

Inflation and Irish agriculture

Will consumer price inflation over the course of the year further reduce the purchasing power of the incomes farmers earn in 2022?

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As we look forward to the 2022 production year and beyond, the key uncertainty facing Irish farmers is whether movements of input and output prices will continue to be largely in balance (as they have been for most of the last decade) or will the agricultural terms of trade (the ratio of output prices to input prices) decline to such an extent that farm incomes fall.

There has been a dramatic surge in the price of fertilisers over the course of 2021, as illustrated in Figure 1. Will this increase in prices continue? The inflation in fertiliser prices (and price of goods in general) is driven by developments in demand and supply.

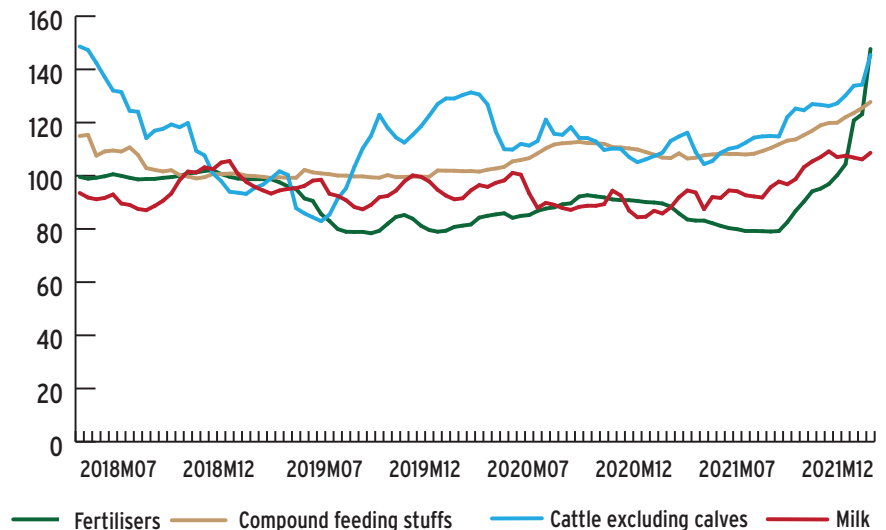
The key factors behind increasing fertiliser prices have been on the supply side, namely dramatic changes in the world price of natural gas, a key input for the production of fertiliser.

The enormous increases in gas prices over the last 12 months have led to the mothballing of some fertiliser plants in Europe and increases in prices as producers pass on higher energy costs to consumers of fertiliser.

The developments in gas prices (and fertiliser prices) in European gas markets have been particularly acute, reflecting both the recovery of European economic activity, but more importantly, the high dependence of European gas consumers on supplies from Russia.

The invasion of Ukraine by Russia on February 24 2022 will affect energy, fertiliser and wider agricultural commodity markets. The imposition of economic sanctions on Russia by the EU and other countries and the possibility of countervailing sanctions by Russia will interfere with trade in natural gas and other fertiliser ingre-

Figure 1: Four key price indicators for Irish agriculture; milk, cattle, concentrate and fertiliser prices.



dients such as ammonium nitrate.

The invasion of Ukraine will also probably have negative macroeconomic impacts for both the EU and the global economy on which Irish agriculture depends.

Teagasc forecasts for incomes earned by Irish farmers in 2022, published in the Teagasc Outlook 2022, were driven by forecasts for input price developments that exceed those forecast for farm output prices in 2022.

The terms of trade faced by Irish farmers in 2022 will deteriorate significantly, despite current strong prices for the goods they produce. Higher energy and fertiliser prices are the cause of this deterioration.

The invasion of Ukraine will only worsen the outlook for farm incomes by increasing inflation in energy and fertiliser prices and possibly reducing export demand for Irish agricultural output.

With consumer prices in Ireland also increasing for the first time in many years, the real purchasing power of lower farm incomes is also likely to decrease.

It is going to be a difficult year for real farm incomes and for real incomes across the Irish economy.

What can farmers do?

In the face of inflation in consumer prices, there is likely to be little farmers can do other than shop around for the best prices available for goods and services purchased.

On the farm, more attention to input use will be a key area in which farmers can mitigate the impact of very high fertiliser prices on farm incomes.

Farmers should contact their advisor and discuss how use of chemical N can be reduced in ways that don't overly reduce the productivity of farm systems.