Agri Matters

AIB supporting the Irish Agricultural Industry

AIB

SPRING '07

In this ISSUE

Michael Dowling, Head of AIB Agri Strategy,

This edition of Agri Matters arrives after the end of what was generally a good year for Irish farming and with the prospect of a fairly positive 2007. We look back on 2006 and consider the prospects for this year.

Throughout much of last year, there was an air of gloom about the dairy sector. In the event, the extreme concerns were misplaced. The year ended well. We have examined dairying in a little more detail than the other sectors and are not despondent over the results.

We had intended devoting much of the edtion to a review of WTO developments but, as it transpired, there was little to report but – for some at least – a welcome stalemate. There are some recent signs that life may be returning to the negotiations but a conclusion is still some way off. In the meantime we decided to take a look at the agriculture sector in one of the main players in the negotiations – Brazil. Its agri-food development has been awesome but may now be slowing to a more reasonable pace.

There is much else in this edition – on land as an investment, off farm investment, farm planning, cashflow management and information on the economy generally and on the banking market.

I hope you find something in the mix which is interesting and enjoyable.

Wishing all our readers a – somewhat belated – happy and successful new year.

Michael Dowling,
Head of Agri Strategy

Outlook for 2007

The past year was like the curate's egg – good in spots – and 2007 is likely to be much the same. On the positive side, **beef prices** are likely to remain strong, given the widening EU deficit and a continuing slow down in exports from South America due to foot and mouth in Brazil and export restrictions in Argentina. Irish output is, however, likely to be down somewhat on the relatively high level of last year. The introduction of the suckler cow welfare payments should see a significant injection of revenue into the sector.

The outlook for the **pig sector** is also positive, with prices, which began the year about 7% up on 2006, likely to stay ahead, especially in the first half. Sheep numbers in the EU are continuing to decline and that, together with continuing high prices for competing meats, should see lamb prices remain strong. We would expect this trend to be particularly pronounced in the spring and early summer.

The outlook for **tillage** presents a more mixed picture. Clearly the demise of **sugar** production is a revenue loss, even though there is partial compensation through an increased direct payment. **Grain** prices are now largely determined by the situation on the international market and here prospects are favourable. Given the exceptionally high potato prices in 2006, we would expect some falling back this year.

> "Beef prices are likely to remain strong"

Milk prospects are the most difficult to assess. It was widely accepted that there would be a further price cut early this year, given the continuing cut backs in support and the pressure on processors. The very strong market for protein (other than casein), whey and, to a lesser extent, butter, has at least postponed that possibility. The protein and whey markets should remain firm through much of the year. There is, however, a doubt about how well the butter market will stand up, especially in the face of a further support price cut (equivalent to about 0.5c/litre) due in July. There could, therefore, be a modest price reduction in the second half of the year. This time there is no further premium increase to cushion the blow. Nevertheless, even though the economics of milk production have disimproved somewhat in recent years, with average margins of about 9c/litre, milk remains by some distance the most profitable farming enterprise.

Direct payment levels will rise considerably (perhaps by as much as €150m) due to the increases in the REPS, disadvantaged areas and forestry premium schemes and the introduction of the suckler welfare scheme, provided in the new national development programme.

Overall the picture would seem to indicate a rise in farm income this year greater than the rate of inflation.

2006 in Review

2006 was a relatively good year in most farm sectors. Prices for all the main products, except milk, increased – in some cases spectacularly. Output was up in beef, milk and cereals. Aggregate farm income fell by 13%. When, however, the windfall double subsidies of about €500m paid in 2005 are discounted, farm income is up by about 6% on a like for like basis.

This, however, is due exclusively to increased premium payments under the REPS, forestry and disadvantaged areas schemes and earlier payment under the SFP scheme. The actual net value added on Irish farms declined by about 8% as the increased value of output in most sectors was offset by higher costs, a drop in the value of milk output and stock adjustments. The following section takes a brief look at the individual areas.

Of the main livestock sectors **beef** was the outstanding area with price and output increases combining to give an increase in the value of output of some 13%, before stock adjustments. The year was positive for beef processors also.

> "A relatively good year for most sectors"

There was a slight drop in **pig** output but strong prices saw output rise in value by about 7%. The position in the **sheep** sector was somewhat similar, resulting in an increased value of output of about 3%. It was a more difficult year for farmers and processors in the **milk** sector, where, despite strong international prices, cuts in EU supports led to a drop of about 4% in Irish prices. This was, however, more than offset by the increased dairy premium element of the single farm payment (see separate section for a more detailed look at the milk situation).

