Periodieke Rapportage 2-89

AGRICULTURAL ECONOMIC REPORT 1989

SUMMARY

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ABSTRACT/REFERAAT

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This Periodical Report offers a summarized overview of the contents of the Agricultural Economics Report 1989 (200 p.), that is published in the Dutch language.

A general survey is given of the economic situation of Dutch agriculture and horticulture, mainly for the years 1987, 1988 and 1988/89. Among other subjects, attention is paid to the Common Agricultural Policy, the agricultural production in the world, in the EG and especially in the Netherlands, to some aspects of the structure of Dutch agriculture and to the relation between agriculture and the natural environment. Furthermore, the report deals with the development of rentability, incomes, investments and the financial situation of agricultural and horticultural holdings in the Netherlands.

Agriculture/Agricultural Incomes/Agricultural Policy/Agricultural Production/Farm Structure/Netherlands

LANDBOUW-ECONOMISCH BERICHT 1989; SAMENVATTING

Deze Engelstalige Periodieke Rapportage vormt een samenvatting van het Landbouw-Economisch Bericht 1989, dat een overzicht geeft van de economische situatie van de Nederlandse land- en tuinbouw, vooral voor de jaren 1987, 1988 en 1988/89. Daarbij wordt onder andere aandacht besteed aan het EG-landbouwbeleid, de ontwikkeling van de landbouwproduktie in de wereld, in de EG en meer in het bijzonder in Nederland en aan enkele aspecten van de landbouwstructuur en aan de Nederlandse export van agrarische produkten. Voorts wordt ingegaan op de ontwikkeling van rentabiliteit, inkomens, investeringen en vermogenssituatie van de land- en tuinbouwbedrijven.

Landbouw/Landbouwbeleid/Prijspolitiek/Bedrijfsstructuur/Produktie/Bedrijfsuitkomsten/Inkomens/Financiële positie/Nederland

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Contents

Preface

The Agricultural Economic Report is an annual publication, offering a global survey of the economic situation of Dutch agriculture and horticulture. The report contains a summary in English, which is published separately as part of the series "Periodieke Rapportages" (Periodical Reports) for the first time this year. The complete report is only available in Dutch.

The report is based on data and contributions stemming from nearly all divisions of the Institute. The coördination and editorship of the report is in the hands of the General Economics and Statistics Division. The final draft of this issue of the report was closed in the course of june 1989.

The Managing-director,

The Hague, August 1989

J. de Veer

1. General economic developments

The gross national product of the joint OECD countries rose in 1988 by some four percent. Such a high growth rate had not occurred again since the beginning of the seventies. In the EC too economic growth, although somewhat below the OECD average, was rather high. The average inflation in the EC was confined to around four percent. Because the differences between the member states in this respect declined as well, the relative currency rates within the EMS remained stable in 1988 too. The recovery of the dollar rate also contributed to this. Despite the higher dollar rate and the lower oil prices, prices rose on the world market. Together with a considerable increase in volume, this resulted in a strong rise in the value of world trade. The current accounts of the balances of payments of the OECD countries became somewhat less unstable in 1988. A striking exception to this was the United Kingdom, where the deficit rose to over two billion dollars.

The Dutch economy also grew strongly in 1988. Above all through a sharp increase in business investments and exports together with an again low inflation, real national income was able to rise by some three percent. Partly because the increase in labour costs remained limited, the profit position of business improved considerably. The official financing deficit fell in 1988 to somewhat more than seven percent. For 1989 a further decrease is expected. With regard to the growth of national income and of employment the expectations are also rather favourable.

2. Agriculture in the world

As in the previous year, the volume of agricultural production in the world changed little in 1988; animal production rose by somewhat less than two percent and vegetable production fell by the same percentage. The latter was caused above all by once again a smaller cereal crop, notably in North America. As a result, world cereal stocks in 1988/89 amounted to about 16% of consumption, which is lower than the level considered necessary by the FAO from the point of view of food security. In the industrialized countries food production per head fell by a few percent in 1988, but in the group of developing countries a slight improvement occurred. This was even the case in Africa, with its locust plagues, although the per capita increase in production was confined here to less than one percent.

World trade in agricultural products has risen both in price (over 15%) and in volume (approx. 4%). Above all for cereals and dairy products considerably higher prices were quoted. The relatively high world market prices were a favourable environment for the current GATT negotiations on trade barriers. In the basic agreement that was reached in April 1989 - in GATT jargon the 'mid-term review' - the partners promised not to take any additional measures impeding trade and supporting exports. Although the agreement has been couched in rather vague terms, it seems that an important stage has been passed on the way to further liberalization.

