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Farmer intentions survey

April 2013

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Executive summary



The 2013 Farm Intentions Survey was conducted at the end of a very challenging year for agriculture. The year was characterised by the negative impacts of extreme wet weather on grass growth and crop production. The subsequent issues associated with the poor quality and reduced quantity of feed crops and silage then had a bearing on production costs and milk yields. The survey responses will have been affected by the attitudes and feelings at that time and all results need to be considered in the context of the operating and market conditions which prevailed.

The survey includes results from 1230 UK farmers in total, with approximately 770 from England, 100 from Scotland, 160 from Wales and 200 from Northern Ireland. This report highlights the findings from Great Britain with UK production intentions tabulated in the appendices.

The survey results indicate an overall drop in confidence compared to last year, accompanied by an increased sense of uncertainty about the near future. The number of GB dairy farmers intending to increase production in the next two years was 32%, down from 36% in 2012. There was a noticeable increase in the proportion of farmers who were undecided on production levels two years hence, up from 5% in 2012 to 13% this year. This is likely to be a response to the difficulties faced during the 2012/13 milk year and the continued uncertainty on operating conditions for the upcoming year.

The drop in confidence has also been reflected in investment intentions. The number of farmers who intend to invest more than £150k over the next five years dropped from 14% to 9% this year (not accounting for those who may have already invested recently). There was also a substantial increase in the number of farmers who were undecided (36% compared to 13%) about their investment decisions.

Farmers were asked to rate their confidence for the next 12 months as well as the next five years, asking about confidence in the short-term for the first time. Splitting the question allowed for a more accurate reflection of how farmers viewed prospects in the longer term, taking out the influence of recent events. Overall, dairy farmers in Britain showed confidence in their prospects over the next 12 months, with 43% of respondents returning scores of 4 (extremely confident) or 5 (very confident), giving an average score of 3.21 on a scale of 1 to 5.

In the medium term, confidence scores averaged at 3.25 for their own farm business, slightly higher than the 3.20 score returned for the dairy industry overall. This may be a reflection that farmers feel able to do well despite the industry outlook. This is especially the case for those farmers whose milk is primarily directed to the liquid milk market and could have arisen from the introduction of the voluntary code. The potential to change supply contracts faster, and therefore be more able to capitalise on market trends and developments, may be boosting farmers' confidence to operate a successful business. This is supported by the finding that farmers who have recently changed contracts showed higher confidence levels than the average.

Survey results have also indicated a shift in confidence by market sector. Farmers whose milk is directed primarily towards the manufacturing sector recorded improved levels of confidence this year while those supplying the liquid milk market showed a drop in confidence levels. This was reflected both in a smaller percentage of liquid milk suppliers intending to expand and a larger percentage intending to leave. Conversely, the proportion of farmers who intend to expand who are supplying the manufacturing sector has increased.

The strong sense of uncertainty is reflected in the long-term plans of dairy businesses with a significantly higher number of respondents indicating they had no plans for the continuity of their business over the next 10 years. This increased from a 25% response rate in 2012 to 33% in this year's survey. Alongside this, however, there has also been an increase in the proportion of farmers who have succession plans, rising to 57% from 47% last year.

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Introduction



DairyCo is a division of the Agriculture and Horticulture Development Board (AHDB); a levy-funded, independent organisation which aims to improve farm business efficiency and competitiveness. DairyCo works on behalf of Britain's dairy farmers providing independent, evidenced-based information and resources.

As part of our activities within the dairy sector, we survey farmers in order to understand their businesses and inform future service development. The Farmer Intentions Survey has been conducted annually since 2004. The objective of this survey is to ascertain the views and intentions of dairy farmers within the industry; helping to identify threats and challenges that farmers face. The survey provides the opportunity to assess the impact their future plans will have on the industry in terms of future milk production. In this years' survey, questions on confidence have been developed to allow for the distinction between confidence in the short and medium term. In addition, information has been gathered on constraints to capital investment and funding choices.

The 2013 Farmer Intentions Survey was carried out in December 2012 and January 2013 using telephone interviews. A total of 1,230 UK dairy farmers were interviewed; approximately 770 in England, 100 from Scotland, 160 from Wales and 200 from Northern Ireland. The sample is drawn from farmers with 10+ cows and the respondents were the decision-makers responsible for the dairy enterprise. The results of the survey have been weighted in line with the number and size¹ of holdings in the UK to be representative of the industry as a whole. This document will focus on British dairy farmers and their intentions for the future and how this could impact on the British dairy industry, with findings for the whole of the UK in the Appendices.

Results from the survey provide an opportunity to assess the confidence of dairy farmers in their own farm business and the industry as a whole. As with any survey, market conditions and general industry sentiment which prevailed at the time of the survey will affect responses. As the survey was carried out in December 2012 and January 2013, the results will be a representation of attitudes and intentions influenced by the prevailing concerns at that time.

In the preceding months before the 2013 Farmer Intentions Survey was carried out, milk production yields were suffering as a result of the poor grazing and growing conditions which had occurred during the summer and autumn of 2012. GB daily deliveries reached a 10-year low of 27.9 million litres per day on average in October 2012, compared to average daily deliveries of 29.7 million litres per day for the same time in 2011. The GB average farmgate price during the survey period was in the region of 30ppl, (13% above the 3-year average), although margins were under pressure due to production costs rising on the back of both increased input prices and usage. All of these factors will have influenced the state of mind of dairy farmers when responding to the survey, resulting in a noticeable decline in the confidence of dairy farmers compared to when the survey was conducted in 2012. However, alongside this trend, there has been a steady improvement in milk prices on the back of the global supply shortage and redefinition of contractual relationships between milk producers and buyers through the implementation of the Voluntary Code of Best Practice on Contractual Relationships.

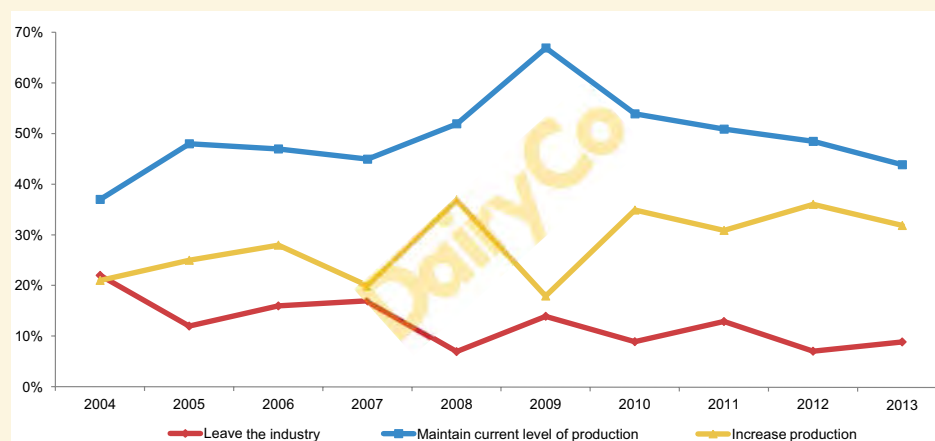
¹ In terms of herd size

GB farmer intentions and future production

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Results from the 2013 Farmer Intentions Survey indicate that there is more uncertainty in the industry compared to last year. The number of GB dairy farmers intending to increase production in the next two years was 32%, down from 36% in 2012. Meanwhile, the proportion of farmers who were undecided on production levels two years hence increased from 5% in 2012 to 13% this year. This is likely to be a function of the difficulties faced during the 2012/13 milk year and the continued uncertainty on operating conditions for the upcoming year. The proportion of farmers intending to leave the industry in the next two years also increased in 2013, rising from 7% last year to 9% in the current survey.

Figure 1: GB farmer intentions over the next two years



Note: Results may not sum to 100% for individual years as respondents who were undecided or decreasing production are not included

Wales had the highest proportion of undecided farmers within GB at 21%, while England had the highest proportion of those intending to leave at 10% compared to 7% in Scotland and 6% in Wales. Scotland had the highest proportion of farmers intending to maintain production levels. There was no significant difference in the proportions of farmers intending to increase production across the three countries.

Based on results of the survey and the June 2012 figures on dairy holdings for England, Scotland and Wales, total industry intentions have been estimated as shown in the table below.

Figure 2: GB farmer intentions and equivalent number of dairy farms²

Intention	2012 results		2013 results	
	Weighted percentage	Equivalent number of dairy holdings	Weighted percentage	Equivalent number of dairy holdings
Leave the industry within two years	7%	850	9%	1,100
Decrease production within two years	3%	350	2%	250
Maintain current level of production	49%	6,000	44%	5,400
Increase production within two years	36%	4,450	32%	3,900
Undecided	5%	600	13%	1,600

² Based on 12,251 milk producers in GB in June 2012 (Source: Defra). Numbers have been rounded to the nearest 50.

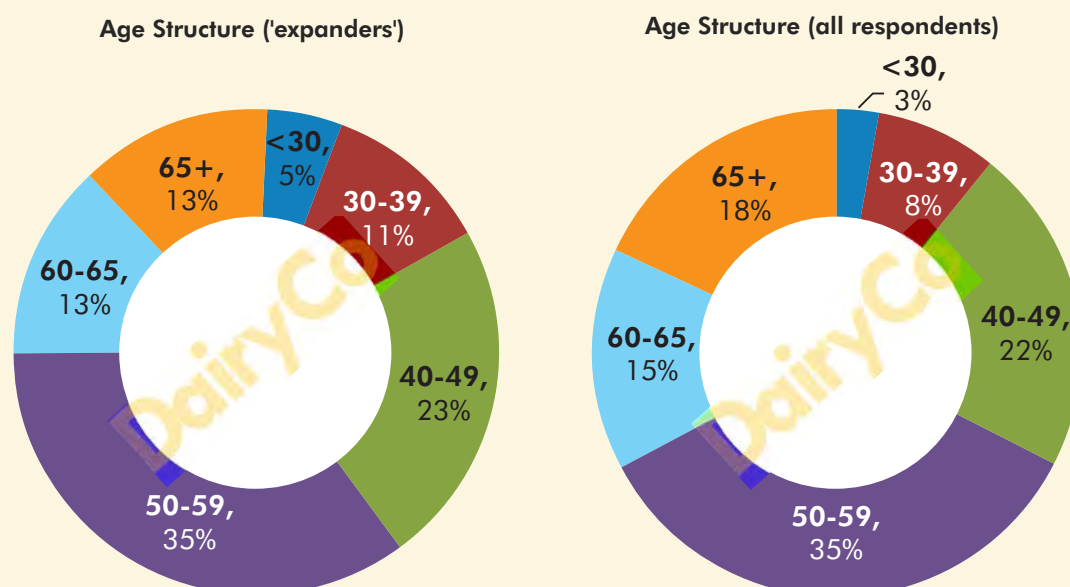
'Expanders'

According to the survey responses, it is estimated that the equivalent of 3,850 dairy farmers intend to increase production in the next two years. This group of farmers tend to have larger farms in terms of herd size: 66% of those farmers have over 100 cows and 24% have over 200 cows, compared to 34% that have less than 100 cows. Alongside this, 46% of those intending to expand currently produce over 1 million litres per annum, of which more than half produce over 1.5 million litres per annum. Farms were also more likely to be solely dairy farms; only 38% of farms intending to expand were mixed.

While the 'expanders' are younger than average, no particular age group is more heavily represented than that seen across the industry. The figure below shows the age distribution of the GB dairy industry compared to those intending to expand.

