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The Recession in Farm Profits
in
South-East England

By
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DEPARTMENT OF AGRICULTURAL ECONOMICS

1958

FARM MANAGEMENT SURVEY REPORT NO. VIII

THE RECESSION IN FARM PROFITS
IN
SOUTH EAST ENGLAND

A study of success and failure in the business of
farming in Kent, Surrey and Sussex since 1955

*Copies of this report may be obtained, price 4/- post free,
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JUNE, 1958

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FOREWORD

THIS short report deals with the fortunes of those who have elected to farm in the South-East corner of England. It is concerned with a group of people who are primarily farming for a living and not as a pleasant part-time occupation. Though it deals with their swaying fortunes at the present time, the comments and tables link on to information given in earlier reports in this series so that a continuous historical account is available of farm profits and problems in this part of England.

We are very grateful to the band of selected farmers who continue to allow us to come on to their farms and into their homes and who, out of interest and kindness, make available for study their private business records.

Mr. J. D. Sykes has been responsible for the organisation of the survey and for the preparation of this report. Messrs. J. H. Hooper and K. L. Oake have made the majority of the farm visits to collect individual farm records, with other members of the Department providing considerable help, especially in the analysis of the large amount of information received.

G. P. WIBBERLEY,

Reader and Head of Department.

SUMMARY

FARM profits in South-East England showed a marked downswing in 1956-57 in contrast with the rise general throughout the country. Profits per acre on an identical group of farms averaged £3 12s. 0d. as compared with £5 18s. 0d. in 1955-56. One farm in five showed a loss as compared with one farm in twelve in the previous year.

The 1955-56 farming year was a good one for farmers in the South-Eastern Counties with record levels of profit on many types and sizes of farm. In the following year, substantially reduced milk prices and a poor cropping year combined to pull down profits. On a group of arable farms, for example, profits averaged only one third of those for the previous year. Small farmers, too, experienced severe setbacks. Compared with their neighbours on larger farms they were involved in relatively greater increased expenses, particularly for purchased feeding stuffs, yet they could not achieve the same increase in production. Profits averaged £1 6s. 0d. per acre on a group of farms with less than one hundred acres. This was less than one fifth of the level of profits in 1955-56. On farms above a hundred acres, however, profits were reduced by no more than one eighth and averaged £4 18s. 0d. per acre.

For the 1957-58 farming year farm profits should be about one third higher than the previous year, judging from results analysed to date. Higher levels of production from fat and store cattle and sheep appear to be balancing reduced receipts from milk, poultry and pigs. Crop output is also higher. On the expense side, farmers currently appear to be spending rather less on feedingstuffs and labour, but fertiliser and machinery expenses are still rising and there is a noticeable upward trend in rents.

The prospects for 1958-59, viewed in the light of the 1958 Farm Price Review, should be quite good for many farms if efficiency continues to improve at the high rates recorded over the last two or three years. For the small farmer, however, the outlook is not so bright. Both the scale of his business activities and his dependence upon milk, eggs and bacon production leave him vulnerable to changing economic circumstances, as the 1956-57 results indicate. Although promises of special assistance have been made to these producers, their problem is a fundamental one deserving more study and a basic long-term approach. Some tentative suggestions are made on pages 15 & 16.

GENERAL AGRICULTURAL POLICY

In announcing reduced prices for certain farm products, the Government's White Paper, "Annual Review and Determination of Guarantees, 1958," draws attention once more to levels of farm profitability and to trends in production and costs. Reasons are given for the new policies. The White Paper states that "the national economic situation, the Exchequer liability, the commodity considerations and international relations, especially with the Commonwealth, all require a substantial reduction in the level of guarantees." The document goes on, however, to maintain that the reductions will not be inconsistent, "with the maintenance of a proper level of remuneration for the industry" and estimates that the net income of the half a million farmers in the United Kingdom will rise from £314 m. in 1956-7 to £360 m. in 1957-58.

Most of the price cuts will affect more severely the small farmer, producing milk, eggs and bacon, than the large farmer who almost invariably enjoys a wider range of farming opportunities. For the small farmers, many of whom already earn relatively low incomes, the cut in prices will be a heavy burden. The Government is aware of this and acknowledges it in the White Paper and in promises made to give them special assistance. Devising the most desirable form of help will by no means be an easy task owing to the range of interests involved, not the least of which are the complex pattern of small scale farming and the lack of factual data on many of its aspects.

