Look for positives and opportunities during the tough times ahead

Vested interest

The current low interest rates are set to continue, but there's downward pressure on milk price and input costs remain high. So what impact will all this have on your business' finances? We have an update from the AMC's Martin Waite.

text **Rachael Porter**

Low interest rates and a weak pound still represent good news for producers, which is somewhat thin on the ground at the moment, So says the Agricultural Mortgage Corporation's regional manager Martin Waite.

"The continuation of low interest rates remains a definite plus for producers, particularly those looking to borrow to invest in their farms," he says. "And, just as I stressed six months ago, businesses planning to invest should really get on and do it now, while both fixed rates and variable rates remain relatively low.".

The Bank of England (BOE) shows no sign of increasing interest rates. "In fact there is even talk of a base rate reduction as we stand today," says Mr Waite. "Although I do think that that was an idea that was put out there to gauge reaction and, as result, probably won't happen as it wasn't well received.

"The stuttering economy means that the BOE is likely to keep the rate at its historically low level of 0.5%. Dropping it further wouldn't really change anything or help in any way.

The BOE 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.

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

AMC is finding that producers are still 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 at the same time helping to offset the impact of rising input costs and fluctuating prices," says Mr Waite.

"But, 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. "It 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 represent a real opportunity for producers to build and strengthen their businesses for the future.

So, it's mainly good news for producers who are sorely in need of some at the moment. They face potential increases in winter feed costs – due to excessively cold and wet weather in the UK and other parts of the world.

"We will be running into winter with poorer quality silage meaning that additional feed will be required on some units to keep milk yields up. If not, producers may see milk yields dip and costs may increase – or incomes will fall. And that's before we've even considered milk price.

There are some tough challenges ahead, but it's also important to look for opportunities. "There are plenty of independent advisers out there, so tap into their knowledge and expertise and talk through any tricky areas or ideas with them sooner rather than later."