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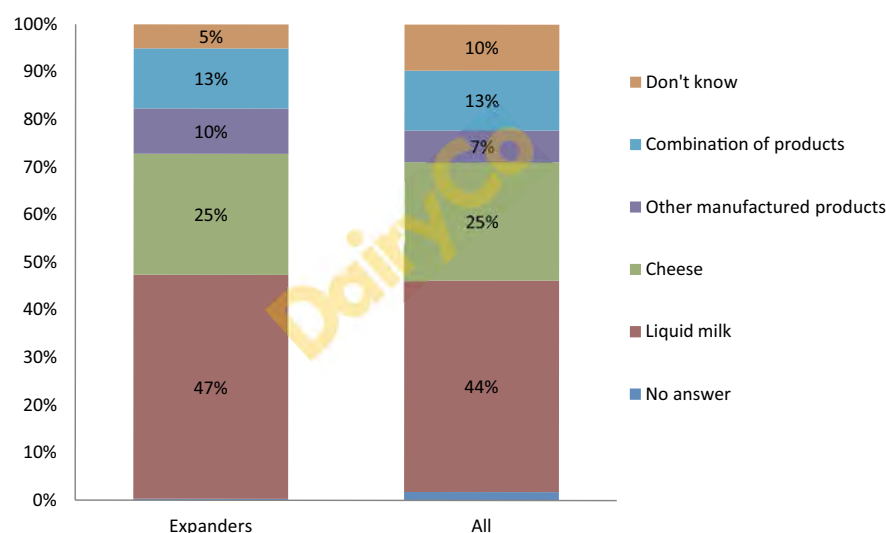
Figure 3: Age Structure



Note: Percentages refer to the survey sample and not the industry population

Farmers intending to expand are more likely to be supplying their milk to the liquid or manufacturing market. In the full sample, 44% of all respondents stated their milk was primarily used for liquid milk and 7% indicated manufactured products. In comparison, 47% of those intending to expand supplied the liquid market and 10% supplied the manufacturing sector.

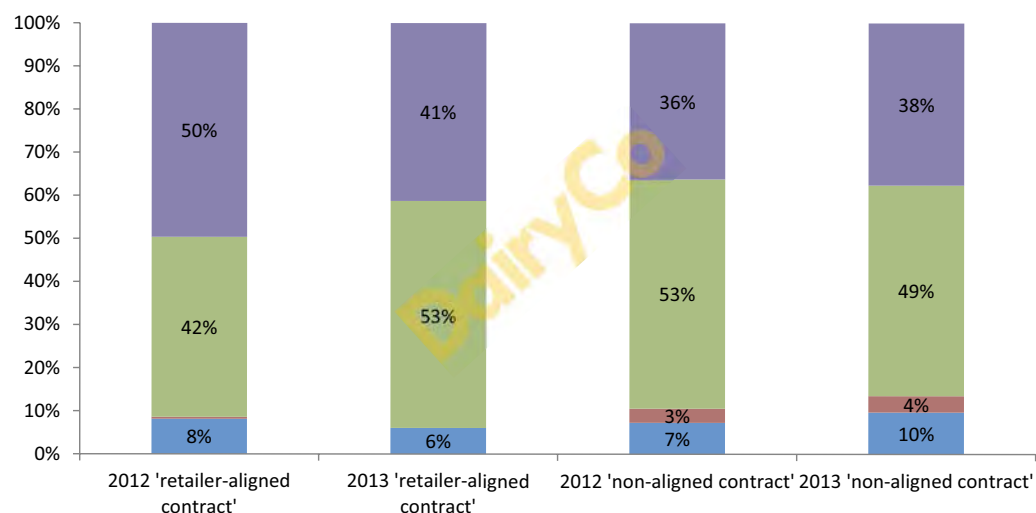
Figure 4: Farmer intentions by primary end market for milk



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Within the group of farmers supplying the liquid milk market, those with retailer aligned contracts have historically been more likely to indicate an intention to expand than those who are not on aligned contracts. In the 2012 survey, 50% of those on aligned contract indicated an intention to expand compared to 36% of those who were not on aligned contracts. However, from this year's responses this split was less pronounced, with 41% of the group of aligned farmers showing an intention to expand compared to 38% of the non-aligned group.

Figure 5: Farmer intentions by contract type

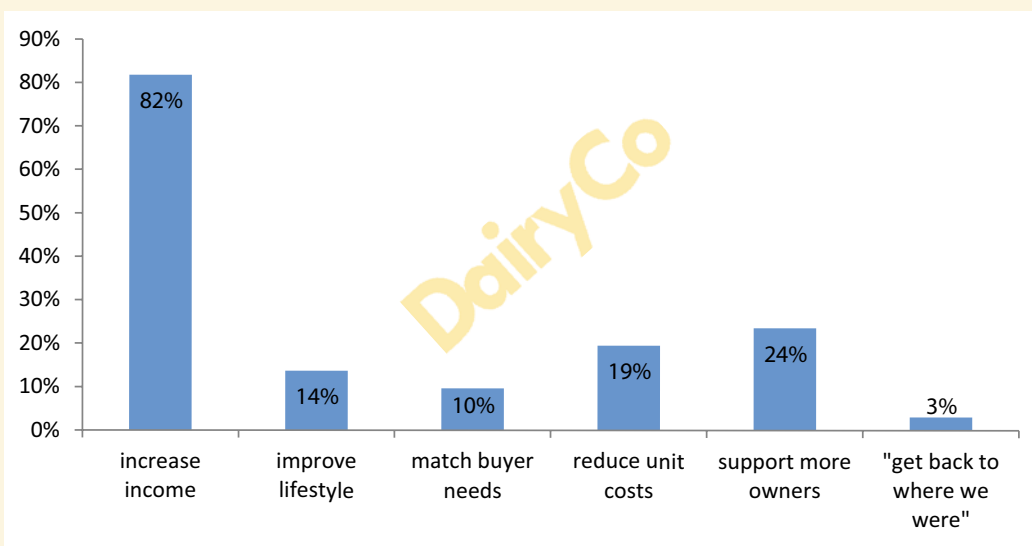


In this year's survey, farmers were asked what changes they would make to their farm in order to increase production and the main reason for the decision to expand³. The most common methods were through increasing herd sizes, chosen by 82% of the sample and improving yields, of which 27% chose. Other responses included changing milking patterns, improving genetics and improving management.

³ Figures will add to more than 100% as multiple responses were allowed.

The main reasons given for the decision to expand are summarised in the figure below. The most frequent responses were to increase income from the farm (from 82% of respondents) and to support more family members or owners (24%). Of note is the number who spontaneously⁴ responded that they were increasing production 'to get back to where we were'. It is unclear from the responses whether farmers were referring to levels of profitability, herd size or production levels.

Figure 6: Main reasons for decision to expand

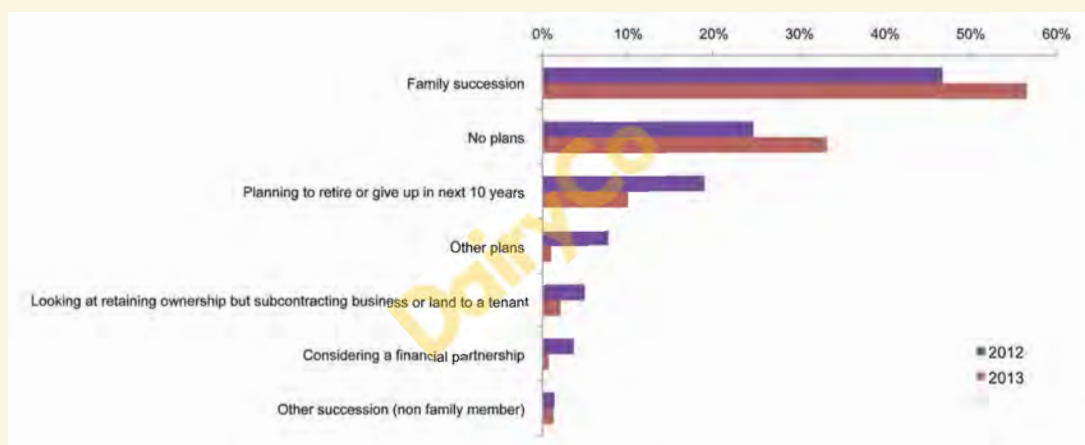


Long-term continuity

When questioned about plans for the long-term continuity of the farm business, more than half of GB dairy farmers have a family successor in place. This is an increase on 2012 when 47% had a family successor. The proportion intending to retire or leave the industry in the next 10 years has dropped from 19% in 2012 to 10% this year, although the percentage that have no long-term continuity plans has risen from 25% to 33%. Given the uncertainty that has been reflected in production intentions, it may be that there are a large number of farms waiting to see if their business is able to recover from the difficulties experienced during the 2012/13 production year.

⁴ The response 'to get back to where we were' was not an option on the survey.

Figure 7: Long-term continuity of farm business



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Focusing on the three main long-term continuity plans, further analysis of results provides more details on the intended plans. In general, those farmers with a successor in place tend to have larger farms (in terms of both herd size and production volumes), are owners (either full or in a partnership) and are optimistic about the future (of both the dairy industry and their business). They are more likely to be intending to expand production and be either under 30 or over 65 years of age. Scottish farmers are the most likely to have a successor in place at 65%, compared to the national average of 57%.

Those farmers who plan to retire in the next 10 years are more likely to be in a tenancy, have herds between 50-100 cows and be over 50 years old. Farmers intending to retire are also more likely to be more pessimistic and are unlikely to increase production in the next five years. There is no significant difference in the percentage of farmers planning to retire across England, Scotland and Wales.

Farmers who have no plans for the long-term continuity of their business tend to be smaller, in both herd size and production volume terms. More are in tenancy agreements than on average in Britain, and there is a higher percentage of farmers with no continuity plans in Wales than elsewhere. In terms of age, farmers under 30 were most likely to have no long-term continuity plans, although this is not unexpected as retirement is a long way off for them.

'Leavers'

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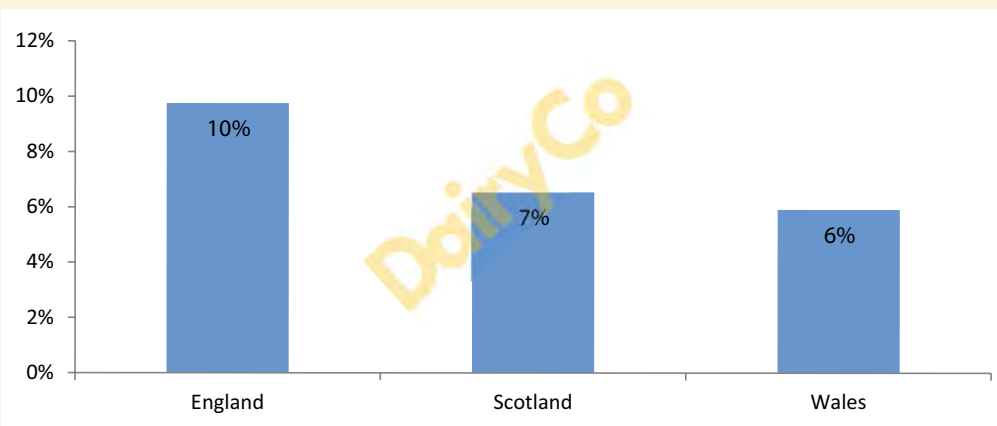
It is estimated that 9% of farmers intend to leave the industry in the next two years which equates to roughly 1,050 farms. While this is a larger number than in the 2012 survey, it was likely that the generally pessimistic mood which prevailed in the industry during the winter of 2012 would result in higher numbers of farmers expressing an intention to leave the industry in the next two years. Longer term, however, the number of farmers intending to leave the industry without a successor in place has dropped to 10% compared to 19% in the 2012 survey, when the mood was more optimistic.

Farmers intending to leave the industry in the short-term were more likely to have smaller farms; 45% had herds of less than 60 cows and 21% were in the lowest production band (<250,000 litres/annum) compared to only 9% of the full sample falling into this category.

'Leavers' were more likely to have mixed farms with a significant part of their income derived from other enterprises. Of the 9% of farms intending to leave the dairy industry, 59% had mixed farm enterprises and 37% derived more than 40% of their total income from other sources besides dairy.

