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SCOTTISH FARMERS CONFIDENCE DROPS AMIDST FALLING PRICES AND REFORMS

The Scottish farming industry is anticipating a sharp fall in profits in the current financial year as overall confidence declines following the introduction of the new Common Agricultural Policy (CAP) and weakening prices during 2014.

The 19th annual Bank of Scotland Agricultural Survey, led by Chief Economist Donald MacRae, surveyed full-time farming businesses from all major farm types in Scotland between December 2014 and January 2015*.

The survey found that 86 per cent of farming businesses were profitable in the last complete financial year, the second highest level recorded in the 19 years since the report was first launched. This was down to good weather and a reasonable harvest in 2013 as well as strong milk and beef prices.

However expectations of profitability in the current financial year has hit a 12 year low, with 51 per cent of respondents across all farm types comprising arable, dairy, livestock, mixed and hill farming, anticipating that their business would not be profitable. Fifty-six per cent of farmers surveyed believe that the broader Scottish farming industry is not currently prosperous.

Confidence amongst the Scottish farming industry also declined to a six year low, with more than half of respondents saying they were not optimistic about the future of agriculture in Scotland.

The survey found significant uncertainty around the reforms under the new CAP in the Scottish farming industry. Just under 70 per cent of farmers rate the reforms as poor or very poor, while two thirds of farmers said the implementation of the CAP rules was unclear. An 80 per cent majority of farmers expect the new CAP to have unintended consequences for their business.

The majority (73 per cent) of Scottish farmers also expect the new CAP to have a largely negative impact on their business. Output from across almost all farming sectors looks set to fall sharply as a result of the reforms, according to survey respondents. Beef farming is expected to take the greatest hit as a result of the new rules, with 60 per cent of farmers anticipating a fall in output.

Despite their overall assessment of a fall in output, a summary of farmers' individual plans shows expansion over the next five years in the number of dairy cows, beef cows and ewes. Notably, the biggest increase is expected for beef herds during this time, with 33 per cent planning to increase their beef herd, 31 per cent their sheep flock and 28 per cent their dairy herd.

Donald MacRae said: "These are clearly testing times for Scottish farmers. The fall in confidence in this year's survey reflects the current backdrop of depressed agricultural prices. The broadly negative views toward the implementation of CAP coupled with the support for certain areas of the reforms may appear to conflict one another but this is understandable as the industry continues to grapple with the scope and complexity of the new rules."

Plans for investment in their own business during 2015 have dropped from the level of investment carried out in 2014. Respondents actual spend did exceed their original forecasts for 2014 in last year's survey. However looking to the year ahead, Scottish farmers expect to invest significantly less in 2015 across all areas of their business.

Farmers continue to invest in renewable energy production but the rate of investment in wind power is falling, with 7 per cent of respondents planning to invest in wind power in the next year, compared to 11 per cent in 2014. Respondents also say that both solar power and wood fuel heating investments are producing income more in line with farmers' expectations than investment in wind power.

The outlook for prices in autumn 2015 is mixed with Scottish farmers expecting all product prices to increase this year, excepting milk and pigs. The price of finishing cattle this year is forecast to increase to 377 pence per kg deadweight with lamb at 376 pence. Milk is expected to average 26.0 pence per litre while malting barley is forecast to reach £148 per tonne at harvest.

Eighty-four per cent of respondents agreed that the new CAP rules around 'active' farming would partly eliminate 'slipper' farming. Fifty-three per cent of Scottish farmers also support the 'coupled payments' rule.

Commenting on the report, Bank of Scotland Head of Agriculture, Sandy Hay, said: "It is interesting to see that even with the concerns around falling output and the decrease in investment forecasts, on an individual level Scottish farmers are committed to expanding some areas of their business over the coming years.

Nevertheless, as a bank, we understand that 2015 poses no shortage of challenges for the sector and our Agriculture team is on hand to provide the necessary advice and support to our farming customers in what is a crucial industry for the Scottish economy."

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Notes to editors:

[1] The Bank of Scotland Agricultural Survey 2015 was carried out in December 2014 and the first two weeks of January 2015. Over 2,000 Scottish farmers were selected randomly and mailed anonymously with 411 responding, giving a response rate of 20 per cent.

[2] The results are representative of full-time farmers with a median size of 470 acres representing all major farm types distributed around Scotland, with an overall owner occupation rate of 77 per cent.

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