

Teagasc National Farm Survey: 2016 Farm Viability Report

Emma Dillon & Brian Moran



**Rural Economy Development Programme, Teagasc,
Athenry, Co Galway, Ireland.**

Teagasc National Farm Survey 2016 – Viability Analysis

The Teagasc National Farm Survey (NFS) provides an overview of the economic situation on Irish farms on an annual basis. The principal metric used is family farm income, which represents the return from farming for the farm family to their labour, land and capital. In 2016 the average income figure across Irish farms stood at €23,848 with much variation across farm systems (Dillon, Moran and Donnellan, 2017). An additional measure is economic viability which also takes account of income earned outside of the farm business. This report presents the 2016 NFS viability analysis across farm systems and regions. The data relates to a sample of the 861 farms that participated in the 2016 NFS. This sample is representative of 84,736 farms nationally. The analysis is also presented by farm system and region (NUTS 3).

Measuring economic viability

A farm business is defined as being *economically viable* if family farm income is sufficient to remunerate family labour at the minimum agricultural wage, which is assumed here to be €19,167 per labour unit, 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 found not to be economically viable but have an off-farm income source within the household, earned by either the farmer or the spouse, are considered to be *economically sustainable*. Farm households are considered to be *economically vulnerable* if they are operating non-viable farm businesses and neither the farmer or spouse works off-farm. 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 within the household.

Viable

- A farm business is deemed to be 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.

Sustainable

- A farm household is considered sustainable even if the farm business is unviable if the farmer or spouse are in receipt of an off-farm income.

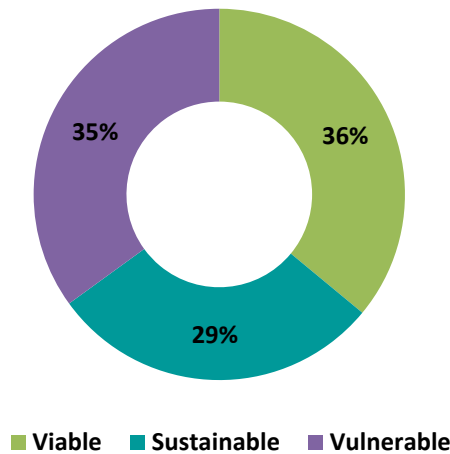
Vulnerable

- A farm household is considered to be economically vulnerable if the farm business is not viable and neither the farmer nor spouse work off- farm.

The viability of Irish farming in 2016

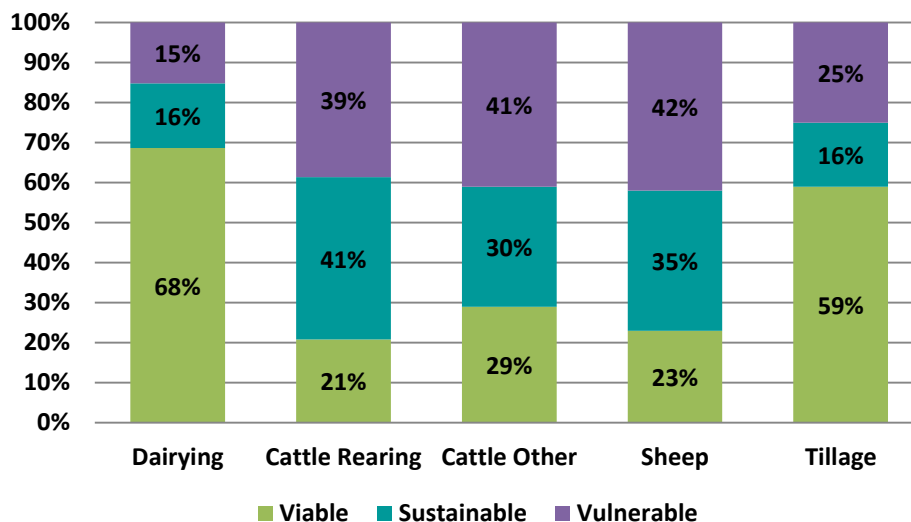
Figure 1 presents the viability of the farm population as represented by the Teagasc NFS in 2016. The data indicates that 36 percent of farms were classed as being economically viable in 2016. A further 29 percent of farm households were found to be sustainable due to the presence of an off-farm income source while the remaining 35 percent were deemed to be economically vulnerable (having no alternative income source within the household).

Fig. 1: Viability of Irish Farming 2016



The viability of Irish farms varies across system. Figure 2 indicates the wide differential between the dairy and tillage sectors compared to the drystock sectors, namely cattle and sheep. In 2016 68 percent of dairy farms and 59 percent of tillage farms were found to be economically viable on average. On the other hand, the corresponding figure on cattle farms were 21 percent for cattle rearing and 29 percent for cattle finishing. In 2016 23 percent of sheep farms were reported as being economically viable on average. To put these results in context, the data indicates that there were 10,704 viable dairy farm businesses in Ireland in 2016 with over 12,000 cattle farms and almost 3,000 sheep businesses also found to be viable.