A higher proportion of farmers in England (10%) intend to leave compared to 7% of Scottish farmers and 6% of those who farm in Wales. They were also less likely to have a successor in place, with 34% of those leaving having a family successor compared to 57% in the full sample.

Figure 8: 'Leavers'

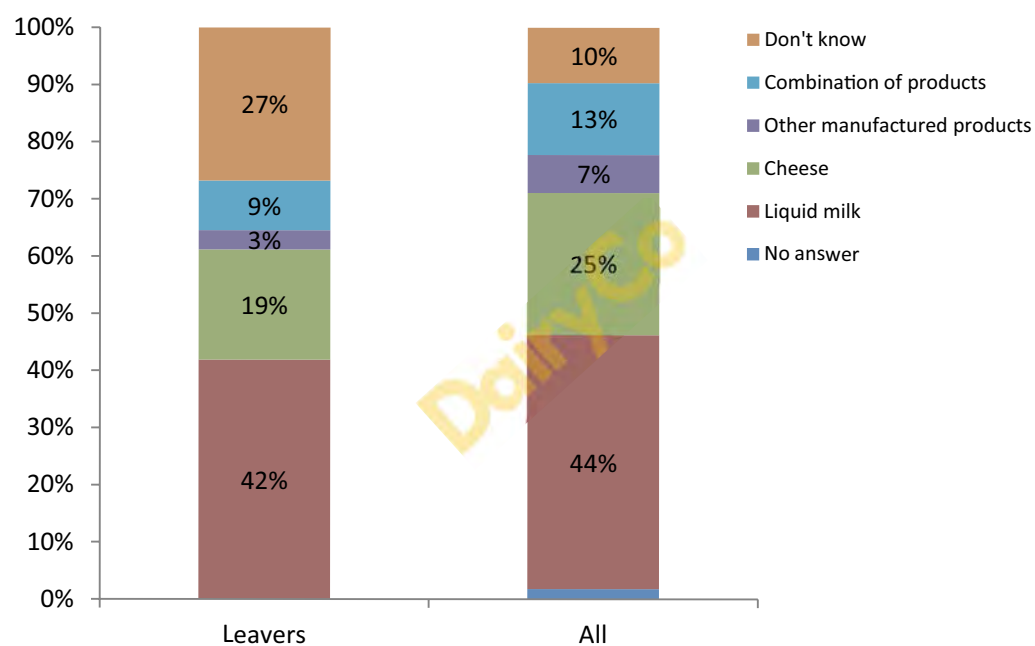


The majority (75%) of those intending to leave dairy farming have been with their current buyer for more than five years and sell to the liquid milk market. They are the least likely to have a retailer-aligned contract, accounting for 5% of the farms on aligned contracts.

When examining the end market for milk produced by those farms intending on leaving the industry, 42% supply the liquid milk market. This is an increase on last year when 38% of those intending to leave were supplying to the liquid milk market. There is a relatively larger proportion of farmers who are supplying the cheese market intending to leave and a relatively smaller proportion of those supplying the manufacturing sector.

What is interesting is that 27% of those intending to leave *don't know* which end market their milk goes to. While this may be a function of selling to a milk buyer who is involved in multiple markets, it may be that these farmers are simply unaware of the destination of their milk. The lack of knowledge of market trends and how they are impacting on returns for the milk buyer may contribute to the perception by these farmers that they have little control over their business performance.

Figure 9: Farmer intention by primary end market for milk



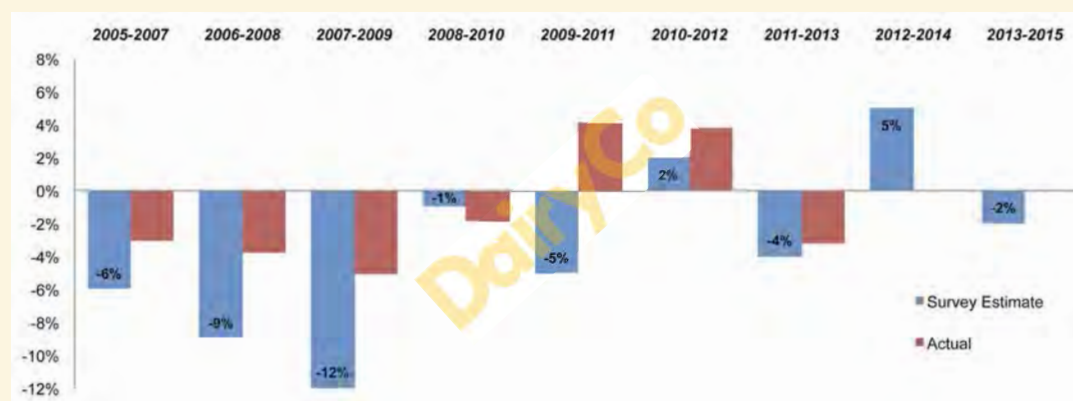
Effect on milk production in Great Britain

Based on production intentions expressed in the survey, estimates show that milk volumes in two years' time will be between 1% and 2% below 2012/13 volumes.

The estimate is based on 821⁵ GB dairy farmers, weighted by country and herd size and, as such, reflects the 'intentions' of the survey respondents rather than forecasts based on investment or business plans already put in place. The prediction change in volumes is, therefore, at best, an indicator of the 'mood' of the industry – which seems to be 'wait and see' following on from the difficulties of 2012/13 and the current state of unpredictability over future costs and production levels.

⁵ Of the 932 farmers who answered the question regarding future production intentions, 111 did not know what they intended to do and were, therefore, excluded from the analysis.

Figure 10: GB two-year survey estimated change in milk production v actual industry change



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Caution must be taken when interpreting the predicted change in milk production based on survey responses. As can be seen from previous years' results, the estimates based on survey responses are often not accurate, although they do tend to show trends. The exception to this was in the 2012 survey when the optimistic outlook which was prevalent at the time of the survey was reflected in the stated intentions to increase production.

The prediction of a 5% increase in volumes, derived from the 2012 survey responses, would mean that milk production would rise to 12,000 million litres by 2013/14. While GB milk production has shown five continuous years of growth, the events of 2012/13 have changed this trend and reduced production volumes. It now seems highly unlikely that the predicted 5% growth by 2013/14 will be achieved. According to DairyCo forecasts⁶, GB production will, at best, reach 11.5 billion litres by the end of the 2013/14 milk year, assuming that the industry is able to recover in the upcoming year.

The likelihood of witnessing the estimated 2% decline in milk production over the next two years also needs to be considered in light of the impact that external events have had on milk production in the current year. As the drop in production volumes in 2012/13 can be attributed primarily to the impact of weather on yields as opposed to changes in cow numbers⁷, it is unlikely that production will drop a further 2% in two years' time unless weather conditions remain poor, or milk price/input costs ratios worsen further.

⁶ As presented in February 2013 and based on RPA deliveries to the end of January.

⁷ According to October 2012 BCMS data, cow numbers in GB were less than 1% lower than year earlier figures. The reduction was due to a 3% decline in the number of cows 42 months and over.

Dairy farmer confidence

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In the 2013 Farmer Intentions Survey, farmers were asked to indicate their level of confidence in both the short and medium term. This was done to allow for the effect that recent events and challenges have on perceptions and levels of confidence. Farmers were asked to specify their level of confidence about the prospects for their dairy business in the next 12 months and the next five years, as well as how they felt about the future for the dairy industry overall.

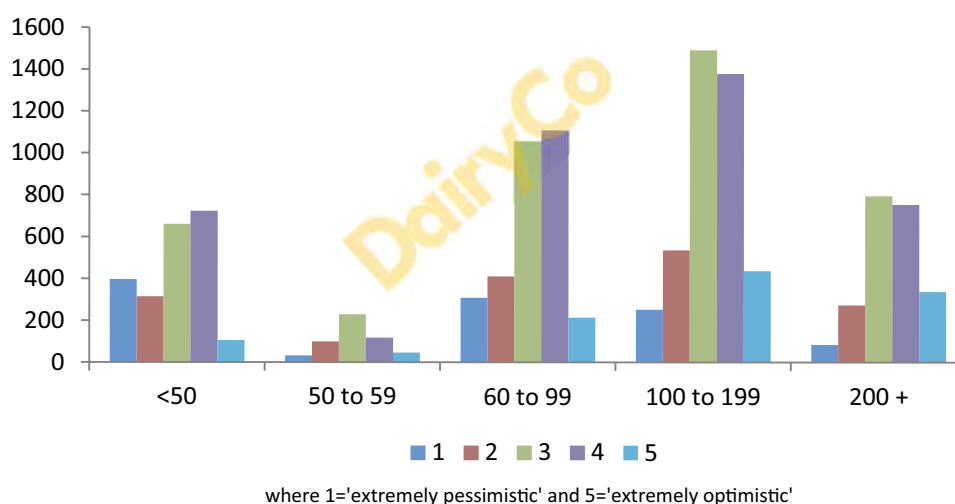
Confidence in own dairy business for next 12 months

Overall, dairy farmers in Britain remained confident with 43% of respondents indicating they were either extremely confident or very confident in the prospects for their dairy business, making the average ranking 3.21 on a scale of 1 to 5. Those who indicated a pessimistic view on the short-term outlook for their farm business accounted for 22% of the sample, with the remaining 35% not presenting a view.

The average confidence rankings for England, Scotland and Wales were not significantly different from the GB average at 3.20, 3.22 and 3.25, respectively. While Wales had a slightly higher average score, they also had a higher than average proportion of herds in the 200+ and under-50 categories, which may have had an influence on the confidence score.

When looking at confidence levels by farm size, the lowest level of confidence was recorded by farms with herds of less than 50 cows, while farms with over 100 cows were more optimistic than the average. However, with the exception of farms with herds in the 60-99 cow category, the most frequent response given was '3' (neither confident nor pessimistic) indicating that there may be a degree of uncertainty surrounding the upcoming year. A similar pattern is found when farm size is measured by annual milk production with confidence increasing with output level.

Figure 11: Confidence rankings for next 12 months by herd size

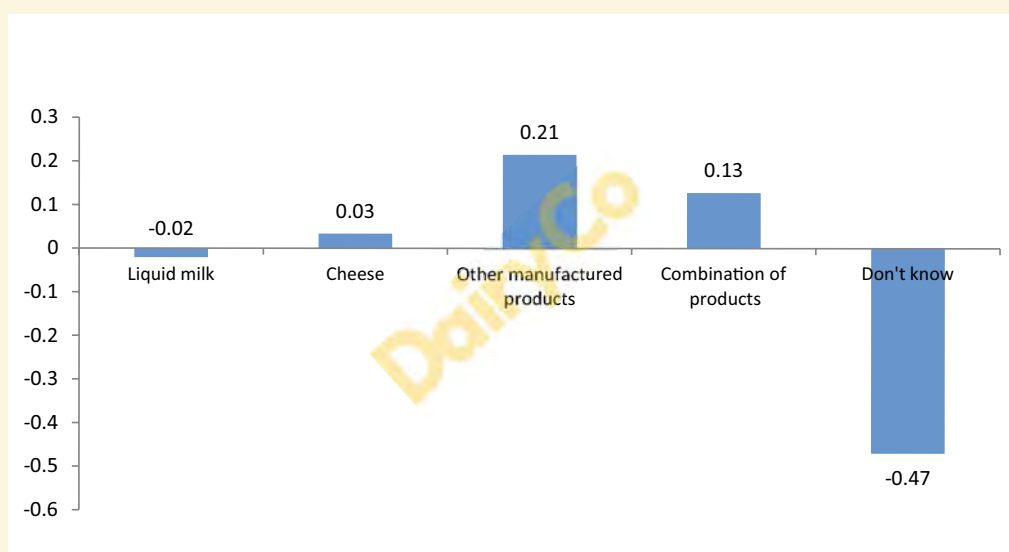


It was also found that confidence generally declines with age. Farmers below the age of 40 were the most optimistic with an average score of 3.72. Interestingly, it was also found that those in the 65+ age category were more optimistic than those between the ages of 40-65. This may be a function of the fact that these farmers are due to retire soon and have plans in place to pass on the business.