In the tillage sectors, **grain** output increased by about 9%, which, together with strong prices, gave an overall increase in value of some 30%. **Potato** prices rose by over 60%. Income received by **sugar beet growers** was more than halved and consisted only of carry over payments from 2005 for the final crop grown in Ireland.

The level of **direct payments** was – and will remain – the dominant feature of aggregate farm income, accounting in 2006 for 25% of turnover but almost 80% of income. The **single farm payment** accounted for over one half of the direct payments and the **disadvantaged areas allowances** and **REPS** combined amounted to a further 25%. All of these payments are, of course, divorced from production.

Dairy Markets

World dairy product markets have strengthened considerably over the past three years. International prices of butter and skim powder in mid 2003 (the year before the start of the implementation of the Fischler reforms) were equivalent to a gross milk price of about 18c/litre. Despite significant dollar depreciation in the meantime, the equivalent price in mid 2006 was over 22c/litre.

However, because of the cuts in EU support (intervention equivalent price reductions of over 5c/litre) and the consequential reduction in subsidies, the returns to European sellers on international markets went in the opposite direction. The total return (i.e. including subsidies), which was about 31c/litre in mid 2003, had fallen to 26c three years later. The return from selling on the internal EU market, which was roughly similar in 2003 to the export return, was giving a significant premium over exports three years later, although here too the actual return was lower (by 2c-2.5c) than at the earlier date.

Affects on producers

All of this has resulted in a gradual reduction in EU producer milk prices over the period. For instance, Irish prices, which were almost 28c/litre in 2003, are estimated to have fallen to an average of about 26c last year. As a result of falling prices and rising costs the average net profit margin on Irish dairy farms is estimated to have declined by about 3.5c – 4c/litre since 2003. The net income position of dairy farmers was not similarly affected, however, as the dairy element in the single farm payment increased by close to the same amount over the period. There are no further increases due in that element, so income improvement, or even maintenance, in the future will depend on improved market returns and/or cost savings.

> "Decline in average net profit margin for producers"

In fact the second half of 2006 saw a considerably stronger market, bolstered mainly by very strong protein and whey prices. European whey powder and skim milk powder prices finished the year 44% and 21% higher respectively than they started. With the exception of butter, international dairy prices (in Euro) also rose dramatically through the year, despite the depreciation in the value of the US dollar. Most of the improvement, however, came in the off peak period and the question arises as to whether the markets will stay strong through 2007 and into the medium to longer term.

Market prospects

The prospects for protein and whey prices, and indeed whole milk powder prices, remain good as demand is rising faster in many developing countries than domestic production. Consumption in China, for instance, is increasing at over 15% a year and is outstripping the growth in production. So long as global economic growth remains reasonably strong the market for cheese should remain firm and the demand for fresh products should continue to grow.

There is some concern, however, about the outlook for butter. While the world market may strengthen somewhat, the EU market is still fairly heavily influenced by export and domestic subsidies that are likely to remain under pressure. There is a further intervention price cut (0.5c/litre) due next July. This could see some pressure on producer prices in the second half of this year but the medium to longer term prospects remain positive. Furthermore rising grain prices should increase the comparative advantage enjoyed by largely grass based production in Ireland (e.g. direct costs of milk production are equal to about one-third of the gross return on average Irish farms; the equivalent average US figure is 60%).

Brazil – the elephant in the market?

Brazil's development as an agricultural producer and exporter has been dramatic. Its agri food surplus at $28 billion is the largest in the world. The value of its agri food exports has grown by close to 10% a year over the past ten years (close to 20% a year since 2000); in the case of beef the annual growth rate was closer to 25%. Brazil became the third biggest agri exporter in the world in 1992 and in 2005 it passed out the EU to become the second biggest beef producer in the world. In 1996 its beef production was equal to about 40% of that of the US (the biggest producer); by 2006 that had grown to 75%.

The figures in Table 1 illustrate the extent of Brazil's presence in the agricultural world. Of the main commodities, milk is the only one in which Brazil is not a major player in the world market. While it is the sixth biggest milk producer, the vast bulk of its production is consumed domestically.

Table 1: Brazils presence in the agricultural world

WORLD RANKING			
Commodity	Production	Exports	Share of world exports (%)
Sugar	1	1	42
Ethanol	1	1	51
Beef	2	1	24
Poultry	3	1	35
Soya	2	2	35
Maize	3	4	35
Pork	4	4	13

How was all this achieved?

Economic reforms in the 1980s and the removal of much state intervention in agriculture stimulated growth. Brazil's level of agricultural product support is now at low levels, comparable to Australia and New Zealand. Most support is focussed on preferential credit. The biggest stimulus, however, came from the currency stabilisation plan in the mid 1990s, which saw inflation fall from over 100% to 5%.