FLUCTUATIONS IN FARMERS' INCOMES

For a good number of years successive Governments have pledged themselves to underwrite the farming industry against the effects of "changes which are not within the control of agricultural producers." However, no Government has ever set out to guarantee an income for any individual farmer or group of farmers. The object has rather been to provide opportunities for farmers to earn reasonable incomes through their own exertions. This attempt has not been wholly successful owing to conflicting aims of policy. It has in fact proved to be much more difficult to achieve a reasonable living on certain types and sizes of farms than on others. Although the pattern of the distribution of the total net income of the farming industry is of considerable importance and interest, it has received rather too little attention in past studies. Profits vary widely from farm to farm depending upon the exertion and ability of the farmer and upon the extent to which capital, land and labour are at his disposal. Important and considerable variations also occur from district to district depending upon the size and type of farms that predominate. The effect of local differences in respect of soils, weather conditions, market opportunities and the like are factors which are not sufficiently appreciated by many commentators on farming affairs.

THE FARMING SITUATION IN SOUTH-EAST ENGLAND

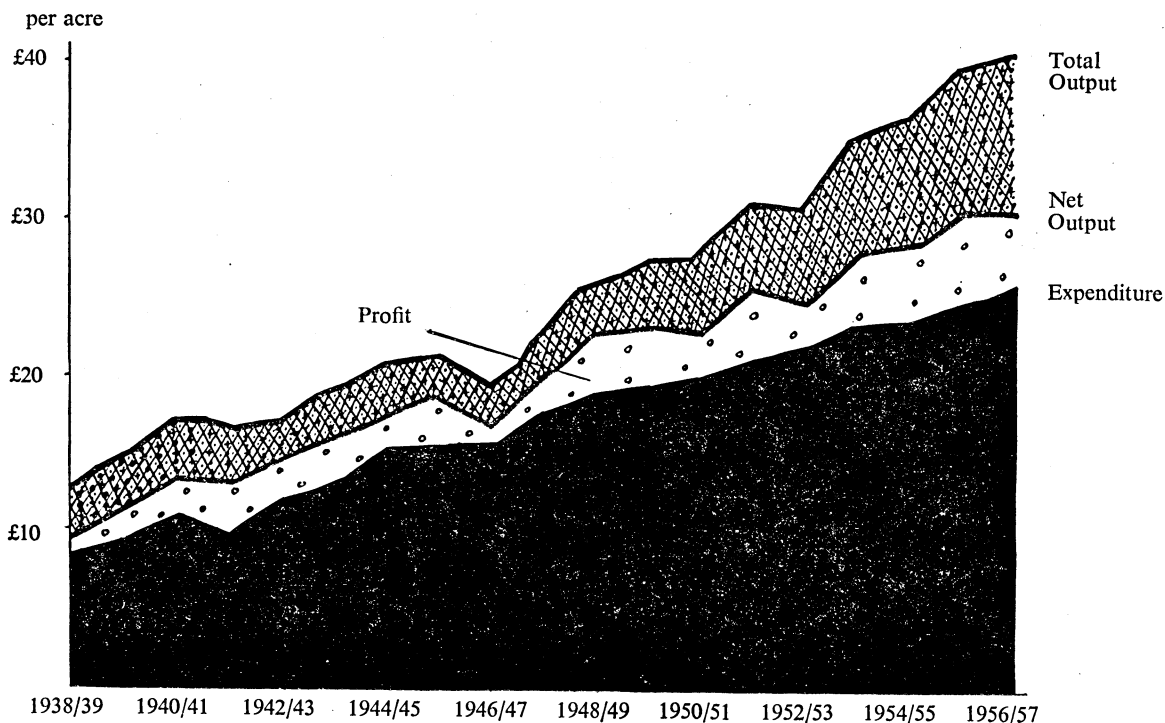
Regional differences in farm profitability are important for it is quite possible for the net income of farmers as a whole to be increasing at the same time as certain districts experience trends in the opposite direction, and even relative depression. There is evidence available to show that such a downward trend occurred in South-East England during 1956-57. Locally, farm profits were very substantially reduced although they were increasing for the country as a whole.

Some light is thrown on the situation in the South-East by a continuing survey of farm financial accounts undertaken by the Agricultural Economics Department of Wye College. An identical sample of nearly 170 farms scattered throughout the counties of Kent, Surrey and Sussex has been studied for the 1955-56 and 1956-57 farming years to discover what changes have been occurring in profitability and in the associated levels of output* and costs.