3. Agriculture in the European Community

The GATT negotiations in any case reflect for the short term part of the contours of EC agricultural policy. In addition the (further) European unification will doubtless have its effect on the development of agricultural policy, although one can only guess at the precise consequences of '1992' for economy and policy. There seems little doubt that the system of monetary compensatory amounts does not belong in a Europe without frontiers. But in other policy fields there is as yet little certainty. Thus for instance it is still the question whether and, if so, how, the milk quota system has to be adapted to the requirements of '1992', and then how a scheme really applied at EC level affects the production structure of dairy farming and dairy industry in the EC.

In 1988 the agricultural income in the EC again improved somewhat, after a setback in the previous year. Between the member states there were once more great differences in the development of this income. Thus it increased greatly in the Federal Republic and in Ireland, but fell sharply in the United Kingdom and in Denmark. All in all, the 'gap' between agricultural and non-agricultural incomes in the EC has hardly narrowed. In view of the rather pessimistic expectations about the future sales opportunities for agricultural products, there will be little change in this in the years to come, even if the sector should succeed in marketing a larger part of production in the non-food sector. However, certainly in the short term, this option does not make any noteworthy contribution to the restoration of equilibrium on the agricultural markets. The same probably holds good for the new instruments of agricultural policy, such as the set-aside scheme and the extensification scheme. Consequently, there is at least a chance that in the vegetable sector the policy is going to comprise more measures directed towards limiting production.

4. Structural developments in Dutch agriculture and horticulture

The number of registered farms and horticultural holdings decreased somewhat more strongly in 1987/88 than in the three preceding years. This was bound up above all with the - for the eighties - pronounced fall in the number of full-time dairy farms, which declined for the fourth year in succession. In addition, in 1987/88 an end also seems to have come to the growth of the number of intensive livestock farms. Within agriculture and horticulture as a whole a substantial increase in the number of full-time farms occurred only in the other branches of (mixed) livestock farming.

Owing to the fact that since 1983 the number of persons employed has decreased more strongly than the number of farms, the average number of labour units per farm has (somewhat) increased. This reduction in employment related only to family labour, whereby it was, incidentally, noteworthy that a relatively large number of female farm heads have put in an appearance. The number of agricultural workers, insofar as not part of the family, has risen by nearly 20% between 1983 and 1988; as a result their share in total employment grew from 13% to nearly 17%.

Despite the restrictive price policy in arable farming, the area of arable land (excl. that under maize for green fodder) has increased since 1986. More land under cultivation has been used for cereals, field beans and grass seed. This was accompanied by a decline in the area of grassland. The main reason is the reduced demand for roughage, which in turn is the result of the contraction of the dairy herd through the superlevy.

The trendwise shrinkage of the total area of land under cultivation continued in 1988. It is not to be expected that in the near future less land will disappear from agriculture and horticulture: probably a growing part of it will be used for woods and nature reserves. However, a major condition for this is that the level of land prices allows of it.

Since 1986 land prices have fallen again, despite the price-increasing effect of the manure problems. It is above all the unfavourable operating results in arable farming and the extensification of land use in dairy farming that have led to a fall in land prices.

Now that the milk quota system has been in operation for over four years, more insight can be offered as to whether this measure has led to a freezing of the structural developments and whether - as a result - the competitive strength of Dutch dairy farming has lessened. So far there are few reasons to answer these questions in the affirmative. In the EC the number of farms with dairy cattle strongly declined and the average number of cows per farm increased in 1983-1987. True, the average dairy herd on Dutch dairy farms declined somewhat, but against that the production per cow has increased more than the EC average. The growth of milk production per farm in the Netherlands therefore hardly varied from that in the EC.

Dutch arable farming seems to be contending with more structural problems than dairy farming. In 1988 the economic size of the average arable farm was inadequate to offer work to one worker. Since considerable cost advantages can be gained from an increase in scale, and on account of the present restrictive price policy, drastic structural changes are inevitable. An adjustment of this kind may follow a variety of directions. Thus it may be accompanied by a stronger growth of part-time farming, by an accelerated reduction of the number of farms, by a more intensive crop rotation between arable crops and grassland, and finally by a combination with another branch of production. However, each of these adjustments offers only limited possibilities.

More than in the past, the structural developments in Dutch agriculture and horticulture will be determined by measures for solving the present environmental problems. Restriction of the use of pesticides and the forthcoming tighter (ammonia)emission norms for livestock farming will have far-reaching consequences for the involved holdings.