Brazil has, of course, great advantages in terms of land availability, abundant and relatively cheap labour and a growing economy which has yet to fulfil its huge potential. Nevertheless, in terms of domestic demand it is the fifth most populous country in the world and the ninth biggest economy. Its agricultural price levels give it a very substantial export advantage (Brazilian steer prices in 2006 averaged €1.24/kg, as against €2.73 in Ireland, €2.80 in France and €2.39 in the US). On the face of it, Brazil's agricultural export expansion should be able to continue relentlessly.

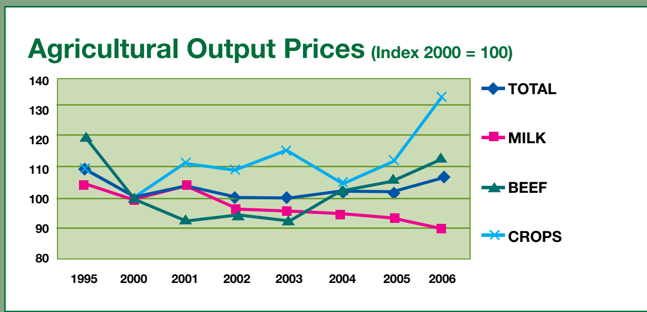
But will it?

The underlying strength of Brazil's agri economy will not diminish but there are signs that its growth, and especially its export growth, may be curtailed in the future.

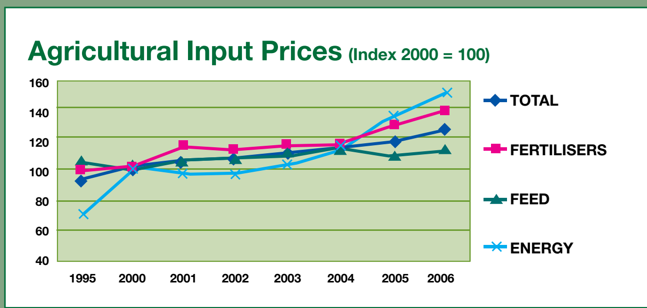
- The export outlook is a little less positive with an appreciating exchange rate and rising interest rates.
- Access to finance is likely to become more limited. There is already high farm indebtedness and, together with rising interest rates, that should act as a barrier to any expansion of credit for development. About 20% of farm credit is at the subsidised rate of 8%-9%. Availability of subsidised credit is not likely to increase and other credit is available only at rates close to 15%.
- Dearer credit and growing environmental pressures (especially related to deforestation) will slow land expansion down.
- Sanitary and phytosanitary barriers are continuing to limit market access possibilities. The EU, which takes 40% of Brazil's agri food exports, is virtually the only developed country market open to its fresh and frozen beef and poultry.
- Rising demand for food as incomes increase and, particularly, the rapid expansion in the non-food use of agricultural products (mainly for energy) will limit the supply of commodities for food exports. This is especially true in respect of maize and sugar. In the case of the latter, about 50% of its sugar cane production now goes for ethanol manufacture.
- Brazil's infrastructural deficit is enormous and is now a very significant constraint on agricultural expansion.

All in all, it looks as if the elephant will remain in the market but its footprint may be relatively smaller than at present.

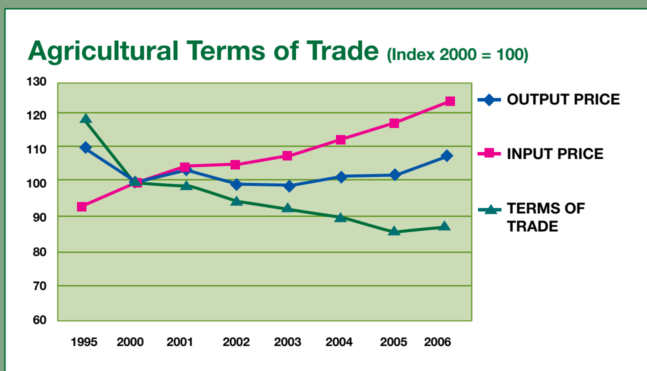
SELECTED AGRICULTURAL PRICE TRENDS



Source: CSO Agricultural Price Indices (Various)



Source: CSO Agricultural Price Indices (Various)



Source: CSO Agricultural Price Indices (Various)

Planning to farm? Plan for success!

There is a renewed sense of realism and progression in the agriculture industry in Ireland. However, it is difficult to say that optimism has been regained at farm level. The future is obscured by uncertainty for many farmers. Many would say that it is a difficult time to plan – there are no certainties for the future and who can say what obstacles lie ahead. But consider the future of your farm business in an uncertain time if you have absolutely no idea of where your business is going, how you are going to get there and how you will know if you have arrived!