* A list of definitions is given on page 28.

Fig. 1

Trends in Farm Profitability, Output & Expenditure in South-East England, 1938-39 to 1956-57.



Despite the decline in the value of money and the changing sample of farms, the above diagram, based on Appendix Table A, throws light on several important features of farm production over a period of nearly twenty years. The trend of output and Expenditure has continued upward throughout with but relatively minor setbacks, except for the extremely difficult conditions experienced in 1946-47. This date roughly marks the beginning of the remarkable post-war growth of Total Output which has increased at a relatively greater rate than either Net Output or Expenditure. Much of this expansion has been due to considerably greater purchases of feedingstuffs, as largely indicated by the area of cross hatching. Purchased feedingstuffs and seeds recently have amounted to almost one quarter of the value of Total Output, a situation almost identical with that of twenty years ago. During the height of the war, however, such items represented between one sixth and one seventh of the value of Total Output.

The space between the lower edge of the cross hatching and the area of solid black represents Farm Profit. Although there has been a trend towards higher profits per acre, proportionate to the level of Total Output there has been little real change. In 1955-56 and 1956-57, for example, Profits amounted to nearly one eighth of the value of Total Output, as they did during 1939-40 and 1940-41. But higher profits have been earned during the intervening period.

Costs are indicated on the diagram by the area of solid black. Although the steady upward trend of the total is obvious the diagram does not reveal the increasing importance of items such as power and machinery expenses relative to labour and rent.

Results are also available from 80 farms reporting for 1957-58 and which give some indication of current trends when compared with their performance during the two preceding years.

Compared with the 1955-56 year the results for the main sample show that a heavy setback was experienced in farm profitability in 1956-57. In fact, practically one quarter of the farms surveyed showed losses after making a charge for the manual labour of the farmer and his wife but before debiting payments of interest. (Table 1). In addition, on those farms showing a profit, well over one third made less than £500.

Table 1. PROFITS & LOSSES ON FARMS IN SOUTH-EAST ENGLAND.

For each 100 farms profits and losses were distributed as follows :—

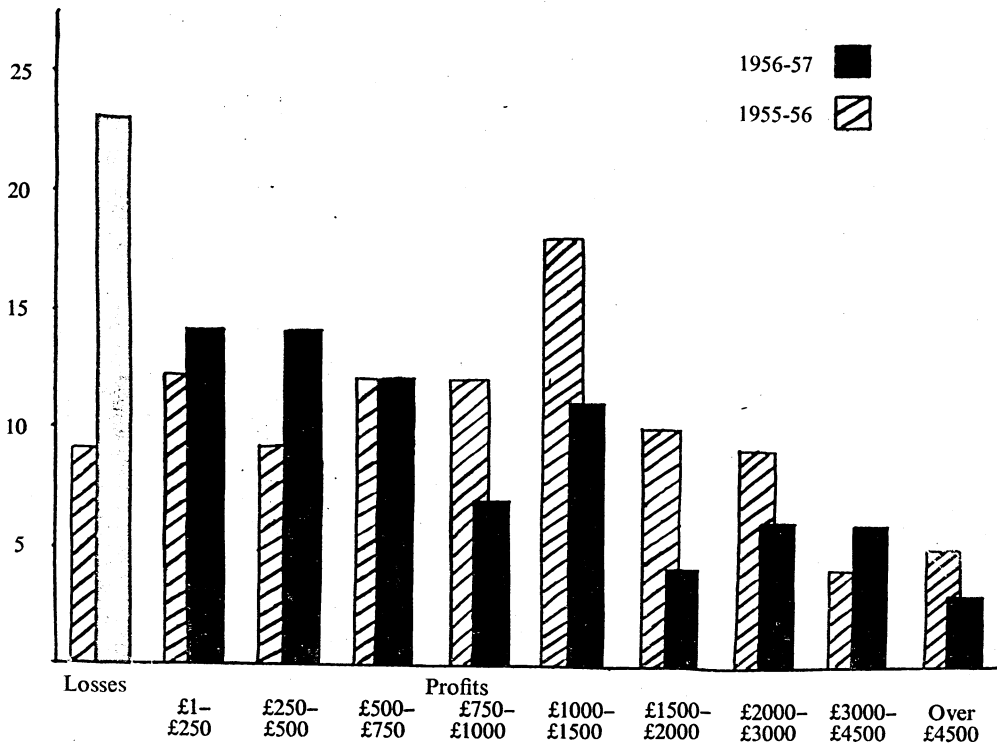
				1955-56	1956-57
<i>Profits</i>	Over £3,000	...	...	9	9
	£1,500—£3,000	...	...	19	10
	£500—£1,499	...	...	42	30
	Under £500	...	...	21	28
<i>Losses</i>	...	...	...	9	23