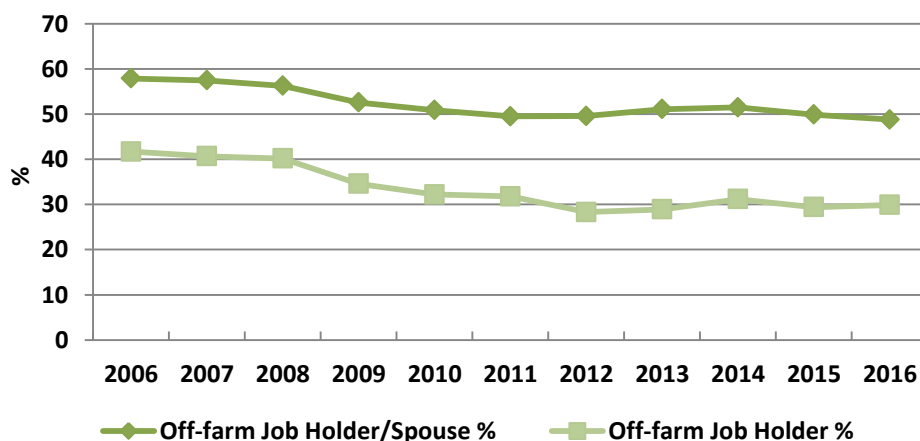
Fig. 2: Viability of Irish Farming by Farm System 2016



Despite the relatively higher proportion of viable dairy and tillage farms, 2016 was a difficult year for both with average farm incomes falling by 16 and 10 percent to €52,155 and €30,840 respectively. A 10 percent decline in the milk price alongside lower cereal yields and prices were the driving factors here. As a result, the proportion of viable dairy farms fell 8 percentage points and the corresponding figure for tillage farms was 4 percentage points. The situation on sheep farms also worsened in 2016 with the viability figure falling from 26 to 23 percent with an average farm income of €15,708 reported. On the other hand, a modest increase in the proportion of cattle other (finishing) farms deemed to be economically viable was reported in 2016 (up 1 percentage point). As a way of explanation, the impact of reduced cattle prices in 2016 was offset by increases in subsidy payments (primarily the Basic Payment Scheme and the agri-environmental scheme GLAS). Average income on cattle other farms was €16,853 in 2016 with the figure substantially lower on cattle rearing farms at €12,516.

The presence of an off-farm income source within the household is relatively more important on drystock farms and as a result it is not surprising that 41 percent of cattle rearing farms, 30 percent of cattle other and 35 percent of sheep farms were found to be sustainable on average in 2016. Worryingly, the proportion of these farms classed as being economically vulnerable are similar, standing at 39 percent and 41 percent for both cattle systems and 42 percent for sheep. As has been the case in recent years the decline in off-farm employment as illustrated in Figure 3 is a factor here. In 2016 about half of farm households had an off-farm income source, 8 percentage points lower than in 2006. The decline in the proportion of farm holders employed off-farm over the period (from 42 percent to 30 percent) is reflective of the general decline in the economy and most likely the fall in job opportunities in the construction sector in particular.

Fig. 3: Proportion of Farm Households with Off-Farm Employment 2006-2016

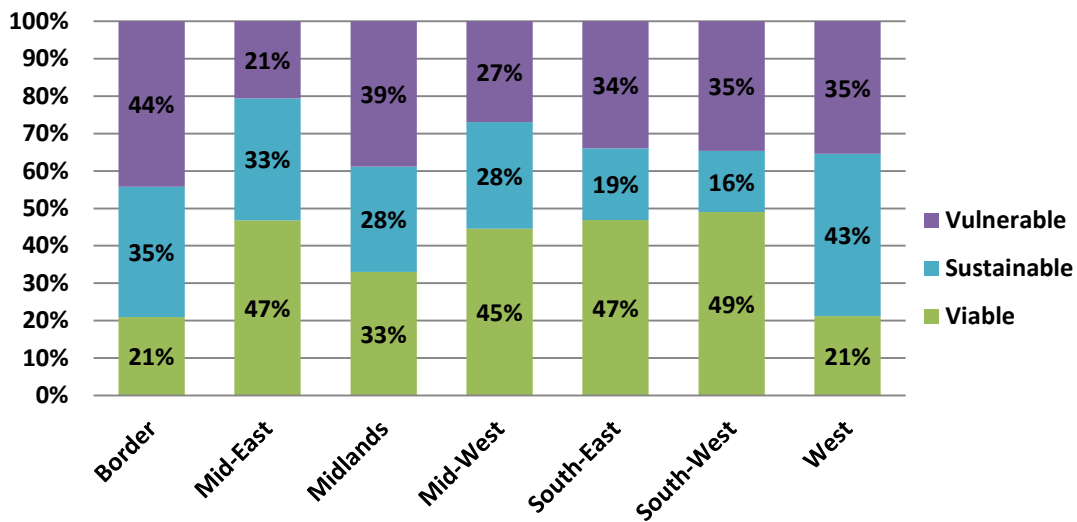


The viability of Irish farming by region in 2016

The Teagasc NFS sample is selected to be representative of farming on a regional basis at a NUTS 3 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.