It is time to look again at long term planning for your farm business. It is time to extend your vision and ensure that whatever the long term horizon of farming in Ireland, you have a plan for your business and it will be to the fore of success in the future.

What's involved?

Long term planning involves critically examining:

1. Where your farm business is today
2. Where you would like it to be in the future
3. How you plan to take it there.

Keeping it simple is an art form when it comes to planning – but if you are specific, realistic and complete you should be quite effective. So where to begin? Identifying the issues on your farm is the starting point. What is the real problem or challenge that your farm is facing ahead? It may be succession, it may be income, it may be efficiency or scale, it may be labour issues or a combination of issues. It is prudent to discuss these issues with your family or others that may be involved in your farm business and establish their views.

The mission statement

Once you have identified the issues you face, it is important to develop a mission statement for your farm business. A mission statement is a short, specific declaration of the core purpose of the business – essentially why your farm business exists. A good mission statement should be long term in vision, inspiring, easily understood and based on core values. It includes:

- A vision – what exactly you want to achieve e.g. A balanced work and home life with a good lifestyle;
- A mission – how you will achieve your vision e.g. to develop a successful farm business;
- Core Values – your own principles and values e.g. Produce quality outputs with respect for the environment and the health and safety of those involved.

With a mission statement established you can develop goals for your business. Goals are general statements about what you want to achieve. Your goals should be in line with your mission statement, they should be easily understood and be flexible. Your goals should focus on the important parts of your business. Try not to set too many as it is easy to lose focus. Examples would be increase profitability, ensure the continuation of the farm to the next generation, increase efficiency, or improve quality of life. Goals may also involve activities you wish to discontinue such as debt reduction or exiting from a particular enterprise.

A plan of action

With goals determined, it is now necessary to devise a strategy for your farm business which will enable you to realise your goals. Start by conducting a resource inventory – what have you got at your disposal to help you achieve your goals? Assess the structural, financial, labour and other relevant farm resources. Identify any problems with these resources. This is the time to organise your farm records and any documentation that will assist you in developing your plan.

Evaluate the full range of options and activities available to you. Be very broad in your thinking. Don't rule things out without sufficient information. Seek advice and help from your family, friends, farming publications or agricultural adviser where appropriate. Look to strategies that have worked for other farmers. At this stage it is important that you research strategies well and that you have a good understanding of the strengths and weaknesses associated with each. Remember that your plans will only be as good as the information on which they are based.

Stress test

Select the options which best suit your goals and are consistent with your mission statement. It is important to strike a balance between logic and emotion when selecting your course. While an option may appear particularly attractive, it must actually be feasible in terms of the resources at your disposal. When you have decided on a future strategy, stress test it as much as possible. Consider what could go wrong and what impact this would have. Don't rely on crossing bridges as they come – address these issues before you put a plan in place. Use as much experience, knowledge and research as is available to you to ensure that your plan holds up. Do sensitivity analysis on all your financial projections – what will be the effect of a price reduction, a decrease in yield or output. Remember that farming is often unpredictable – we can't always predict prices and yields and this should be factored into financial planning.

Devise an implementation plan for the strategies that you select – at this stage it is best to seek professional assistance if you have not already done so. Your plan should include objectives, these are related back to your stated goals. Objectives are short – medium term in nature, generally time specific – in a sense milestones to achieving your goals.

Monitoring and evaluation

Once you have your plan in place, it is important that you periodically review your goals and the progress toward them using financial, personal and physical indicators. Monitoring or evaluation allows you to identify areas of the plan, which are not being achieved. Perhaps there are obstacles, which need to be dealt with. This is really a matter of checking whether you are on target and if not what can be done. It may be the fortunate case that you are exceeding your targets in one area and you may need to review the plan in light of this. Remember that your plans should not be set in stone – the business of farming is dynamic and your plans must have the capacity to change as business and life dictate.

A word on decision making

Every stage in farm planning involves decision making. When making decisions – take your time. Effective decision making requires good information, sound judgement and flexibility.

The process involves organising information, structuring your thoughts, identifying and critically evaluating alternatives. Be realistic and accept that as humans, in life and in business, we don't always make the correct decision. There is always scope to review and amend. Bear this in mind – it will stand to you!

Ask yourself some basic questions today.

- Have I got a long term vision for my farm?
- Have I got a working farm plan?

Don't be daunted by the task of planning – be excited by the prospects, be motivated by the challenge. Be confident that your future will be clearer and will have more direction if you have a plan in place. And remember, think holistically. Farm planning should incorporate both business and family goals. Adopt a balanced approach to planning – there is little value in having a very profitable business if you do not have time to pursue your interests outside of the farm. Be courageous – start today. Good luck!