Although setbacks undoubtedly occurred elsewhere in Britain there can be few districts which show much worse results. As a general average, profits during 1956-57 declined to about two-fifths of the 1955-56 level, £3 11s. 0d. per acre as compared with £5 17s. 0d. Undoubtedly, so far as the south-eastern counties were concerned, 1955-56 was a year of high farm profits, though not abnormally so as judged from the long-run relationship of profit to output. (See Table A, Appendix). The low levels of farm profitability general in much of the South-East have been commented upon previously. In a study* concerned with the results of the 1952, 1953 and 1954 farming years, it was pointed out that for seven of the ten years after 1944, dairy farm profits averaged less than one half of those on similar farms elsewhere in the country. Such poor results, which continue to be recorded, are not the outcome of any one single influence. They are, in part, the consequence of the extensive areas of poorish farming land, typified by much of the North Downs and the Weald of Kent and Sussex. The climate, too, is a factor limiting economic production on many types of farm, chiefly owing to the threat of summer drought. The mixed farming systems, related to such influences, are not particularly efficient under modern conditions and high cost production is the consequence, especially on the smaller farms. Throughout most of the province owner occupation is important and under certain circumstances the funds available for investment in farming activities proper may be severely limited. A farm which has cost its owner a considerable sum does not, in this region, necessarily indicate fertile land or adequate and convenient buildings. More often it relates to nearness to a railway station or a pleasant situation.

There is much indeed to please the eye of the traveller passing through the farm lands of the South-East. This is especially so where beyond the Downs he finds hop-gardens, oast houses and orchards, heavy-yielding cornfields or lush pastures trim with grazing flocks. Clearly, these areas, whether in the hops and fruit belts, in Thanet, in Romney Marsh or elsewhere, strike one with their tidiness, their neat hedgerows and well-kept farmsteads and an air of quiet prosperity. These scenes are, however, by no means universal. The Wealden Plain, for example, has never enjoyed much prosperity over its comparatively short farming history. Hall and Russell in 1910 wrote—"the Weald was never highly farmed and has always been regarded as a poor, backward, unimproved land, the more so by contrast with the highly cultivated land and alluvial soils close at hand." The acres of permanent grass, the yellow clay furrows and the many small farms should not delude anyone into supposing that this was an area of rural prosperity.

* Profits & Problems of Farming in South-East England, by J. D. Sykes & G. P. Wibberley. Wye College (University of London) 1956.

Fig 2

Percentage
of FarmsDistribution of Profits and Losses on an identical sample of Farms
in South-East England, 1955-56 & 1956-57.

The 1955-56 farming year was a good one generally through the South-East with profits averaging £5 17s. 0d. per acre on a sample of 167 farms. On the same farms in the following year, however, profits averaged only £3 11s. 0d. per acre as a result of declining prices for milk, eggs and pigs and indifferent crop yields.

The distribution of farm profits and losses changed appreciably, most noticeable of all being the considerable increase in losses. Less than one farm in ten showed a loss in 1955-56, as compared with nearly two and a half times that number in 1956-57. A major set-back occurred on the small farms where nearly one out of every two showed a loss and only two farmers out of every hundred had a profit greater than £1,000. Owing to the difficult spring and the poor harvest, arable farms too, showed unsatisfactory earnings with farmers' incomes averaging only one third of the 1955-56 level.

It was the small farms, such as those typical of the Weald, which were mostly affected by the recession in farm profitability during 1956-57. The preceding year undoubtedly had been relatively prosperous. In fact, for the whole sample of farms the rate of profit per acre was the highest over the twenty years for which records are available (see Table A, Appendix). Yet relative to levels of output and costs, such profit levels cannot be regarded as abnormally high; they appear such only because the long run average in profitability is low.

PROFITS AND SIZE OF FARM

The effects of the poor farming conditions experienced during 1956-57 can be illustrated by the results of farms of below one hundred acres in extent. No less than forty-nine farms out of every hundred of this size showed a loss as compared with thirteen per hundred in the previous year. On farms with less than one hundred acres, profits averaged only one sixth of those obtained during 1955-56; on farms above this size profits generally were reduced by little more than one eighth. (See Table 2).

