HSBC

News Release

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FARM BUSINESS INCOMES WILL BECOME DICTATED BY MARKET FORCES, WARNS HSBC

The success of farm businesses will become more dependent on cost control and the commercial market place as the reliance on subsidiaries diminishes, HSBC's Head of Agriculture Allan Wilkinson has warned.

Launching HSBC Agriculture's ***Taking the Pulse 2014*** publication, Wilkinson wrote that the recent reduction in allocated funds under the Common Agriculture Policy was a signal for future reforms, making farming incomes proportionately more dependent on the commercial market place.

He wrote: "Agriculture now depends on the market place and not just on the Brussels subsidy cheque and the importance of the market place will increase. Many family-run farm businesses will continue to rely on the wider industry to represent their interests in front of their immediate buyer. This will require producer collaboration to a greater extent than we have witnessed so far. It will also require co-ordination and representation which will eclipse the combined effort recently expended in the debate over CAP Reform – certainly with a far more productive result.

"This should come as no surprise as the commercial activity of farming begins to grow at the expense of subsidy based revenue. This strategy will also assist the sector to realise its true value and to manage the acceptance of new technologies to allow the industry to compete on a level playing field with the largest agricultural economies globally."

Wilkinson also flagged the wide gap between the best and worst performing farm businesses, highlighting the benefits of those businesses that combine prudent cost management with excellence in technical output to maximise yields.

Taking the Pulse 2014 includes an update on HSBC's budgeting ***Forward Planning*** booklet, which takes into account current market forces and offers an insight into the performance of the best and worst performing farms against HSBC's 2014 forecasts.

Based on an example 650ha mixed crop farm, including wheat, beans, barley and oilseed rape, ***Taking the Pulse 2014*** forecasts a 10.6% fall in farm income surplus after support payments, against a 35% increase for the best performing farm businesses.

Wilkinson said: “Yield is still the biggest driver of improved performance, providing the cost base is contained. In the high potential forecast, the wheat crop still has a total cost of production of under £125/t, whereas in the low potential case costs for the same crop have climbed to £145/t. Wheat is still the biggest contributor to bottom line.

“Secondly rotations with OSR in short rotation are potentially less cash generative than those with a range of crops spreading both the cost of production, and the use of machinery across establishment and other peak workloads.

“Thirdly, those businesses with high overhead costs can return respectable margins providing that yield is equally commensurate, though they have no room for average performance. Those businesses who can trim cost to a lower yield potential by judicious use of inputs can still limit potential cash flow impact.

“The best operators are balancing technical brilliance and cost control, to ensure that they are in the best possible place to withstand low commodity prices while costs prove impervious to that change. This focus sometimes means they are not following the crowd, their focus on cashflow is too precious for fashion, but they do retain flexibility to achieve the long term goals.”

Taking the Pulse 2014 also includes an economic update from HSBC Commercial Banking’s Head of Economics Mark Berrisford-Smith, as well as an update from new NFU President Meurig Raymond and an analysis of the impact of CAP reform by Gail Soutar, the UK Farming Unions’ office in Brussels.

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