Confidence declined with the length of time farmers had been with the same buyer, with those who had recently (in past year) changed contracts showing the highest level of confidence with a score of 3.35 (compared to 3.21 for the whole sample). While the vast majority of farmers had been on their current contract for more than five years, they were the most likely to be unhappy with their current milk contract and current milk buyer but felt powerless to do anything about it.

Those farmers who supplied milk for use in manufactured products showed the highest confidence ranking, with an average score of 3.42. With the exception of those who did not know the end market for their milk, those supplying the liquid milk market recorded the lowest level of confidence (3.19) in their business over the next year.

Figure 12: Difference in confidence scores from GB average (3.21)



Farmers who had an optimistic view on the next year were more likely to be solely dairy farmers, rather than involved in mixed farming, and to have made substantial investments (more than £250k) in the past five years.

In terms of future plans and outlook for their farming business, those who aimed to build a healthy sustainable business to pass on and those who sought to maximise financial returns were the most confident about the prospects for their business in the next 12 months.

Factors affecting dairy business over next 12 months

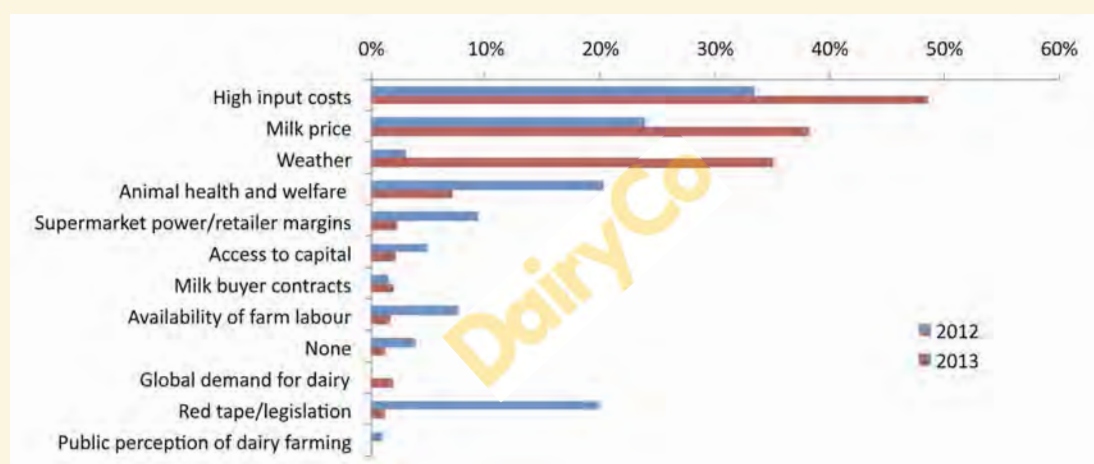
In addition to indicating how confident farmers were about the prospects for their dairy business in the next 12 months, farmers were asked to give details on what they felt were the main factors which will impact their business in this time⁸.

The figure below shows the most commonly cited factors. As expected, input costs were the biggest concern with 49% of all GB dairy farmers giving this answer. The next two most frequently cited factors were milk prices and the weather, with response rates of 38% and 35%, respectively. Compared to responses given in the 2012 survey, these factors were of concern to a larger proportion of the sample.

Weather gained in prominence in the 2013 survey, with 35% of respondents mentioning it as a major factor compared to less than a 3% response rate in 2012. Issues such as supermarket power, red tape and legislation, and industry consolidation were not as commonly mentioned.

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Figure 13: Main factors impacting dairy business over the next 12 months



When examining the responses across countries, farmers in Scotland were less likely to mention 'milk prices' as a key factor influencing the next 12 months, while Welsh farmers were more likely to mention input costs and animal health and welfare as issues.

Farmers who were optimistic⁹ in their business outlook for the next year mentioned weather as the most predominant factor affecting their business while the more pessimistic farmers¹⁰ were more likely to indicate input costs and milk prices than weather.

⁸ Respondents gave spontaneous answers to this question.

⁹ Those who scored either a 4 or 5 on the scale of 1 to 5, where 5 is extremely confident and 1 is extremely pessimistic.

¹⁰ Those who scored either a 1 or 2 on the scale.

Confidence in dairy industry over next five years

Survey responses indicate that farmers in GB are confident overall in the future of their industry, with an average rating of 3.20. Of the three countries, Wales showed the lowest level of confidence in the future of the dairy industry over next five years with a score of 3.13, while England and Scotland's confidence rating was not significantly different from the average (3.21 & 3.23, respectively).

The mean confidence scores are all lower than those seen in the 2012 survey; the largest drop in confidence has been in Wales, falling from 3.56 in 2012 to 3.13 this year.

The farmers who recorded the highest level of confidence had larger herds (over 100 cows), were younger and those who supplied the dairy manufacturing sector. There was no difference in confidence scores between mixed farms and purely dairy farms.

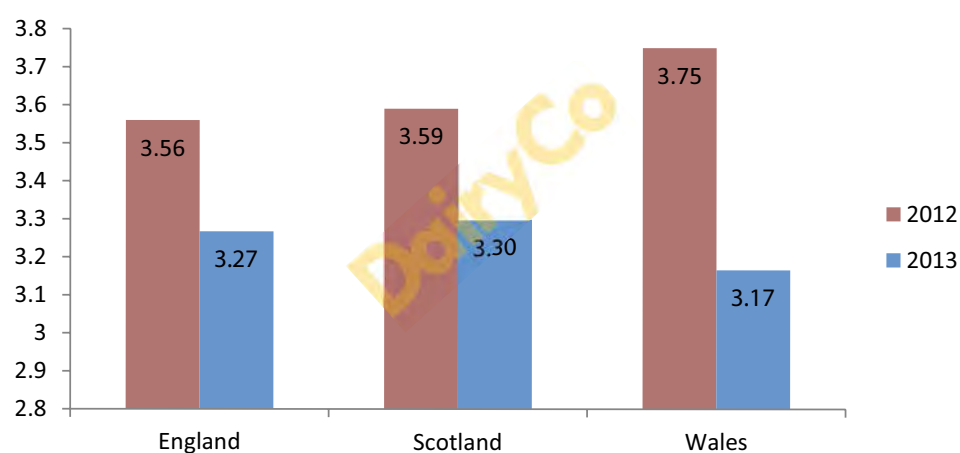
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Confidence in own dairy business over next five years

Survey responses showed that farmers' confidence for their business in the medium-term (next five years) had dropped from last year. The average ranking for all GB farmers from the 2013 survey was 3.25, compared to 3.59 in 2012, with 46% giving a confidence rating of either 4 or 5. Those who indicated a pessimistic view on the medium-term outlook for their farm business accounted for 20% of the sample, with the remaining 34% not presenting a view.

Of the three countries, Wales again showed the lowest level of confidence regarding the future prospects for their business in the next five years with a score of 3.17. This compares with mean confidence scores of 3.27 for England and 3.30 for Scotland. Wales also saw the biggest swing in confidence in the future from the previous survey, dropping from an above average rating of 3.75 compared to the 2012 GB average of 3.59, to a lower than average rating this year.

Figure 14: Confidence in own dairy business over the next 5 years

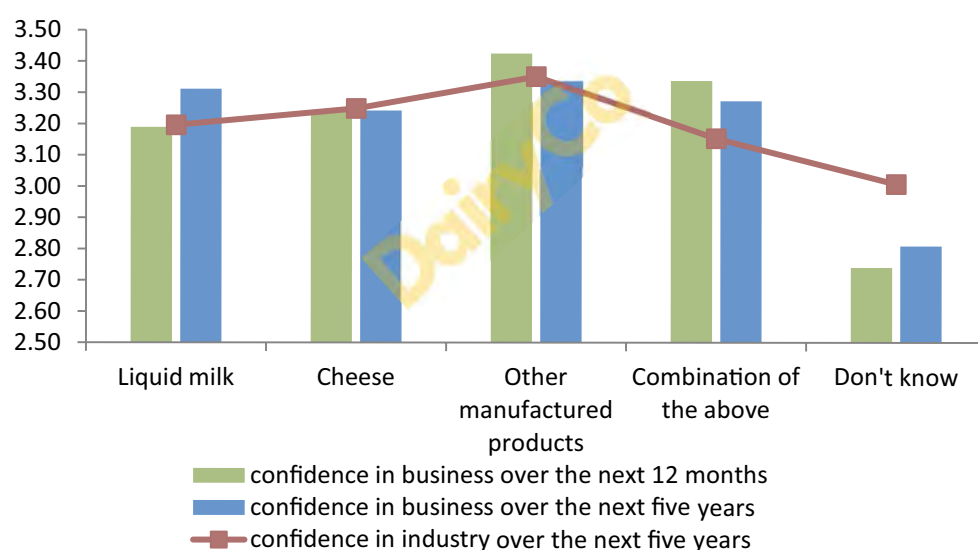


As with results on confidence in the short-term, average confidence ratings for the next five years increased with herd size and decreased with age. Those farmers who concentrate purely on dairy were more confident about the future than those who run a mixed enterprise, as were those who had either invested at least £50k in the past five years or were intending to invest in the next five years.

The length of time farmers had been on the same contract did not affect levels of confidence in the future, unlike with confidence in the next 12 months. Average confidence scores did not differ across the ranges unlike with short-term confidence where those who had recently changed contracts had higher mean confidence scores.

Farmers supplying milk to the manufacturing and liquid markets showed higher than average levels of confidence in the prospects for their business over the next five years. When comparing confidence levels in the industry to those in their own business, it is interesting to note that farmers are generally more confident in the future prospects for their own business than for the future of the industry.

Figure 15: Dairy farmer confidence by end market (comparison of short- and medium-term outlook)



Looking at the group of farmers who primarily supply the liquid milk market, there was a larger number of farmers expressing confidence in the prospects for their dairy business than for the industry. This confidence may be arising from an improved view of their ability to manage their business arising from the introduction of the Voluntary Code of Best Practice on Contractual Relationships. Farmers on retailer-aligned liquid milk contracts were more confident than others, with an average score of 3.53 compared to 3.22 for those not on such contracts.

Factors affecting dairy business over next five years:

The figure below shows what farmers indicated were the main factors influencing the future prospects of their business in the next five years¹¹. Over the longer term, 4 out of 5 farmers highlighted milk prices and input costs as a concern. Over half of those asked also noted supermarket power, animal health and welfare and red-tape as major concerns, which is a drop from the previous survey. Concerns over CAP reform have increased since the last survey, with 40% of those asked indicating it as a major threat this year while it did not feature in the top ten threats and challenges in the 2012 survey. Also appearing as a major influence on the future of dairy businesses was global demand for dairy. Half of those surveyed listed this as being a major factor.

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Figure 16: Main factors affecting dairy business over the next five years



Similar to the previous years' responses, other matters of concern for GB dairy farmers included milk buyer contracts, public perception of dairy farming and availability of capital and labour.

Farmers in each of the three countries were consistent in choosing which factors would influence the future, although there were some discrepancies on ranking. In Scotland, animal health and welfare was more of a concern than in England and Wales, while CAP reform was thought to be less an issue than elsewhere in GB.

Farmers who were intending to expand production also had a different ranking of factors, with a larger percentage identifying global and domestic demand for dairy as major determinants of the future of their business.

Farmers supplying to the liquid milk market were more likely than other groups to list milk prices and global demand for dairy as key factors, while those supplying to the manufacturing sector were more likely to list domestic demand and consolidation in the processing industry as important.