Removal of Land Certificates from Circulation by January 2010

The legal title to most farmland in Ireland is registered with the Land Registry (now known as the Property Registration Authority) which provides a State Guarantee as to the identity of the land together with its ownership, and the burdens that affect it. The State (if requested) issued a land certificate to the owner but many owners opted not to take up a land certificate as replacing a lost one was stressful, costly and time-consuming. Today, there are over 1.7 million registered titles in Ireland with almost 1 million land certificates issued.

Under Section 73 of the Registration of Deeds and Title Act, the State will no longer issue land certificates and any already in circulation will cease to have legal effect on the 1st of January 2010. The change is to assist the introduction of e-Conveyancing which, in turn should help reduce the costs, and speed up the process, of buying and selling land.

This move does not undermine your title to your property which is still State-guaranteed and noted on the Register. However, it does mean that security over land must now be by way of a registered legal charge, rather than the traditional (but disappearing) deposit of the certificate. For further information on this, please see the website **www.landdirect.ie**

Harvesting off-farm investments

Leo Whelan, AIB Financial Planning Manager, West Cork, discusses the key issues for investing off-farm

The trend towards investing outside of the farm gate has gained considerable momentum in Irish farming in recent years. The number of property investment options alone at the 2006 Ploughing Championships bore testimony to the widespread interest among farmers in investing off-farm.
In addition to the banks and financial institutions who have traditionally provided investment opportunities in cash, bonds, property and equities – there are now many new entrants into the market advertising lucrative product offerings.

Investment options

Where to invest and what to invest in depends largely on your objectives as an investor:

- Are you looking for Capital Growth?
- Do you have an income requirement from your investment?
- Will you need access to your funds?

Typically an investor will have a good understanding of a particular asset class to which they will naturally be drawn. While it may be comfortable to stick with what you know, it is important to explore and research other asset classes, which may offer a lot towards realising your objectives. There are merits to pursuing a balanced portfolio of investments most importantly because it can accommodate multiple objectives of investors. Ensuring that you have comfortably provided for your retirement is an important financial consideration. Before becoming involved in off-farm investment it is advisable to identify your retirement needs and prioritise these.

Subsequently, you can evaluate the different approaches open to you such as direct ownership of property, syndicated property deals, direct shareholdings, managed funds, investment through pension and investing personally. Ensure that you fully understand all the options available. They will all have merits and drawbacks unique to your situation. Avoid being sold on the merits of an option without objectively assessing it in light of your own situation.

Financial plan

Try to think of your investment in the context of an overall financial plan, whether that is formally laid out or not. Remember that you will have a requirement for funds that are easily accessible, so in terms of liquidity you should factor in an element of funds that are easily accessible to you. It is important that a plan offers stability and flexibility for the investor. Ensure that you have secure and stable elements in your plan, which provide some peace of mind. It is not worth pursuing an investment if you will lose sleep worrying about it.

In addition, ensure that you have the flexibility to realise other opportunities that may present. The tax efficiency of an investment is of particular importance.
In planning investments, it is crucial to consider the tax implications both from a growth and income perspective. Growth is the most fundamental aspect of any investment or financial plan. Make sure that your investment will deliver growth that is at least in line with, if not in excess of inflation. The level of risk you engage in when investing depends very much on your own personal appetite for risk.

A good harvest

For many farmers investing off-farm is a step into the unknown. Irish farmers have grown successful farm businesses through pursuing structured and planned investment inside the farm gate. The same approach should be followed when investing off-farm. While it is true that we reap what we sow, as farmers you will all know that many factors must come together for a good harvest.

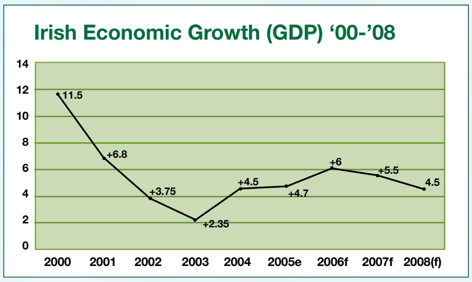
Investment Considerations

- Seek independent help in defining your investment objectives and in sourcing information to assist your understanding of the different asset classes.
- Seek supporting information for each option e.g. past performance, management issues if applicable, currency, political and economic considerations if investment is based outside of Ireland
- Remember risk is inherent to all investment. Be aware of the risks associated with the approaches you are evaluating i.e. risks to capital and risks associated with borrowing to invest. If you are unsure of what to look at in terms of risk – seek independent professional advice.