5. Production and sales

The production value of Dutch agriculture and horticulture increased in 1988 by a few percent in respect of 1987 (Table 1). In arable farming and dairy farming prices rose and volume fell, whereas the opposite happened in horticulture. In intensive livestock farming a rather strong decrease in the production value occurred, above all as a result of lower prices. The drop in volume in arable farming was accounted for mainly by the 'free' arable products: both cereal and sugar production was significantly above the 1987 level. On the other hand, the strong average price increase in arable farming was caused by the 'free' products (mainly potatoes and onions) becoming more expensive.

In contrast with the previous year, the value of domestic spending on food and beverages rose in 1988, namely by nearly two percent. This growth came about mainly through an increase in volume. The 'physical content' of the food and beverages consumed in the Netherlands is fairly stable.

Table 1 Development of volume and prices of agricultural and horticultural production

Product	Value mln. Hfl.	Changes in % in aspect of previous year					
		volume			price		
	1987 (prov.)	1986	1987 (prov.)	1988 (est.)	1986	1987 (prov.)	1988 (est.)
Arable products	2770	14.6	-5.0	-1.5	-1.7	-13.0	14.5
Milk	9215	2.4	-7.7	-2.5	-0.9	0.9	5.5
Meat and eggs	13135	3.9	4.4	1.0	-10.6	-8.3	-5.5
Vegetables	3390	10.1	-3.3	7.5	-11.9	17.8	-11.0
Fruit	525	30.4	-7.7	0.0	-15.4	11.6	1.3
Cut flowers	2710	5.6	3.1	4.0	-4.7	1.7	2.0
Other horticult.prod.	2910	7.9	6.3	7.0	-0.4	-1.3	-3.2
Total	34655	5.8	-0.4	1.2	-6.2	-2.0	-0.6

Despite the rapid rise in popularity of 'light' products, between 1985 and 1987 the amount of nutritional energy available via the food basket rose by a few percent. The major part of the energy is supplied by carbohydrates (approx. 45%) and fat components (39%), and the rest by proteins (12%) and alcohol.

6. Imports and exports of agricultural products

The import value of agricultural products rose by approx. 10% in 1988 in respect of 1987. This came about both through higher prices and through larger quantities (Table 2). The price increases occurred across the board, except for cereals, poultry products and tropical products. As the lower import price for cereals was amply compensated for by an increase in import volume, the value of the imported cereals rose by about 35%. However, part of this increase in value concerns a concealed form of transit of cereals from other EC countries to non-member countries. Pronounced volume and price increases occurred in imports of dairy products, which mainly originate from EC countries.

Table 2 Imports and exports of agricultural products in 1988

	Value 1000 mln.Hfl.		Changes in % in relation to previous year			
			world		EC	
	world	EC	volume	price	volume	price
Imports						
Arable products	9.8	6.5	7.6	3.4	14.6	-0.3
Horticultural prod.	2.9	1.7	9.8	1.4	9.6	1.2
Animal products	7.4	7.0	8.2	13.0	7.7	14.0
Other agric. prod.	14.5	5.9	2.4	4.0	3.2	-1.1
Total	34.7	21.0	5.6	5.3	8.6	4.0
Exports						
Arable products	8.5	5.7	14.0	-0.8	7.3	1.1
Horticultural prod.	11.4	9.6	8.2	-1.3	8.7	-1.1
Animal products	17.7	14.1	2.7	2.2	4.1	0.8
Other agric. prod.	13.6	10.5	2.7	0.7	3.3	1.1
Total	51.3	39.9	5.7	0.5	5.4	0.4

As against this, agricultural export value rose only slightly. This was largely the result of volume effects; the average export price rose only slightly. Higher export prices could be made, notably for beef and veal and dairy products. Behind the high growth rate for the export volume of arable products again lies the concealed transit.

The developments in agricultural imports and exports in 1988 led to a slight deterioration in the agricultural trade balance by about 500 million guilders in respect of 1987. The reduction in the balance of trade with countries outside the EC was somewhat greater than that of trade with EC member-states. A striking development occurred in this respect in dairy products: the positive trade balance in 1988 of more than two billion guilders related only to trade with non-member countries. For the intra-EC balance this was namely negative for the first time in many years (nearly one billion guilders).

7. Results of the arable and animal sector

The return value of the agricultural sector (excluding horticulture) lay in 1987/88 nearly 10% below that of the year before (Table 3). This was the result of lower prices and, for the first time since 1970/71, a smaller volume. The latter is mainly the result of the reduced production in dairy farming, and of the related contraction of the cattle population and of calf fattening. In these branches of livestock farming the return prices rose by a few percent, while they again fell sharply in intensive livestock farming.