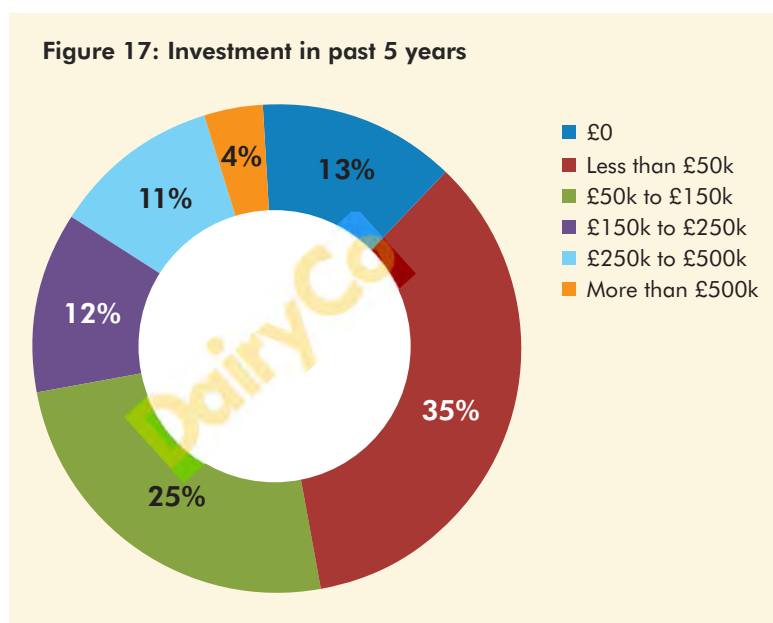
¹¹ Respondents were prompted with the question and were able to give multiple answers; hence percentages will not add to 100.

Investment

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Investment over past five years

As summarised in the figure below, 48% of respondents have invested less than £50k¹² in their dairy business over the past five years, with 27% investing more than £150k.



Farms which had invested over £250k in the past five years were predominantly larger (over 100 cows in herd or producing over 1m litres), under 50 years of age, and had been on their current contract for less than three years. There was no difference found in investment intentions according to business tenure¹³. These farmers were more likely to be working towards maximising financial returns of their business.

Farmers who had invested nothing or less than £50k in the past five years were more likely to be on mixed farms and to be either a part-owner or in a farm business tenancy.

Farms selling milk to the cheese sector were the least likely to have invested more than £150k over the past five years with those supplying milk to the manufactured products market accounting for the largest proportion of those who invested over £150k.

Scotland has shown the greatest tendency to invest, with 24% of respondents investing over £250k, compared to the GB average of 15%. This may be related to the fact that Scotland has larger herd sizes on average and indicated a greater tendency to invest in last year's survey. The Scottish government's rural development programme may have been an influencing factor on the levels of investment seen in this region.

¹² Includes those who invested nothing in the past five years.

¹³ Full-time, part-time owned or tenanted.

Figure 18: Investment levels over past five years by country

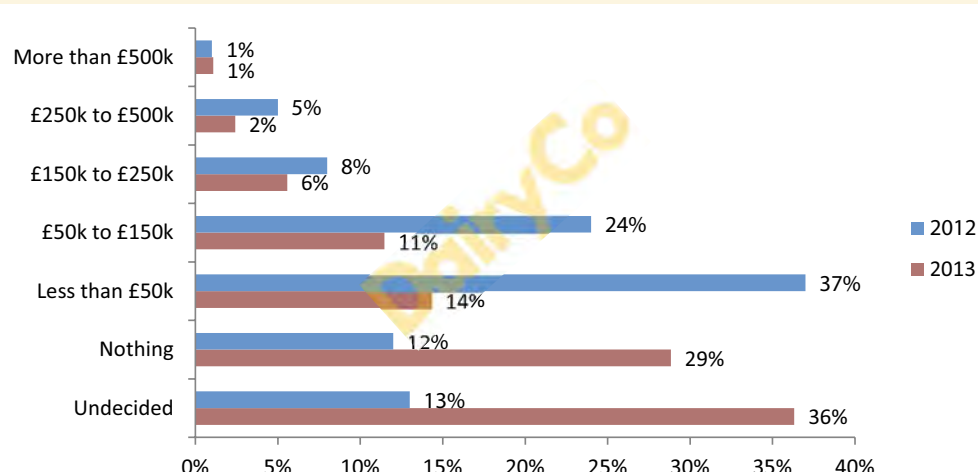


D.

Investment over next five years

The events of 2012/13 seem to have had a major impact on investment plans. There has been a marked reduction in the number of farmers intending to invest in their dairy business over the next five years compared to last year. 29% of GB farmers intend to invest nothing in their business while 36% are undecided. This compares to only 12% and 13% of farmers giving these responses, respectively, last year.

Figure 19: Investment intentions for next five years



Those investing nothing or who are undecided tend to be older farmers and have smaller herds, although those in the largest herd size category of over 200 cows also showed a high degree of uncertainty with regard to future investment plans.

Both mixed farms and organic farms were less likely to invest, while those on retailer-aligned contracts were more likely to make some investment in their business over the next five years.

Scotland had the highest proportion of farmers who intended to invest nothing in the next five years with 37%; although they had a higher than average proportion of farmers who had invested more than £250k in the past five years¹⁴.

Figure 20: Investment intentions for next five years by country

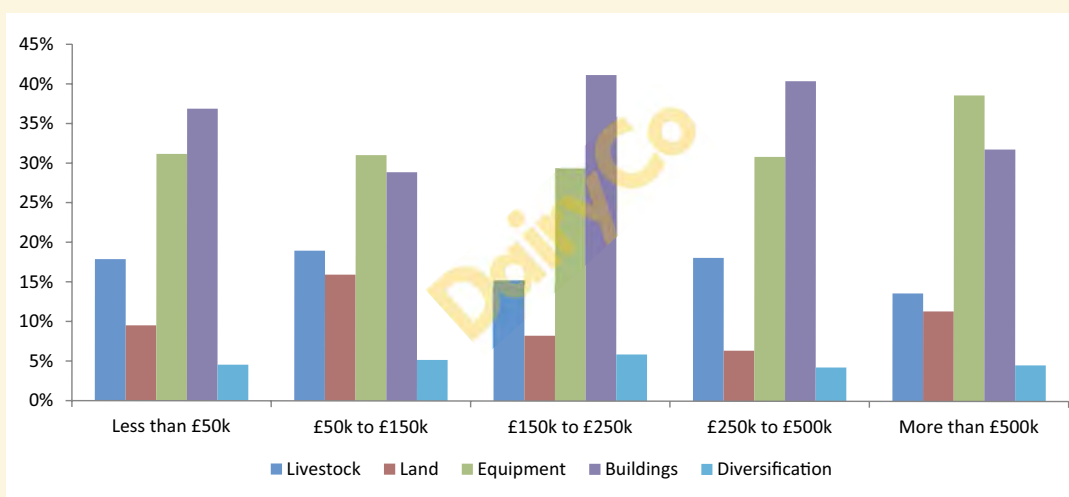


D.

Looking just at those farmers who invested more than £150k in the past five years, 16% intended to invest nothing over the next five years (compared to 29% for GB). They were also more likely to invest in the next five years than the average; 27% intended to invest over £150k in the next five years compared to 9% nationally.

For those farms intending to invest, the main areas of investment are equipment and buildings, with livestock the third most frequent response.

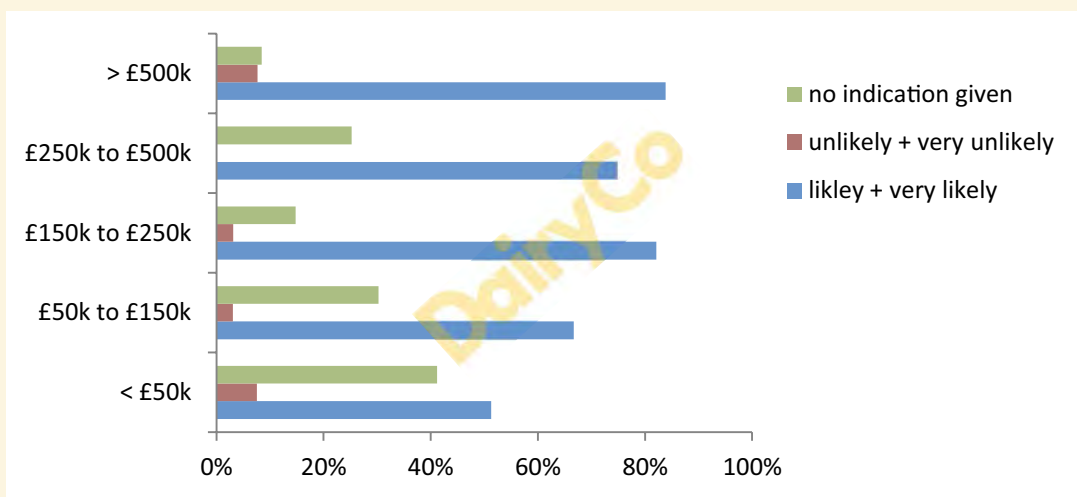
Figure 21: Areas of investment



Farmers were also asked how likely it was that the intended investment would take place. For those who responded that they would invest, the majority of survey respondents indicated that their plans were either *likely* or *very likely* to occur, despite the amount they intended to investment.

¹⁴ 17% of farmers from Scotland who indicated that they do not intend to invest in the next five years have invested more than £250k in the previous five years, compared to 8% for the whole sample.

Figure 22: Likelihood of intended investment

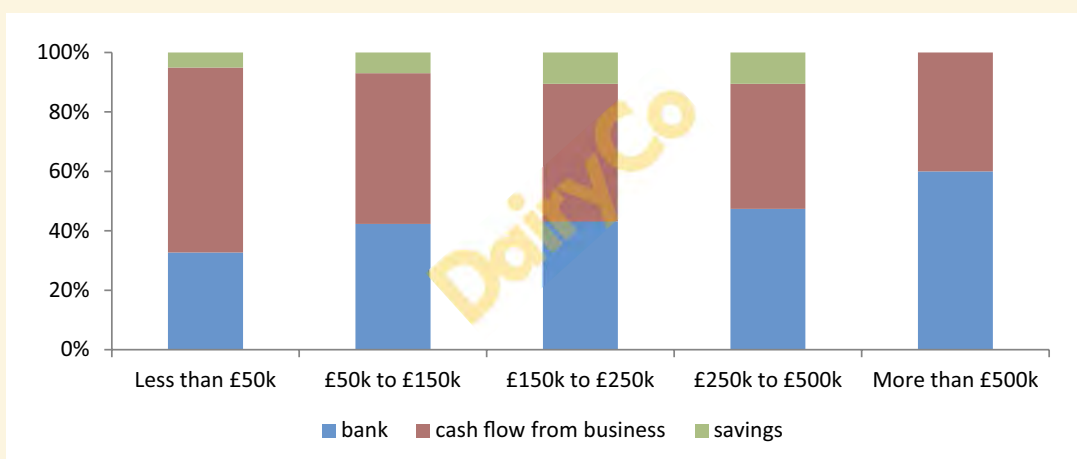


D.

The main constraints on investment were insufficient profits (49% of respondents), uncertainty over the long-term viability of the dairy industry (22%) and the inability to borrow, which was mentioned by 11% of the sample. 6% of respondents indicated that they were not investing in the next five years as they had recently completed an investment programme.

The two main sources of funding were from cash flow from the business and bank borrowing, although there was a split in which was the main source depending on the level of investment. For those investing less than £150k, the main source of funding was the cash flow from business while those intending to invest over £150k were primarily sourcing it from bank borrowing.