Economic Overview

Economic Growth:

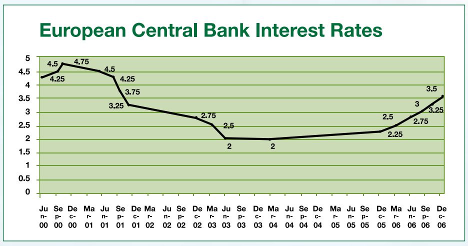
The Irish Economy continues to perform remarkably well with 2006 growth estimated at 6%. Looking ahead to 2007 and 2008, while it is likely that growth in the Irish Economy will slow somewhat, performance is forecast to remain strong with growth of 5.5% and 4.5% respectively expected. It is expected that many of the factors currently boosting economic activity will diminish during 2007 and 2008 giving rise to the ease in growth.



Source: AIB Global Treasury Quarter 1 2007

Interest Rates:

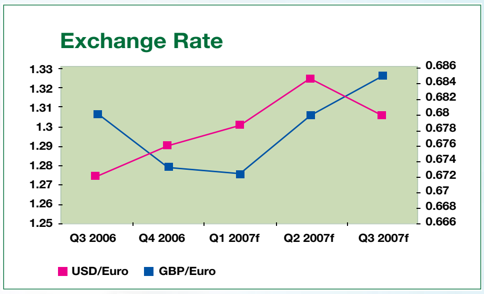
As predicted, the ECB increased the eurozone interest rates by another 0.25% to 3.5% in December 2006. Thus, eurozone interest rates have increased by 1.5% since December of 2005. It is likely that interest rates will be raised by another 0.25% in Q1 2007. Indeed, given the strength of eurozone activity data and with inflation expected to remain high there is a risk that rates could be increased to 4.0% before the summer.



Source: AIB Global Treasury Quarter 1 2007

Exchange Rates:

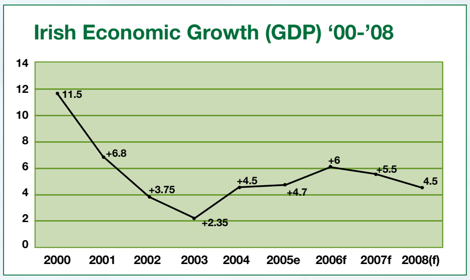
The end of Q4 2006 saw the US dollar fall back against most major currencies due mainly to concerns about the current state of the US economy and expectations for lower interest rates in 2007. While some improvement was seen in late 2006 and early 2007, renewed weakness in the dollar is anticipated in H1-2007. All indications are that sterling is likely to remain strong in the short to medium term.



Source: AIB Global Treasury Quarter 1 2007

Inflation:

2005 saw the beginning of an upward trend in Ireland's inflation, which looks likely to continue during the early months of 2007. Increases in higher mortgage interest rates and higher house prices in addition to rising utility costs in the economy are fuelling the upward trend. Headline inflation, however, should begin to trend downward over the second half of the year.



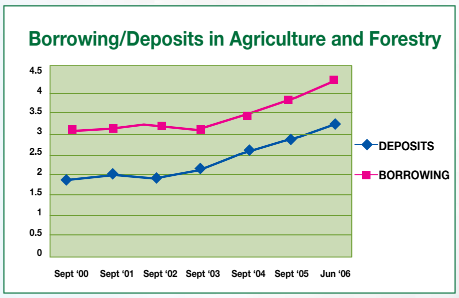
Source: AIB Global Treasury Quarter 1 2007

Irish Agricultural Banking Market

Borrowing/Deposits in Agriculture & Forestry

Advances to the sector broke the €4 billion mark in June 2006 as farmers continued their investment on and off farm. The sector has seen significant increases in advances since 2004 and we expect this to continue in 2007. Implementation of the farm waste management scheme, increased investment off farm, coupled with increased investment in farm assets will help fuel the growth in advances.

Increases in Agri resources were maintained in the first half of 2006. The receipt of the first Single Farm Payment coupled with maturing SSIA's, increased interest rates and rising sources of off-farm income have aided this increase. We expect to see further increases in Agri resources in 2007.

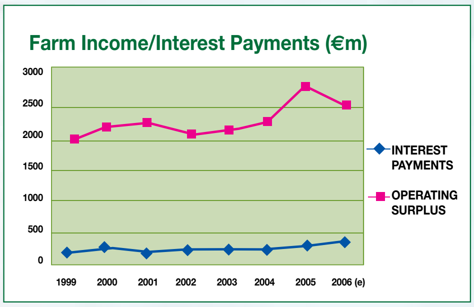


Source: Central Bank Statistical Bulletin (Various)

Farm Income/Interest Payments

2006 was a relatively positive year for farmers with prices for all main products, except for milk increasing. Despite this, 2006 saw a decrease in aggregate farm income by 13%. Leaving aside the double subsidies received by farmers in 2005, farm incomes increased. This increase was predominately due to increased premium payments.