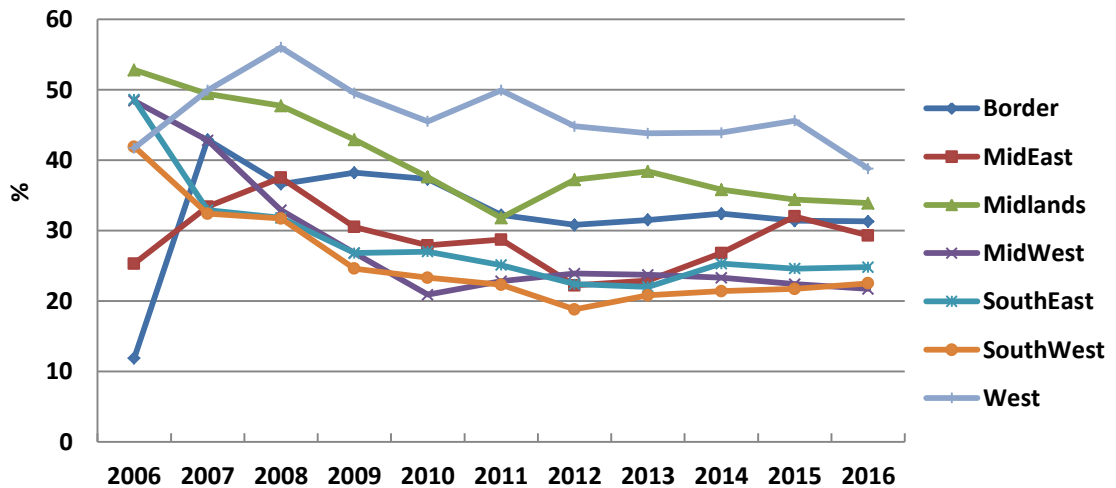
Almost half of all farms in the South-West were classed as viable in 2016 (49 percent). The South-East and Mid-East also performed relatively well at 47 percent with the equivalent figure in the Mid-West being 45 percent. The percentage of viable farms in the Border, Midland and West region was substantially lower with one-third of all farms in the Midlands found to be viable and the corresponding figures in the Border and West a little over one-fifth. The predominance of cattle and sheep farms in these regions serves as a partial explanation for this. As many of these farms are not operated on a full-time basis it is unsurprising that the presence of an off-farm income within the household is relatively more important, i.e. 43 percent of farm households in the West and 35 percent in the Border were deemed to be sustainable due to an off-farm income source. Similarly, one-third of farm households in the Mid-East were sustainable due to the presence of an alternative income source.

Fig. 4: Viability by Region 2016



The corresponding figures for the Midlands and Mid-West were a little lower at 28% with the southern counties substantially lower again due to a higher prevalence of full-time dairy farms and lower levels of off-farm employment as reflected in Figure 5.

Fig. 5: Off-farm job holder 2006-2016



The proportion of vulnerable farm households was highest in the Border region in 2016 at 44 percent and lowest in the Mid-East where the level was half that at 21 percent, again reflective of the trends in regional off-farm employment over the period. It is telling that the decline in the percentage of farm holders with an off-farm job went from 43 percent in 2007 to 31 percent in 2016. Similarly, the percentage of farm holders with an off-farm job in the Mid-West almost halved over the period (from 43 percent to 21 percent). Data from 2016 indicates that off-farm employment rates for farm holders were highest in the West where 39 percent were employed off-farm. Farmers in the Midlands were next most likely to be employed off-farm (at 34 percent). As expected, off-farm employment rates were lower in the southern regions where less than one-quarter of farmers held an off-farm job and the figure was lowest in the Mid-West where just over one-fifth of farmers worked off-farm.

Conclusion

Thirty-six percent of Irish farms were found to be economically viable in 2016, a one percentage point decline year-on-year. As farms with a standard output below €8,000 are not considered here this is representative of 30,754 farms nationally. The economic performance of farms varies greatly across systems with more than two-thirds of dairy farms reported to be viable compared to just over one-fifth of cattle rearing and sheep farms. Cattle other (finishing) farms performed marginally better in 2016 with 29% found to be viable however; an increase in the overall direct payments received was a factor. It should be noted that 2016 was a difficult year on dairy farms and although performing relatively better than other systems, the general decline in the milk price resulted in the proportion of viable farms falling 7 percentage points compared to 2015. The proportion of farm households found to be sustainable (with the presence of an off-farm job) remained unchanged in 2016 at 29 percent whereas a one percentage point increase in vulnerable farms was reported.

Much regional variation is evident across economic performance also. Almost half of the farm households in the South-West, South-East, Mid-East and Mid-West were deemed to be viable in 2016 compared to only one-third in the Midlands and one-fifth in the Border and West. Conversely, the proportion of farm holders with an off-farm job was highest across these three regions with employment rates of between 31 percent and 39 percent. The proportion of farm holders with an off-farm job was lowest in the Mid-West at 22 percent.

Reference

Dillon, E., Moran B. and Donnellan, T. (2017). Teagasc National Farm Survey 2016 Results. Available at: <https://www.teagasc.ie/media/website/publications/2017/NFS-2016-Final-Report.pdf>