Table 3 Returns and costs of the agricultural sector (excl. horticulture)

	Value mln. Hfl.			Changes in % in relation to previous year			
				volume		price	
	1986/87	87/88 (p)	88/89 (est.)	87/88 (p)	88/89 (est.)	87/88 (p)	88/89 (est.)
Returns	26110	23830	24840	-4.0	-1.0	-5.0	5.5
Non-factor costs	18820	17590	18120	-3.0	-1.5	-4.0	4.5
Net value added	7290	6240	6720	-6.5	0.5	-8.0	7.5
Factor costs *)	11740	11600	11280	-4.0	-2.5	3.0	0.0
Total costs	30560	29190	29400	-3.5	-2.0	-1.0	3.0

*) Calculated on a tenancy basis.

Total costs in agriculture declined by a few percent, above all through a volume effect. Of the non-factor costs, fertilizers and feedingstuffs displayed the strongest drops in volume and price. The development of the non-factor costs and the returns ultimately led to an over 14% lower net value added. Factor costs declined, despite higher prices for capital and land. The percentage of cover, which gives the ratio between factor costs and net value added, thus fell from 62 to 54; a very low level.

For 1988/89 a fairly strong increase in the net value added is estimated. Behind this is the fact that the return prices have risen somewhat more strongly than the prices of non-factor costs and moreover the fall in the volume of production was less than that of the non-factor costs. The percentage of cover rose to approx. 60 because the factor costs also fell a few percent.

8. Results of the horticulture under glass sector

In the horticulture under glass sector the value added in 1987 considerably increased in respect of 1986 (Table 4). This was caused in its entirety by the ten percent higher production value; in the case of the non-factor costs the fall in prices and the rise in volume kept each other in balance. Above all the once again cheaper energy made a major contribution to the fall in prices. Although the factor costs also increased, the percentage of cover increased from 84 to over 103. For 1988 a slight decline in the results is estimated. The percentage of cover would again work out below 100. In particular the higher energy costs and lower product prices in 1988 have put a spoke in the wheel.

Table 4 Returns and costs of the horticulture under glass sector

	Value 1) in mln. Hfl.			Changes in % in relation to previous year					
				volume			price		
	1986	1987	1988 (est.)	1986	1987	1988 (est.)	1986	1987	1988 (est.)
Returns	5865	6475	6680	8.0	7.0	7.0	-6.0	3.5	-3.5
Non-factor costs	3930	3900	4125	5.0	7.5	5.0	-6.0	-7.5	0.5
Net value added	1935	2575	2555	15.0	5.5	10.5	-6.0	26.0	-10.5
Factor costs	2300	2480	2625	0.0	5.0	4.0	4.5	3.0	1.5
Total costs	6230	6380	6750	3.0	6.5	4.5	-2.5	-4.0	1.0

9. Operating results

Per entrepreneur in arable and livestock farming, the entrepreneur's income fell in 1987/88 by approx. 14% in respect of the previous year (Table 5). However, between the various branches of farming the differences are very great. Thus the deterioration in the results in 1987/88 proved to have been caused above all by the course of events in arable farming and intensive livestock farming. The average labour return of arable farms was even negative: this has never occurred before. A similar sad record was also achieved in pig breeding, where the labour return per breeding sow was no less than 130 guilders negative. For both branches of farming an only very limited recovery of the results is estimated for 1988/89. The situation on the dairy farms was quite different: above all as a result of the reduced use of non-factor inputs - which moreover had become less expensive - the average entrepreneur's income was able to increase strongly. This incidentally applied in particular to the larger farms in the north of the country. The further improvement of the results in 1988/89 was mainly due to the five percent higher average milk price.

A development comparable with the course of events in dairy farming took place in horticulture under glass. In 1987 the average net holding result became positive for the first time since the energy crisis of 1973 (17,000 guilders per entrepreneur). For 1988 an only limited setback is estimated. The best results in 1987 were achieved in vegetables under glass. Minor changes occurred in holdings with cut flowers and holdings with potted plants; the former showed somewhat improved results, while the latter had slightly lower results.

*Table 5 Average entrepreneurs income on farms on some groups of horticultural holdings (in 1000 guilders) *)*

	1986/87	1987/88	1988/89
Dairy farms			
- larger farms	58.1	75.7	80.4
- smaller farms	22.7	27.2	34.0
Intensive livestock farms			
- larger farms	40.1	13.1	21.0
- smaller farms	26.6	4.0	4.0
Arable farms			
- larger farms	57.8	3.3	32.9
- smaller farms	33.5	7.3	16.9
*Horticultural holdings **) with mainly:*			
- vegetables under glass	47.4	111.8	92.0
- cut flowers under glass	58.6	81.8	84.6
- potted plants under glass	93.7	96.7	82.1

*) All years excl. effect IAA (Investment Account Act).
**) 1986/87=1986, etc.