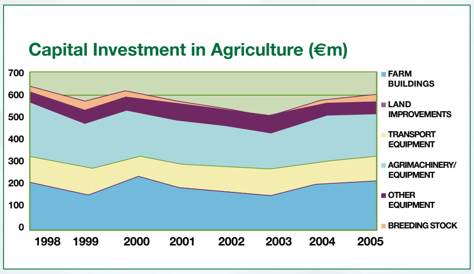
It is estimated that interest paid by Irish farmers will have increased by 23% in 2006. This has been fuelled by increased borrowing activity by farmers in 2006 together with rising interest rates by the European Central Bank.



Source: CSO Output, Input and Income in Agriculture (Various)

Capital Investment in Agriculture

Growth in capital investments by farmers continued in 2005 and 2006 figures should reflect this trend. This continued growth is driven by increased investment in farm buildings, machinery and equipment. Despite the environment of interest rate hikes in 2006, we anticipate further growth in capital investments by farmers in 2007.



Source: CSO Growth Fixed Capital Formation in Agriculture

AIB Supporting the Irish Agricultural Community

Agriculture continues to be an important sector in the Irish economy and is critically important to AIB. During 2006 we partnered with the agricultural community on a wide range of initiatives and events which are important to the agricultural community. We took every opportunity to meet with our customers at conferences and shows throughout the year. The following are a selection of AIB's initiatives from the latter half of 2006.

Mary Harney TD, Minister for Health and Children; Mícheál ó Muircheartaigh and Michael Dowling, Head of AIB Agri Strategy pictured at the AIB sponsored Guild of Agricultural Journalism Awards in November 2006. The awards took place in the Guinness Storehouse and were attended by both national and regional agricultural journalists. The judging panel was chaired by journalist Brenda Power. AIB made a special presentation on the evening to Mícheál ó Muircheartaigh to acknowledge his outstanding contribution to communications in rural Ireland.

Matt Dempsey, Editor, Irish Farmers Journal; Eugene Sheehy, CEO, AIB; Derry O'Donovan, Senior Business Advisor AIB, pictured at the National and World Ploughing Championships in Carlow, September 2006. The event was attended by the AIB Agri Adviser team, local branch staff and staff from around the country. Our staff enjoyed the opportunity to meet with our farming customers and we look forward to talking to you at both the AIB National Livestock Show/Tullamore Show and the National Ploughing Championships in 2007.

The 2006 AIB/Macra na Feirme Club of the Year Final took place in Portlaoise at the start of November 2006. Carrigaline Macra were crowned the 2006 Club of the Year and we extend our congratulations to them. We would also like to commend all six finalists in the competition and wish them all much success in the future.

Pictured with the Liam McCarthy Cup at the 2006 Ploughing Championships in Tullow are: Barry Hickey, AIB Carlow; Nicky Brennan, President GAA; Jackie Tyrell, 2006 Kilkenny Hurling Captain; Noel Hickey, Kilkenny defender; Patrick Butterly, Agri Adviser AIB; Frank Casey, Branch Manager AIB Enniscorthy

Focus on: IFA/AIB Farm Cash Flow Planner

In the last edition of Agri Matters we discussed the need for greater cash flow management on Irish farms. The cash flow situation in Autumn 2006 was strained on many farms and as a result the Single Farm Payment was paid in two installments, the first being received in mid October. In adjusting to the Single Farm Payment it has become clear that farmers are facing cash flow challenges at times of the year not previously experienced.

In response AIB, in partnership with the IFA, have developed farm cash flow planning software to enable farmers to project and record their cash flow. The software is strongly user focused and is quite simple to use. The software is available to all farmers through their local AIB branch or IFA regional office.

In order to fully utilise this software, it is imperative that you start as soon as possible. Organise and examine your farm records, bank statements, chequebook stubs, cash receipts as well as enterprise budgets. Keep a record of household expenditure for at least three consecutive months before you begin to give a good estimation of household costs. The more accurate the information you input the more effective your cash flow management will be. AIB encourages farmers to avail of the Cash Flow Planner CD-ROM.

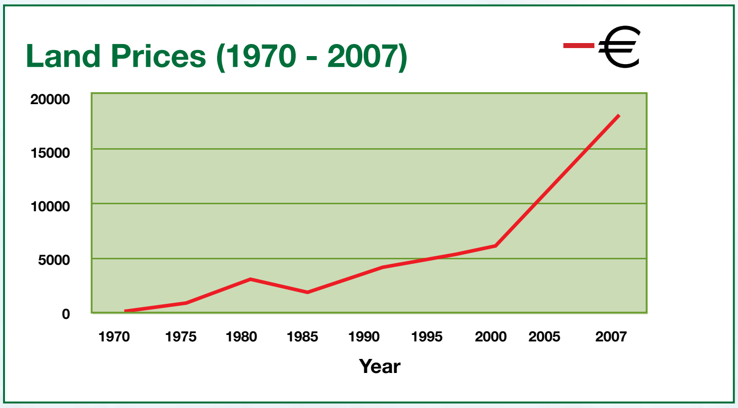
Pictured are Michael Dowling, Head of AIB Agri Strategy and Eddie Downey, Chairman IFA National Farm Business Committee.