Figure 23: Funding sources for planned investment



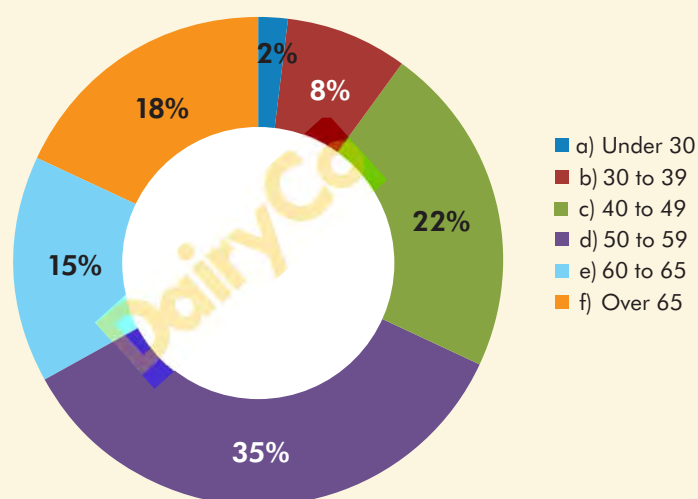
Appendix 1

Respondent characteristics

D.

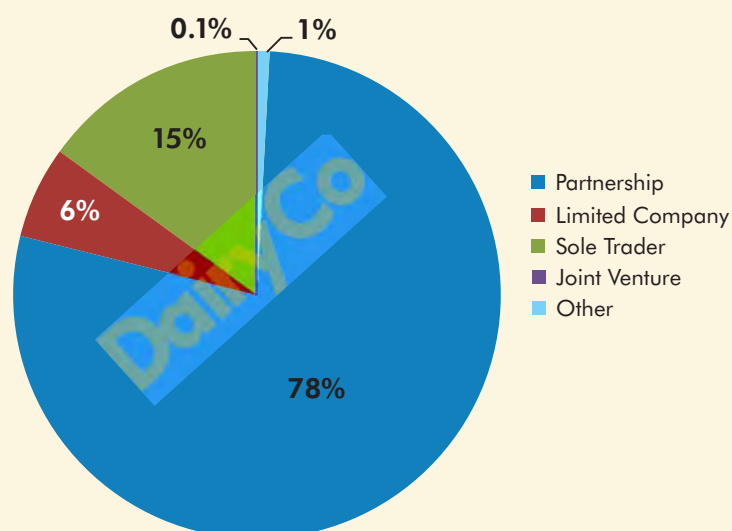
Of those GB farmers surveyed, the findings show¹⁵:

Figure 24: Age



The majority of the respondents were between the age of 50 and 59. Only 2% of those surveyed were under 30 while 18% were over.

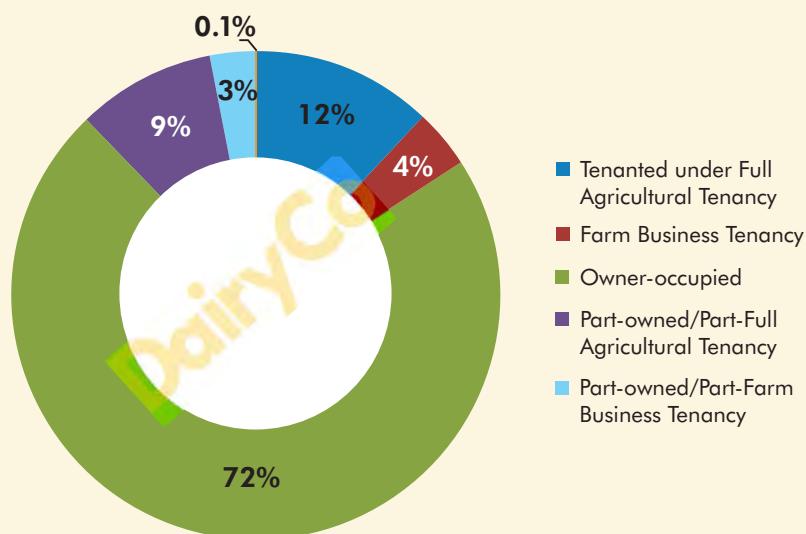
Figure 25: Farm Business



Only 0.1% of decision-makers were part of a joint venture. The vast majority of respondents (78%) were part of a partnership, similar to the previous year. 94% of the farms were in conventional farming systems, 6% were organic farms, with a further 1% in conversion towards an organic system. Of those surveyed, 62% were sole dairy enterprises while 38% were mixed farms.

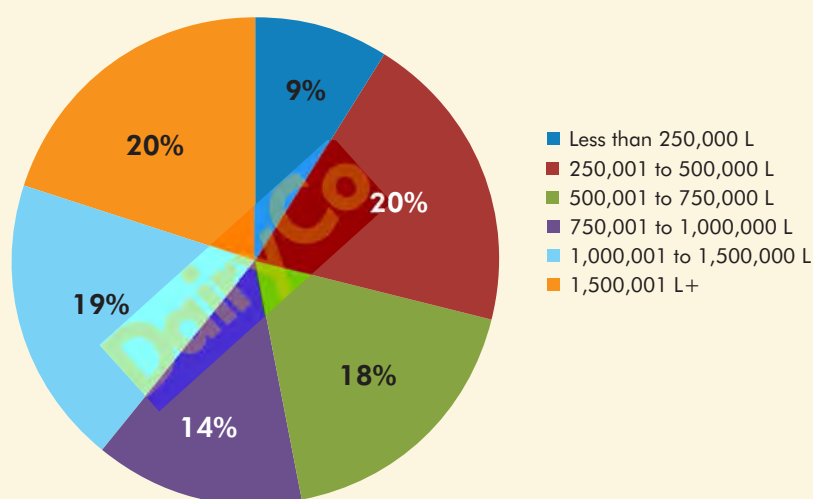
¹⁵ Figures may not sum to 100% due to rounding.

Figure 26: Tenure



Owner-occupied farms were in the majority, with 72% of responses. This was higher than the 59% seen in 2012. The next most prevalent type of tenure was a full agricultural tenancy.

Figure 27: Annual production



Results from this year's farmer survey indicate that 40% of the respondents¹⁶ produced more than 1.0m litres milk annually. 47% of the respondents produced less 500,000 litres of milk per annum.

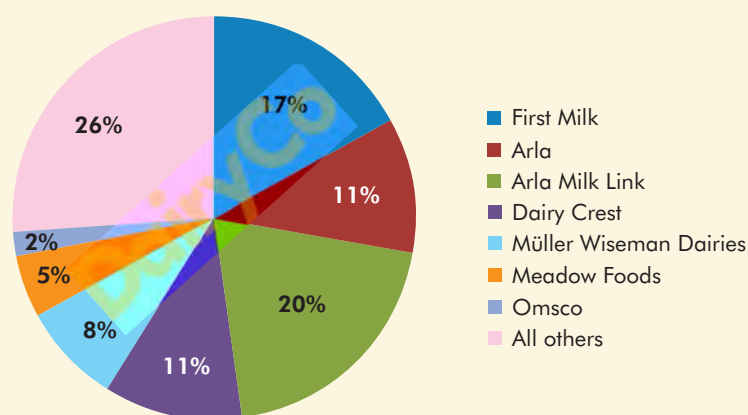
¹⁶ Based on those who answered the question on annual production levels.

Appendix 2

Milk contracts

D.

Figure 28: Current milk buyer

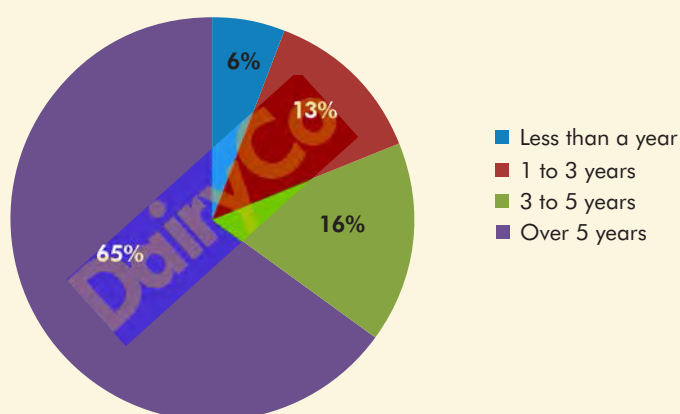


Of the respondents surveyed, the largest proportion of farmers¹⁷ sold to Arla Milk Link (20%) or First Milk (17%). Arla¹⁸ and Dairy Crest each accounted for 11% of the responses¹⁹.

Results from this year's survey show that 12% of GB farmers questioned were on a supermarket-aligned contract, down from 15% last year²⁰.

In this year's survey, 1.8% of the dairy farms processed all their own milk, a reduction from the 4% in the 2012 survey¹⁷.

Figure 29: Length of time with current milk buyer



As with the previous survey, it was found that the majority (65%) of dairy farmers have been on their current contract for over five years. Only 6% have recently changed contracts and have been on their current contract for less than a year.

¹⁷ This is measured in terms of 'farmers' not total volumes sold.

¹⁸ Arla and Arla Milk Link were separated to provide information on the numbers of respondents who were part of the cooperative as opposed to those on direct supply arrangements to Arla UK.

¹⁹ This compares to the distribution of GB dairy farmers supplying the major milk buyers with the exception of Arla/Arla Milk Link which are slightly over-represented in the survey sample (accounting for 31% of survey respondents and 25% of the industry).

²⁰ This is expected to be primarily a result of sampling.

Appendix 3

Dairy farmer intentions

Results may not sum to 100% as respondents who are undecided or decreasing production have been excluded from the analysis.

D.

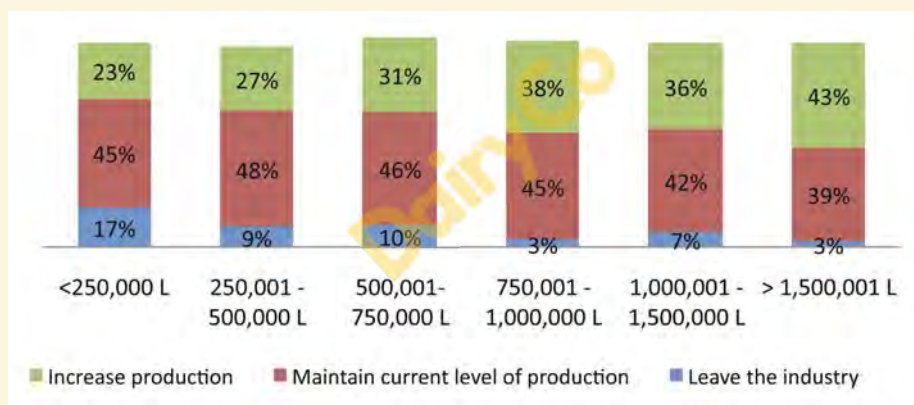
Figure 30: Intentions by country



In line with the fall in confidence reflected in this year's survey, the number of farmers intending to leave the industry in the next two years has increased across all countries, while numbers of those intending to increase production have fallen.

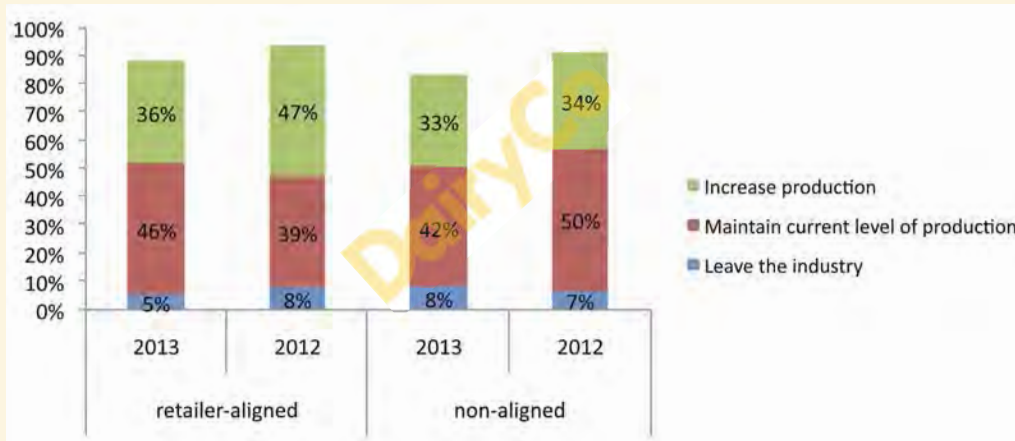
The number of farmers leaving dairy farming in England is 10%, up from 8% in 2012 while those increasing is now 32%, down 4 percentage points from last year. A similar trend is seen for Scottish and Welsh farmers.