Among the other branches of horticulture, the mushroom growers, the outdoor vegetable holdings and the fruit growers displayed an improvement of the results in 1987. This improvement continued with the mushroom growers in 1988, whereas results on the vegetable holdings and with the fruit growers came under strong pressure as a result of the sharp fall in return prices.

As a consequence of lower prices, the results of the bulb growers, which improved annually in the first half of the eighties, have been falling back since 1987. The results of the tree nurseries in 1987 and 1988 lagged behind those in the preceding years.

10. Incomes, financing and capital

The decline in entrepreneur's income on farms in 1987/88 was reflected in a nearly equally strong decline in family income and disposable income (Table 6). As a result among other things of the somewhat increased additional incomes, the decline of the latter two income categories remained limited. The level of family income differs strongly between the farms, and in 1987/88 this spread was even greater than in previous years. In 1988/89 income has improved: the rise in family income (from the farm) on the average holding is estimated at approx. 10%.

Table 6 Income, savings and investments on farms (x 1000 guilders per holding)

	1985/86	1986/87 *)	1986/87 **)	1987/88	1988/89 (est.)
Family income from farm	66.6	69.9	64.5	61.0	70.0
Total family income	80.1	83.6	78.2	75.2	84.0
Disposable income	61.9	70.3	64.9	61.0	70.0
Savings	10.7	20.1	14.7	7.3	16.0
Total own financial resources	37.9	51.2	51.2	43.9	.
Increase in outside capital	12.2	15.3	15.3	3.1	.
Gross investments in holdings ***)	52.0	60.9	60.9	46.3	.

*) Inclusief effect IAA, comparable with past years.
**) Excl. effect IAA, just like 1987/88 and 1988/89.
***) All years without reduction for IAA-premiums.

When we concentrate on differences between the branches of farming, it is striking that by far the highest family incomes are earned on dairy farms, and the lowest on arable farms. Despite the very low incomes in arable farming, family spending on these farms rose somewhat, while it had fallen in the four preceding years. As a result, there were considerable dissavings on the arable farms in 1987/88, and the liquid reserves also decreased significantly. Despite a slight income improvement in 1988/89, the continuity of a considerable number of arable farms is endangered.

On the mixed farms with intensive livestockkeeping, where total family incomes in 1987/88 were half those of the previous year, there were also considerable dissavings. Through lower tax payments and consumer expenditure the savings in the past year, as expected, were somewhat less negative.

As a result of the above there were considerably fewer funds available for financing on farms in 1987/88, and gross business investments fell strongly. The dairy farms again formed an exception to the general picture: here the investments between 1985/86 and 1987/88 remained at the fairly high level of 57,000 guilders.

The average family income of horticulture under glass holdings in 1987 was more than 50% higher than in 1986, whilst it had then already risen sharply in respect of the year before.

As a result of the somewhat lower consumer expenditure, savings more than quadrupled and the savings ratio worked out at the high level of 50%. It is true that gross business investments rose in 1987 too, but by less than the increase in the funds that had become available for financing. Many growers under glass have chosen to reduce their debts or to improve their liquidity position (Table 7).

*Table 7 Income, savings and investments on horticulture under glas holdings (x 1000 guilders per holding) *)*

	1985	1986	1987	1988 (est.)
Family income from farm	54.3	71.4	110.2	99.0
Total family income	68.3	86.2	124.1	113.0
Disposable income	51.0	65.3	103.2	88.0
Savings	-2.5	12.0	51.3	33.0
Total own financial resources	72.0	94.6	106.0	.
Increase in outside capital	-2.5	-30.3	-12.3	.
Gross investments in holdings	83.8	83.1	100.0	.

*) All years exclusief effect IAA.

On the other horticultural holdings mainly higher family incomes were attained in 1987. That applied in particular to the mushroom growers, whose total family income was four times as high as in 1986. As a result, the very low solvency in this branch of horticulture was able to improve somewhat. For 1988 too an improvement in the results is expected. Total family income in 1987 for the fruit growers and on the outdoor vegetable holdings rose by some 20% and 50% respectively, and the savings were broadly positive. However, this development favouring the producers did not repeat itself in 1988, since in both branches of horticulture incomes, as expected, have fallen rather sharply. Although incomes on the tree nurseries and bulb farms declined somewhat in 1987 and 1988, they are still at a fairly high level.