Interest rates – there's good and bad news

Mixed blessings

What impact are the current low interest rates having on your business? And what's the picture moving forward into 2012? We spoke to the AMC's Martin Waite to find out.

text **Rachael Porter**

Low interest rates and a weak pound may be good news for producers, but the farming industry is not immune from the effects of a weak economy.

So says the Agricultural Mortgage Corporation's regional manager Martin Waite. "Poor consumer demand has an effect on all parts of the economy. Farming might be in a better position than other sectors, but it ultimately depends on the fortunes of consumers in the UK and elsewhere in the world."

One plus for producers is that the continuation of low interest rates will benefit those looking to borrow to invest in their farms. "It is worth considering doing so sooner rather than later, while both fixed rates and variable rates are still relatively low," he says.

As far as interest rates go: "The stuttering economy means that the Bank of England is likely to keep the rate at its historically low level of 0.5%. It wants to stimulate demand so it will be looking to keep rates on hold, focusing on injecting more money into the economy through another round of quantitative easing."

Indeed Lloyds Bank Corporate Markets economists predict that the Bank of England bank (base) rate will remain at 0.5% until the end of 2012, with any increase expected in the first half of 2013.

"Fixed borrowing rates are not solely determined by the Bank of England bank rate," adds Mr Waites. "The fixed rate cost of funds moves independently of the bank rate. Current predictions are that five and ten year fixed rates will increase during the next six months."

There are some other advantages to investing at present. The AMC has secured a significant amount of funding from the European Investment Bank that enables AMC to offer a 0.8% discount on standard margins for the first 10 years of any qualifying loan. The organisation is increasingly finding that producers are taking advantage of the unique period of low interest rates to invest in systems that allow them to increase output and produce more efficiently. They see this as a strategy that enables them to benefit from the rising demand for their products while insuring them from rising input costs and fluctuating prices.

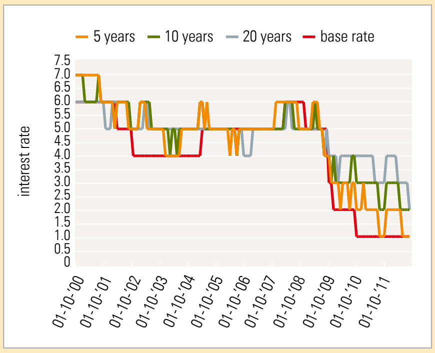

Figure 1: The Bank of England base rate and fixed rate money market interest rates since 2000

"Although a base rate rise is extremely unlikely in the short-term, borrowers should not assume that the base rate will stay at this exceptionally low level for the longer term," warns Mr Waite. "Base rates will eventually have to rise."

He adds that short-term economic prospects might be uncertain, but for producers there is a very positive long term future. "Interest rates will not stay low indefinitely but their current levels present an unmatched opportunity for producers to build and strengthen their businesses for the future. And I cannot stress more keenly that producers should always seek professional advice from their accountant or professional advisor before making any key financial decisions."