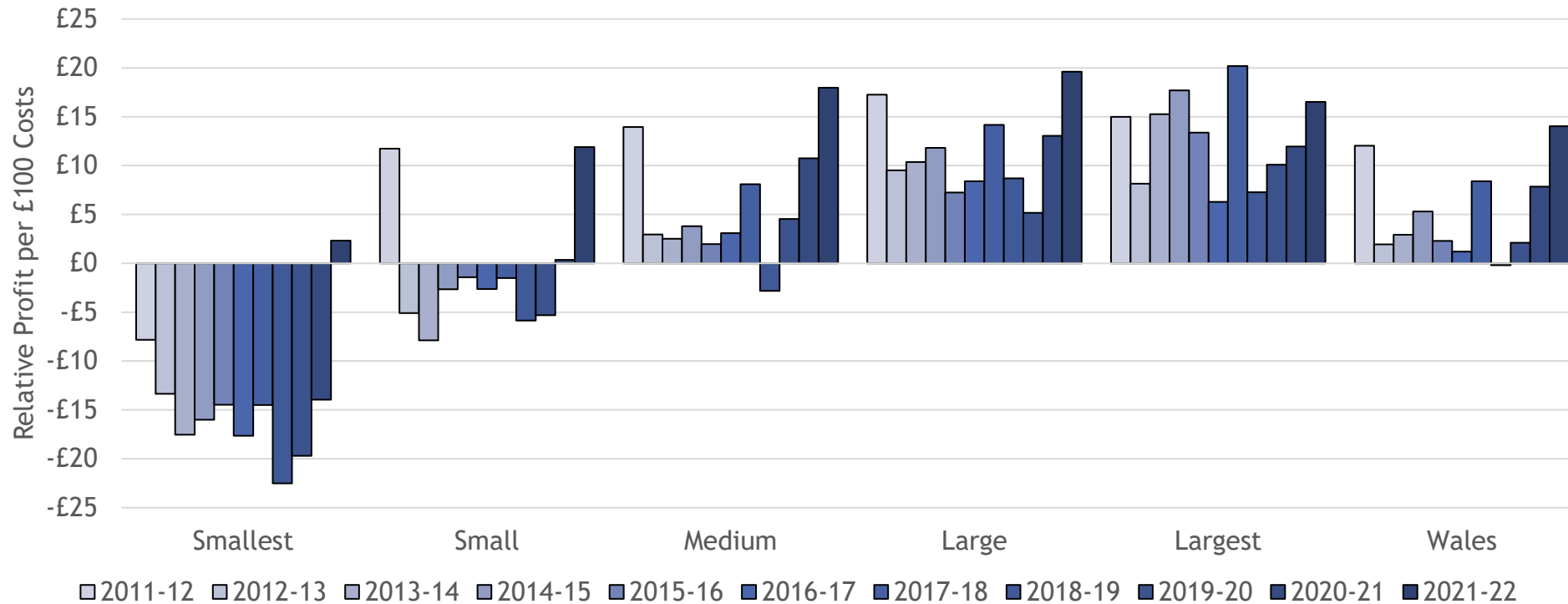
Long Term Trends

Relative Profit by Farm Size

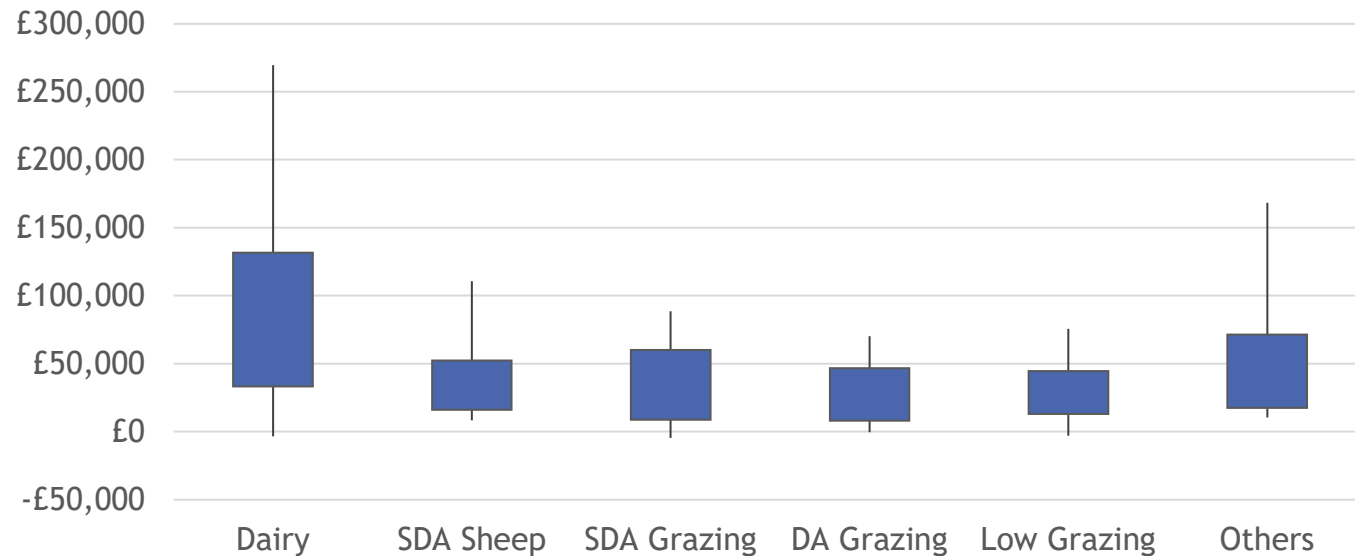


Long Term Trends

Relative Profit - Pillar 1 Payments

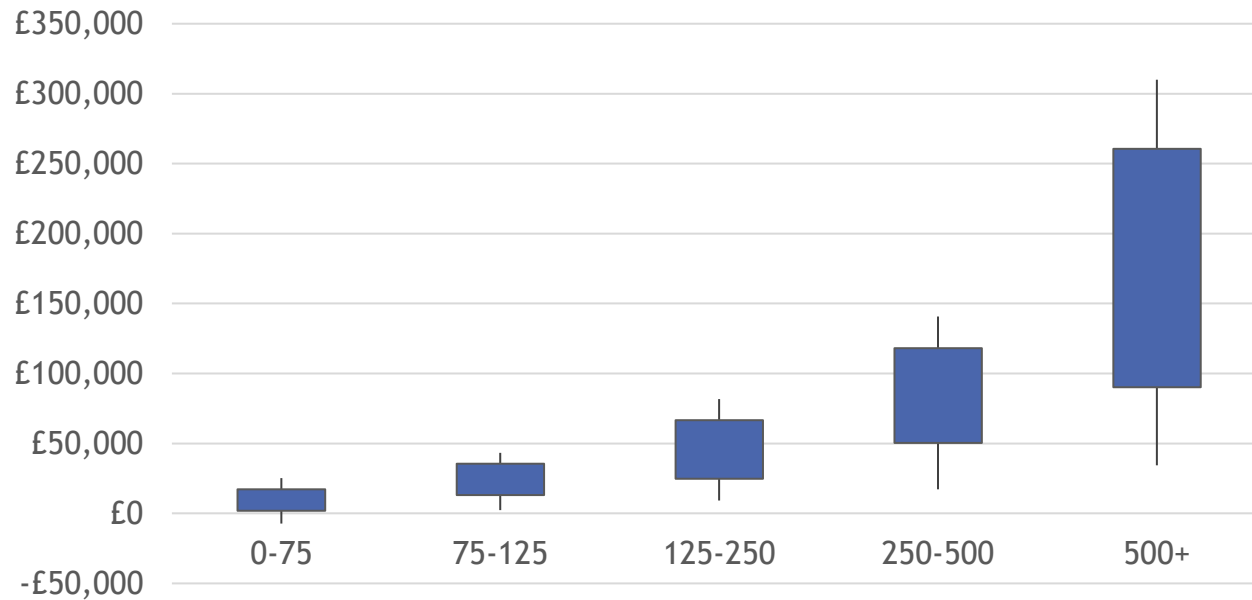


Variation in Farm Business Income by Farm Type in Wales, 2021-22



- ▶ Dairy farms have shown the greatest range in income and whilst the average income for 2021-22 was £88,000, many dairy farms within the population are earning much more or less than this.
- ▶ Despite dairy farms holding the highest average income and low grazing the lowest average income, there are still low grazing farms earning more than dairy farms and vice versa.

Variation in Farm Business Income by Farm Standard Output Size in Wales, 2021-22



- ▶ Substantial variation within each SO size group. There is no overlap between the £0-£75,000 SO group and £500,000+ SO group. This means that there were no farms with an SO of £500,000+ that earned less than a farm with an SO between £0 and £75,000.
- ▶ There remains overlap across the other SO groups, meaning that there are farms in the £75,000-£125,000 SO group who earned more than those in the £500,000+ SO group and vice versa.

Summary and Conclusions

- ▶ When investigating the effects on removing Pillar 1 Payments on farm finances, simple summary statistics such as the mean can be used but these are unlikely to show the full picture.
- ▶ **There is no such thing as an average farm.** A lot of variation can be seen in farm finances, both around the average within a single year and when comparing farms year to year.
- ▶ For example, on average Dairy farms consistently make more profit than other farm types. However, this is not the case when adjusting for costs. Furthermore, there is still a significant proportion of Dairy farms making a loss.
- ▶ Neither Profit nor Relative Profit are better at describing the situation alone, but both together describe the full picture.
- ▶ **The Farm Incomes in Wales 2021-22** Statistical Release can provide a more in-depth review of Farm Incomes Trends within Wales:

<https://www.gov.wales/farm-incomes>