The viability of the Irish farming sector in 2014

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The Teagasc National Farm Survey (NFS) income report is published annually. Family farm income, which represents the return from farming for the farm family to their labour, land and capital, is the principal economic measure published in this report. While family farm income is a useful measure, it does not account for the economic viability of the farm business nor does it make any allowance for the role of income earned outside of the farm in safeguarding the economic sustainability of farm households. This report presents the NFS viability analysis which accounts for these factors. The analysis is conducted on a sample of 871 farms that participated in the 2014 survey. This sample represents 80,000 farms nationally and is representative of farming at both a national and regional level.

1. Measuring viability

A farm business is deemed to be economically viable if the family farm income is sufficient to remunerate family labour at the minimum agricultural wage, which was €19,167 per labour unit in 2014, and provide a 5 percent return on the capital invested in non-land assets, i.e. machinery and livestock. It follows that farms with relatively modest incomes can be viable if the labour input and capital investment is low and similarly farms with seemingly large incomes may not be viable if there is a substantial labour input and/or significant capital invested in machinery and livestock.

Farms that are not economically viable but have an off-farm income, earned by either the farmer or the spouse, are considered to be economically sustainable.

Farm households that are operating non-viable farm businesses and where neither the farmer nor the spouse works off the farm are considered economically vulnerable. Vulnerable farms are in a difficult economic position as the farm business is not producing a sufficient profit to sustain itself and there is no other form of market income in the household.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Viable</td>
<td>A farm business is viable if the farm income can remunerate family labour at the minimum agricultural wage and provide a 5% return on the capital invested in non-land assets.</td>
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<tr>
<td>Sustainable</td>
<td>If the farm business is not viable the household is still considered sustainable if the farmer or spouse has an off-farm income.</td>
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<tr>
<td>Vulnerable</td>
<td>A farm household is considered to be economically vulnerable if the farm business is not viable and if neither the farmer nor spouse work off the farm.</td>
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2. The viability of Irish farming in 2014

Figure 1 presents the viability of the farm population as represented by the NFS in 2014. Thirty-seven percent of farms were economically viable in 2014, a further 31 percent of farm households were sustainable because of the presence of off-farm income while the remaining 32 percent of farms are economically vulnerable. The viability of farming increased marginally from 2013 when 35 percent of farms were classified as economically viable.

Figure 1: Viability of Irish Farming 2014

The viability of farming varies quite substantially by farm system. The data in Figure 2 show the vast differences between dairy, tillage and mixed livestock farms and the drystock sectors, namely cattle and sheep. In 2014 80 percent of dairy farms and 60 percent of mixed livestock and tillage farms were economically viable. Mixed livestock farms typically have a dairy enterprise but are not specialised in dairying. On the other hand, only 15 percent of cattle rearing farms, 19 percent of cattle other farms and just 27 percent of sheep farm businesses are economically viable. There are about 7,300 viable cattle farm businesses, 3,000 viable sheep businesses and 13,000 viable dairy farm businesses.

Figure 2: Viability of Irish Farming by Farm System 2014
In general the viability of dairy farming has increased in the last two to three years. In 2012 68 percent of dairy farm businesses were economically viable compared to 82 percent in 2014. The reverse is the situation with cattle farms as the viability of farming in this sector has contracted in recent years. In 2012 18 percent of cattle rearing farms and 30 percent of cattle other farms were classified as economically viable. These rates declined to 15 and 19 percent respectively in 2014.

Almost 50 percent of cattle rearing farms, 39 percent of cattle other farms and 31 percent of sheep farms are sustainable because of the presence of off-farm employment. Over 40 percent of cattle other and sheep farms are classified as economically vulnerable, while 35 percent of cattle rearing farms are vulnerable. The incidence of economic vulnerability has increased with the contraction in off-farm employment. The data in Figure 3 show the contraction in off-farm employment from 2007. Off-farm employment rates have started to show signs of recovery in 2013 and 2014, albeit at a slow pace.

Figure 3: Off-farm employment rates 2005 to 2014

3. The viability of Irish farming by region in 2014

The NFS sample is selected to be representative of farming on a regional basis at a NUTS3 level. The viability of farming at a regional level is presented in Figure 4. The Dublin region is excluded due to the small sample size in that region.

The southeast is the most profitable farm region and contains the highest proportion of viable farms at over 50 percent. The west and border regions have the poorest viability ratings with just 16 and 23 percent of farms viable in the respective regions. The presence of off-farm employment improves the economic situation in most regions with over two-thirds of farm households classified as viable or sustainable across most regions. The west and the border are the exceptions. In the west region 34 percent of farm households are classified as economically vulnerable while in the border region 45 percent of farm households or almost 7,000 households are economically vulnerable.
The relative decline in off-farm employment across the various regions has contributed to the high rates of vulnerability, see Figure 5. Off-farm employment rates of the farmer are highest in the west but have also declined very rapidly in that region. The impact of the economic recovery in the wider economy is more apparent in some regions than others. For example, employment rates have started to recover in the southeast, south and midlands but seem to be stagnating in the west.

Figure 5: Farmers’ off-farm Employment rates by region

4. Concluding Comments

Slightly more than one in three, 37 percent, farm businesses were operated in an economically viable manner in 2014. The viability of the farm sector in general improved in 2014 compared to the previous year when 35 percent of farm households were viable. Viability rates are very high for dairy farms businesses with over 80 percent of specialist dairy farms considered economically viable and 60
percent of mixed dairy farms viable. Furthermore, the improvement in overall sector viability in 2014 was almost entirely driven by higher dairy farm incomes. Less than one in five cattle farm businesses are producing a profit that is sufficient to reward the labour and capital invested and this position worsened in 2014.

Off-farm income is critical to safe-guarding the economic well-being of a large proportion of farm households. Nationally, almost one in three farm households rely on off-farm income to sustain both the household and the farm business. This reliance on off-farm income is particularly pronounced for dry stock farms. Almost one third of farm households, or 25,000 households nationally, can be considered economically vulnerable as the farm business is not viable and there is no off-farm income present in the household.

The viability of farming varies quite considerably by region. Only 16 percent of farm businesses in the west of Ireland are economically viable and almost half of all farm households in the border region are economically vulnerable. Of the 25,000 vulnerable farm households that exist nationally, almost 12,000 of those are in the border and west regions.