Table 2. THE DECLINE IN PROFITABILITY ON FARMS OF DIFFERENT SIZE.

Size of Farm <i>Acres</i>	Average Profit per Acre	
	1955-56 £ s. d.	1956-57 £ s. d.
Under 50	7 4 0	1 5 0
50—99	5 15 0	1 0 0
100—149	6 3 0	4 17 0
150—299	4 13 0	5 16 0
300 & above	6 13 0	5 17 0

Many factors were responsible for the reductions, but the most important were the fall in milk prices and the poor year for crops. For example, the value of crop production was one fifth less than in 1955-56. This latter factor was mainly responsible for reducing profits on arable farms so that they fell to a level two-thirds below that for the earlier year.

During 1956-57 the small farmer generally experienced a more severe fall in crop production than his neighbour on the larger farm and, also, despite a relatively greater increase in feedingstuffs purchases, the rise in livestock production was smaller (Table 3).

Table 3. PRODUCTION, COSTS & PROFITS ON LARGE AND SMALL FARMS.

For each £100 in 1955-56 there was in 1956-57:—

	On Farms under 100 acres		On Farms over 100 acres	
	£		£	
<i>Production</i>				
Livestock	103	...	107
Crops	74	...	88
Total	96	...	101
<i>Costs</i>				
Feedingstuffs Purchases	109	...	103
Total	104	...	103
<i>Profit</i>	17	...	88

On the larger farms, however, it was possible to expand livestock production to a considerable extent and with a relatively smaller increase in the purchase of feedingstuffs. Total expenditure rose less and there was no decline in the total value of farm production. The consequence for the large farmer in 1956-57 was a reduction in profit averaging little more than one eighth of the previous year's level ; on the small farms, however, profits were reduced by more than four-fifths (Table 3).

Such results indicate the economic weakness of the small farm during periods of stress. Indeed, it requires only a few hard blows of this kind to make a grave situation desperate. The small farm generally is highly vulnerable, measured in terms of economic efficiency. This is not to say that there is a real danger of the small farmer disappearing. He is far too tenacious for that to happen under present conditions. The probability is rather that a poor class will tend to develop in the rural community, living and working under miserable conditions and exploiting the land and its capital, their families and themselves.

At the present time most of the odds are set against the small man. His chief economic problems are essentially those arising from too small a business, rather than from too small an acreage. They are the consequence of inadequate capital investment, poor yields from livestock and crops, difficulties of mechanisation and labour use and sheer lack of technical "know-how." The latter factor alone is responsible for an ever widening gulf between the ranks of the large and small farmers.

THE INFLUENCE OF FARMING SYSTEM.

The problem of earning power and profitability in farming is linked as closely with system of farming as it is with scale of production. Although size of turnover is a factor of great significance in determining costs and returns the composition of that turnover is likewise important. In other words, the relative degree of dependence upon dairy, or sheep, or pig, or sale crop enterprises, etc., is one of the major determinants of farming income.

Table 4. CHANGES IN PROFITABILITY ON FARMS OF DIFFERENT TYPE.

For each £100 of profit in 1955-56 there was in 1956-57 :—

<i>On Arable Farms</i>	<i>On Livestock Farms</i>	<i>On Dairy Farms</i>	<i>On All Farms</i>
£34	£79	£72	£61

Profits were considerably reduced during 1956-57 on all types of farm with the severest setbacks generally occurring on arable farms (Table 4). Although lower prices for milk tended to reduce the incomes of dairy farmers appreciably this was offset to some extent by the larger gallonages of milk sold. Other revenue from livestock also expanded through the keeping of increased numbers of pigs, poultry, cattle and sheep. These trends towards larger volumes of output of livestock and livestock products continue a movement previously noted in the 1952-53, 1953-54 and 1954-55 farming years. An indication of the strength of this movement can be judged from Table B, Appendix. To a large extent, the expansion in livestock production has been linked with increased purchases of feedingstuffs but there are signs that the latter are being used more carefully than for many years. Data in the possession of the Department indicates, for example, that a reduction of between one quarter and one fifth occurred in the feeding of purchased concentrates to cows during 1956-57.

Farm Expenses have, in general, shown an upward trend (Table 5). During 1956-57, for example, purchases of feedingstuffs were seven per cent. greater in value, on average, than in the previous year ; labour costs also rose but to a somewhat smaller extent.