Philip Maher Senior Agricultural Advisor AIB

Philip analyses the developments he has seen in the land market from 1970 through to 2007. The data herein reflects the author's assessment of the value of good agricultural land over this period.

Agricultural Land as an Investment

Farming has come full circle with the introduction of the Single Farm Payment in 2004. Despite the option to consolidate entitlements, decoupling would appear to have had a major effect on land prices as shown by the graph, although there are other factors involved.



Remarkable growth

Land prices in Ireland have shown remarkable growth of on average c. 12% p.a. since 1970, starting out at €250 per acre and rising to €15/20,000 per acre for agricultural land without development potential. The growth has not been steady however. It peaked at approximately €2,500 in 1978, declined in the 1980s to c. €1,500/1,800 per acre before rising to €4/5,000 per acre in the mid 1990s. The 2000 – 2006 period saw unprecedented growth in land prices averaging c. 20% p.a. This was driven not only by demand from farmers to maximize Single Farm Payment but also by farmers having sold development land or land sold under CPO's. In addition, demand is also being driven by good commercial farmers expanding their holdings, by part-time farmers with considerable off farm income and by members of the business community who have a desire to own land.

The burning question now of course is where is land price going given the fact that it is grossly uneconomic at present levels particularly for borrowing farmers. When one looks at the rapid growth in land prices over the past 6 years, the conclusion must be that it is being driven by the Celtic Tiger economy rather than Agricultural Output prices or profit. On balance my feeling is that land price will stay strong but will be determined by the country's overall economic performance & European interest rate movements and to a lesser extent by farm profitability. Most importantly the purchase of land by any individual should be based on affordability and repayment capacity. This is particularly pertinent when viewed against the background of the steep increases in land prices since 2006.

Drivers of Land Price

There are a number of factors involved in determining land prices.

- Firstly the amount of land changing hands through sale is less than 0.5% per annum. In fact in 2006 it represented 0.15% at 15,000 acres out of a total national land area of 10m acres. The average price for this land came in at around €28,000 per acre but a number of exceptional sales took place where there was some development potential.
- Secondly, land is a reducing asset with land being used up for development purposes, infrastructural improvement purposes but also through natural phenomena such as soil erosion and natural disasters particularly in parts of the world where climate is less stable.
- Thirdly, we expect competition between growing crops and livestock for food and using land for energy crop production now that we are approaching the peak in world oil production.

This, coupled with the expected rise in world food demand with a likely three-fold increase expected over the next 30/40 years, primarily as a result of economic growth in Asia, will help to underpin land prices. Economic growth in this part of the world is driving a greater demand for protein and improved diets in the developing world that is in fact outpacing their agricultural capacity. This will provide opportunities for food-exporting countries such as Ireland.

World population is expected to peak at between 8/9bn from a current base of approximately 6bn. This represents a 50% increase over the next 45 years or so and will be against a background of two very limiting resources as we progress through the twenty-first century namely land and water.

Global land use

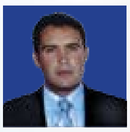
Agriculture uses about 37% of the earth's land surface and any land not in a city or farm is wildlife habitat. Globally, we are now attempting to legislate particularly in the more developed countries for low yield agriculture, which will cause more of our wildlife habitat and natural forest to be used for low yield agricultural production. This is much more damaging environmentally than pursuing high yield production through scientific advances in areas capable of high yields. For how long more will we be able to afford the luxury of land lying idle in set aside and not pursuing strategies to maximise food and energy output from our most productive soils? The strong demand for high protein food and energy crops will continue to underpin the value of agricultural land as we progress through the twenty-first century.

> "Growth in land price not consistent"

My experience

If we take the example of a farmer who began farming in 1970 with 120 acres. Let us assume he developed this farm to say an 80,000-gallon milk quota with appropriate farm development expenditure & met his repayments, living & family education expenses. By my calculations his net worth would have increased from about €60,000 equivalent in 1970 to €2,500,000 by 2007, excluding any off-farm investment which he or she may have made in the course of their lifetime.

In my opinion this out-turn would compare more than favourably with most other individuals operating outside of agriculture in the Irish economy.



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