Figure 31: Intentions by annual milk production



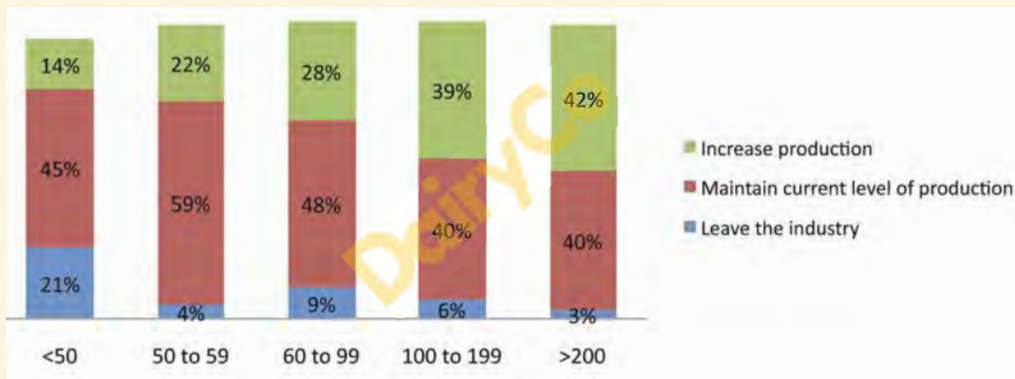
This year's survey showed that larger farms (in terms of production volumes) are the most likely to state an intention to expand milk production in the next two years. Only 23% of those respondents surveyed who produced less than 250,000 litres of milk annually plan to expand, compared to 43% in the sample which produced more than 1.5m litres of milk.

Figure 32: Intentions by contract type



Farmers on retailer-aligned contracts reveal more confidence, with a higher proportion intending to increase or maintain production, and fewer intending on exiting the industry, than those on non-aligned contracts.

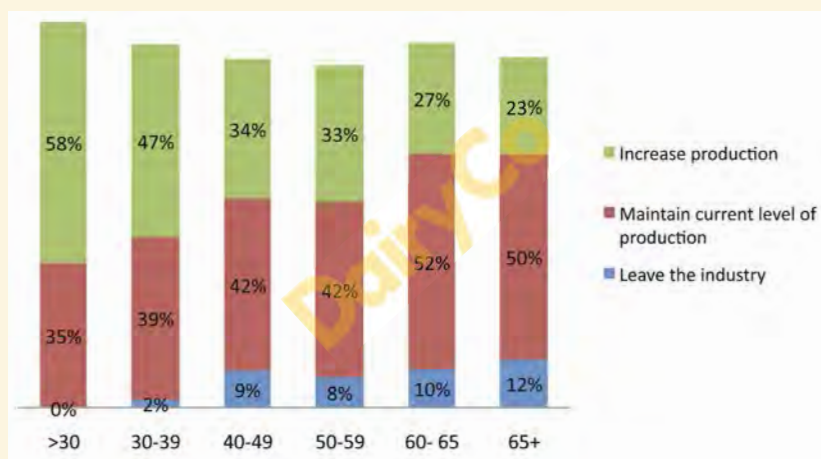
Figure 33: Intentions by herd size



Farmers with larger herds were more likely to indicate an intention to increase production in the next two years. From the sample surveyed, 14% of those with fewer than 50 cows intend to increase production, while 21% plan to leave milk production. This compares to 42% of those with more than 200 cows who plan to increase production. It is worth noting that regardless of herd size, the largest proportion of respondents intend to maintain production over the next two years.

D.

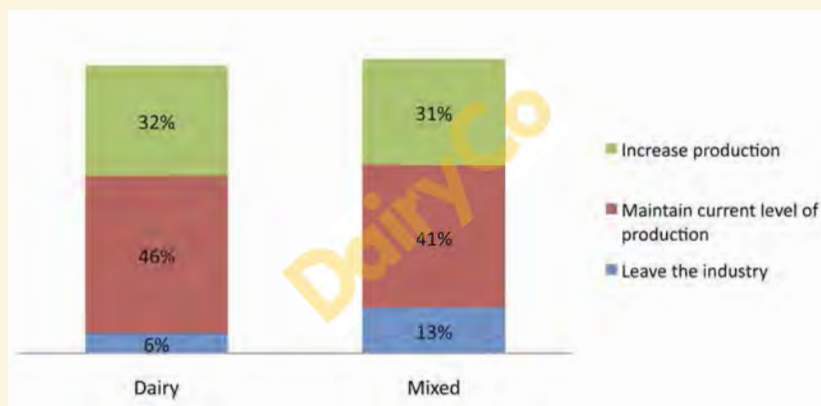
Figure 34: Intentions by age



D.

The general trend for intentions over the next two years when examined by age is that older farmers are more likely to leave milk production and younger farmers are more likely to have expansion plans. 12% of dairy farmers aged over 65 are intending to leave the industry, whereas none of the respondents under the age of 30 intend to leave – the same as last year. By contrast, a higher proportion of those under 30 are planning to increase production, compared to 23% of those over 65.

Figure 35: Intentions by farm business type



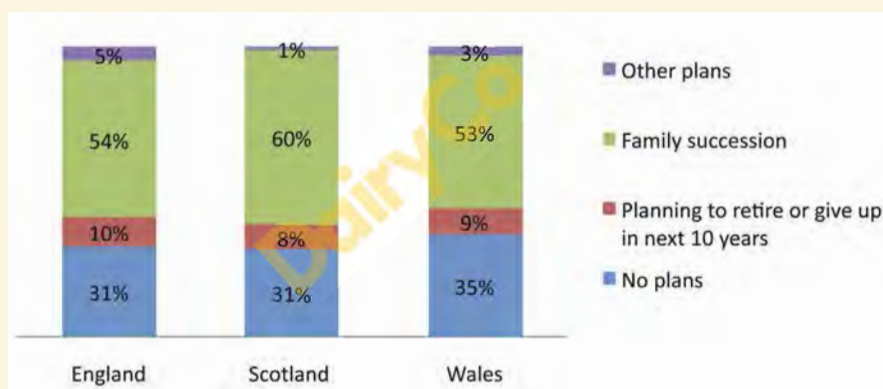
Those farm businesses which are sole dairy enterprises are less likely to leave dairy farming (6%) compared to those with mixed businesses (13%). The proportion looking to maintain production is also higher, although the number of farmers looking to increase production over the next two years is fairly similar.

Appendix 4

Continuity of the farm business

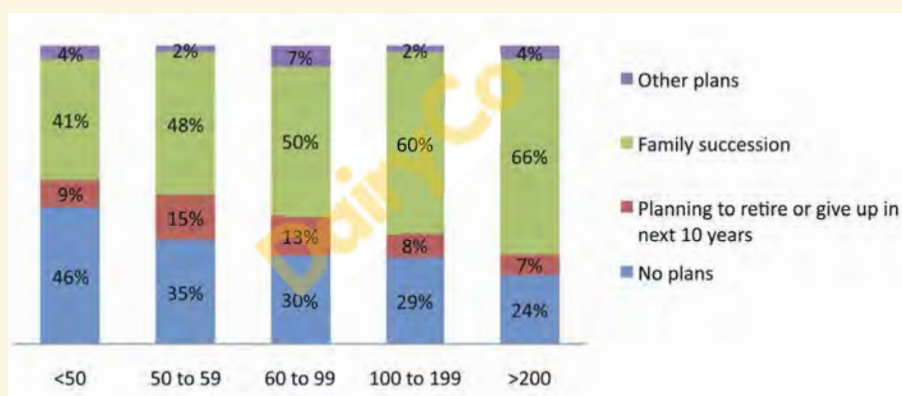
D.

Figure 36: Long-term continuity plans by country



A similar proportion of respondents are planning to retire or give up in the next 10 years across the three countries. However, more farmers in Scotland (60%) have plans for family succession, compared to 54% in England and 53% in Wales. The largest proportion of respondents who had no long-term continuity plans in place was found in Wales (35%).

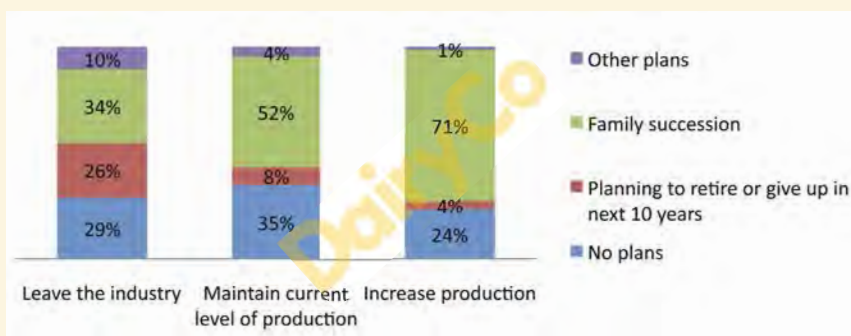
Figure 37: Long-term continuity plans by herd size



The survey results show that 46% of respondents with herds of fewer than 50 cows had no plans in place for long-term continuity of the farm. At the other end of the spectrum, only 24% of farmers with 200+ cows had no plans for the future continuity of their farms.

Similarly, farms with larger herd sizes were more likely to have a family successor in place compared to farms with smaller herd sizes.

Figure 38: Long-term continuity plans by production intentions

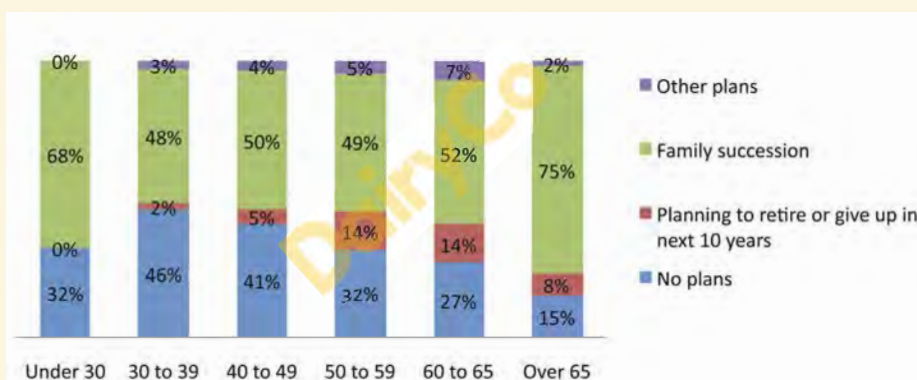


D.

The survey results show that approximately one-third of respondents have no plans for the long-term continuity of their dairy business. Only 4% of those intending to increase production are planning to retire or give up in the next 10 years, while the percentage rises to 26% for those intending to leave milk production in the next two years.

The number of farmers with a family successor in place is also larger, with 71% of those intending to increase production indicating that they had a family successor in place compared to 34% for those who intended to leave the industry.

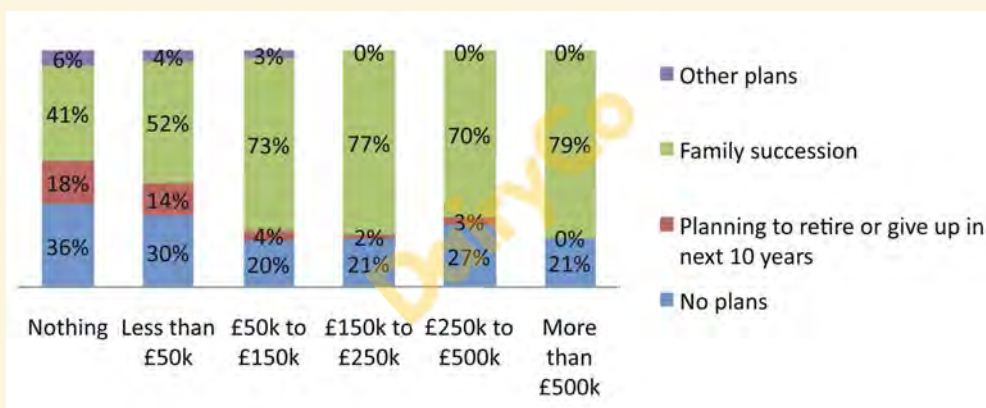
Figure 39: Long-term continuity plans by age



The survey results show that respondents who are over 65-years-old are more likely to have a successor in place and are less likely to have no plans for the long-term continuity of the business.

Interestingly, those under 30 have the second largest proportion of respondents who have a family successor in place (68%), and also have a relatively low proportion of respondents with no plans for the future when compared to the 30-39 and 40-49 age group.

Figure 40: Long-term continuity plans by investment intentions



D.

As expected, the survey results show that those investing larger amounts of money over the next five years are more likely to have a family successor in place, and are less likely to be planning to retire or leave the industry in the next 10 years. Interestingly, for those farmers who intend to invest more than £50k over the next five years, the proportion with no long-term continuity plans in place is very similar.

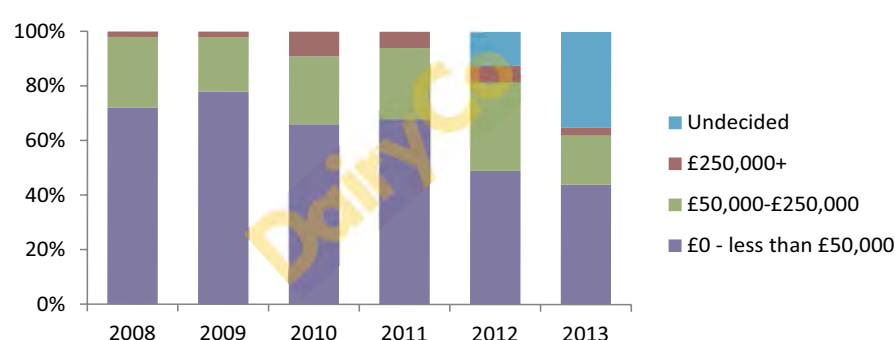
Appendix 5

Investment

D.

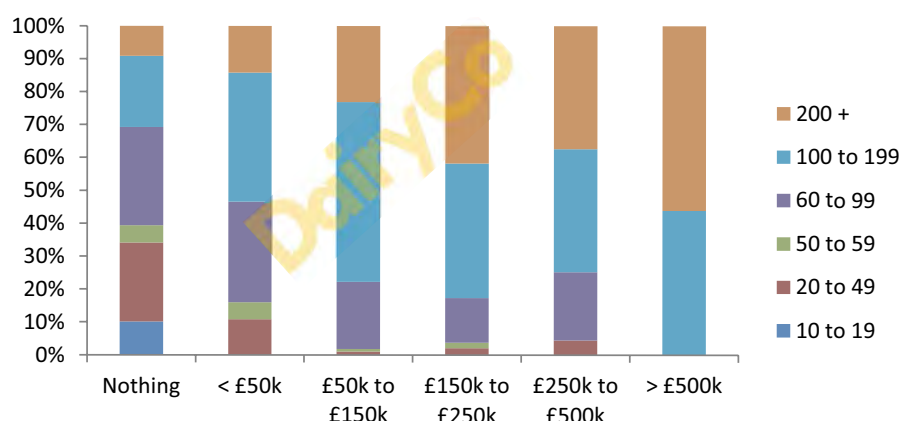
The results show that more farmers are undecided this year, with 35% of farmers still unsure of the level of investment they intend to make, compared to 12% last year. This is likely related to the lower confidence seen this year and the degree of uncertainty farmers have reflected in their intentions.

Figure 41: Investment intentions



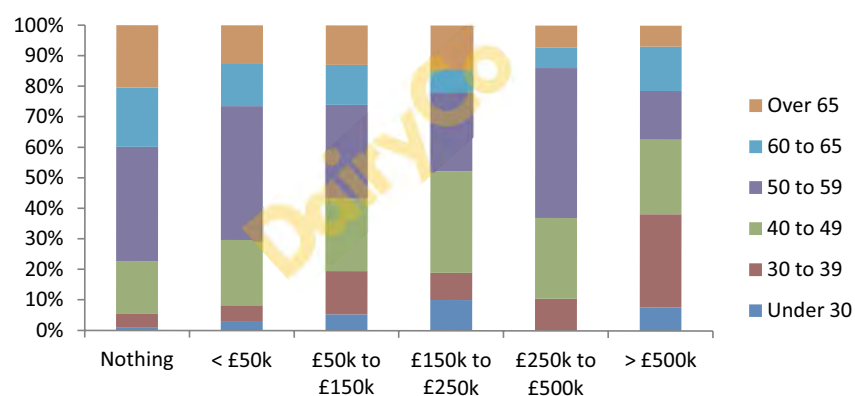
Intended investment is down on the previous year regardless of level. The proportion intending to invest between £0 and £50,000 over the next two years, however, has only shown a relatively small decrease compared to larger investment levels. As this level of investment is likely to be only sufficient to cover maintenance costs, it is perhaps expected.

Figure 42: Investment intentions by herd size



As a general trend, those farms with larger herd sizes are intending to invest more in the next five years.

Figure 43: Investment intentions by age



D.

Of those surveyed, 31% of the respondents indicating an intention to invest more than £500k are between the ages of 30-39. 63% of those intending to invest more than £500k are under 50 years, while 78% of those intending to invest nothing in the next two years are over the age of 50.

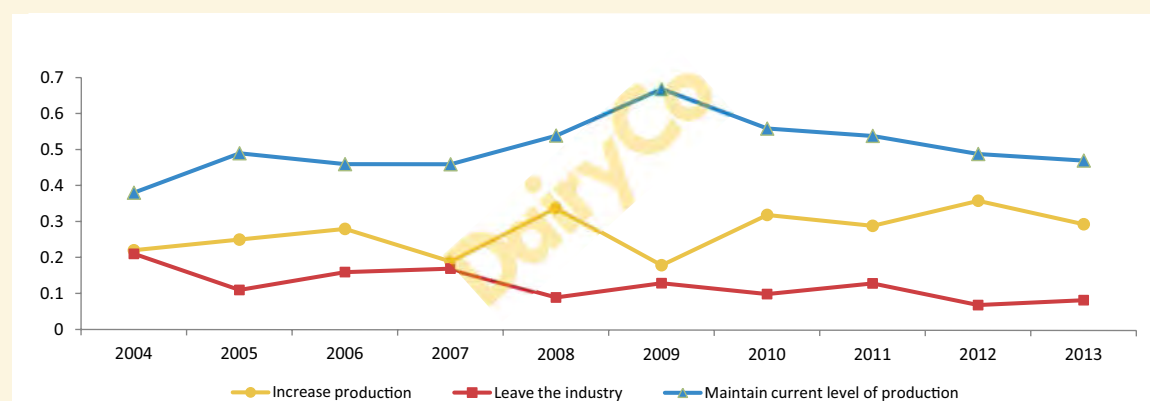
Appendix 6

UK dairy farmer intentions and future production

D.

The 2013 Farmer Intentions Survey has indicated that fewer UK dairy farmers are planning on increasing production in the next two years compared to last year, up from 30% in the 2012 survey to 36% this year. While there has been an increase in the proportion intending on leaving the industry from 7% to 8% since the last survey, the numbers leaving remain in line with trends seen in the past five years of the survey. We estimate that approximately 1,300 dairy farmers will leave the industry within the next two years, potentially taking the number of UK milk producers to 14,250²¹.

Figure 44: UK farmer intentions over the next two years



Note: Results do not sum to 100% for individual years as respondents who are undecided or decreasing production have been excluded.

Based on June 2012 figures for the number of dairy production holdings for England, Scotland, Wales and Northern Ireland, we can estimate the number of farmers carrying out each intention, as shown below.

Figure 45: UK farmer intentions and equivalent number of dairy farmers*

Intention	Weighted percentage	Equivalent number of dairy farmers ²²
Leave the industry within two years	8%	1,300
Decrease production within two years	3%	450
Maintain current level of production	47%	7,350
Increase production within two years	30%	4,600
Undecided	12%	1,900

* Based on 15,551 milk producers in UK in 2011 (Source: Defra). Results may not sum to 100% due to rounding.

Alongside this, the percentage of UK dairy farmers planning on increasing milk production in the next two years has fallen from 36% to 30% in this year's survey. The percentage of farmers intending to maintain their current level of production has dropped marginally from 49% to 47%. The percentage of farmers intending to decrease production has increased one percentage point to 3%, the first increase in five years.

²¹ According to Defra, there were 15,551 dairy holdings in the UK as of June 2012.

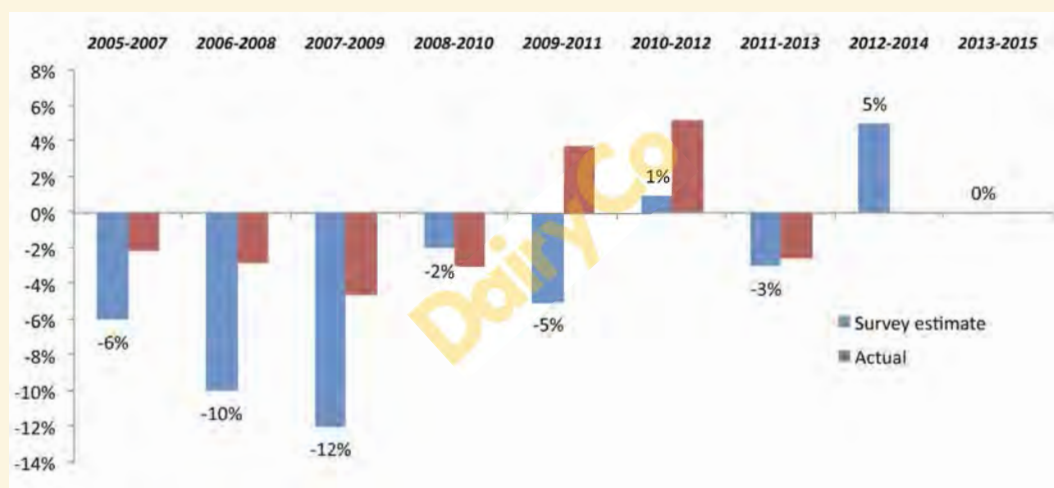
²² Rounded to the nearest 50.

Effect on milk production in the United Kingdom

Based on the stated intentions of dairy farmers questioned in the survey, milk production will remain stable over the next two years. While responses from the UK sample indicate a slightly higher percentage of farmers intending to leave the industry in the next two years, these are predominantly small farms. Counteracting the impact of this is that those farms expressing an intention to expand tend to be larger (in terms of herd sizes and production volumes) and, therefore, the additional volumes are sufficient to replace those lost through exits. There was, however, a greater degree of uncertainty expressed in the 2013 survey, which may also have influenced the finding of no net change in production in the next two years.

The difference between predicted changes in milk production in GB and UK is the result of a greater propensity to increase production in Northern Ireland (NI) than in Britain. As 2012/13 production in NI has not been as severely impacted by weather conditions during the year, the outlook of farmers from NI appears to be slightly more optimistic. As with the results for GB, caution must be taken when examining the predicted change in milk production based on survey responses²³.

Figure 46: UK two-year survey estimated change in milk production v actual industry change



²³ See page 13.

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