

VIDENCENTRET FOR LANDBRUG

Economy of Danish Agriculture

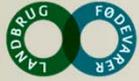
Australian Farm Institute
Knowledge Centre of Agriculture
April 30th 2013

By Ejnar Schultz
Chief Business Economics
Knowledge Centre of Agriculture

PARTNER I
DLBR
DANSK
LANDBRUGSRÅDGIVNING



Den Europæiske Union ved Den Europæiske Fond
for Udvikling af Landdistrikter og Ministeriet
for Fødevarer, Landbrug og Fiskeri har deltaget
i finansieringen af projektet.



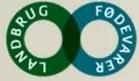
Themes:

- Agro Food Park
- Forecast of operating result in agriculture
- Economic diversification in agriculture
- Economic strength of Danish agriculture
- Debt in Danish agriculture
- Real estate Market

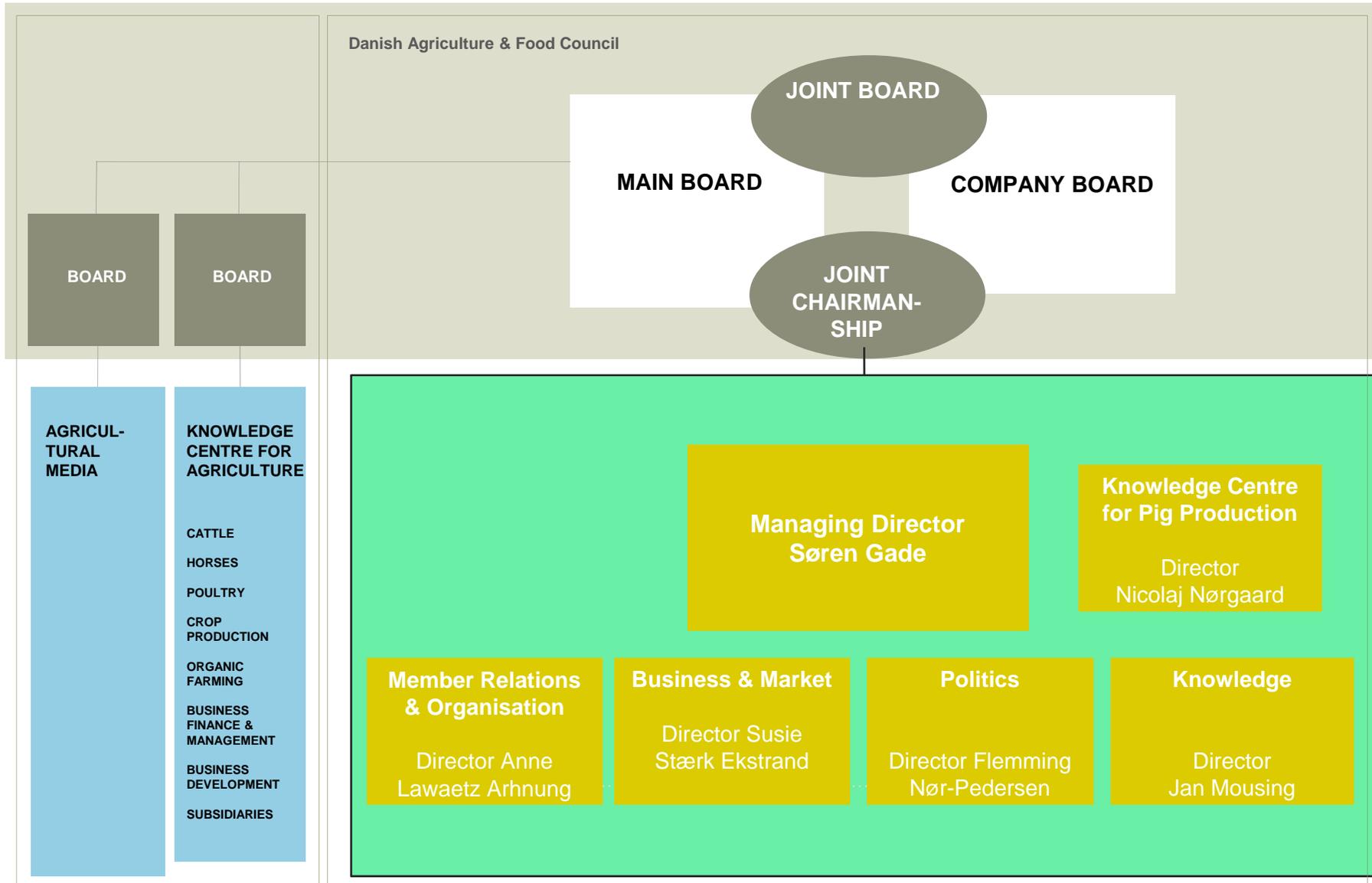


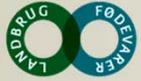
Knowledge and
Competence Grouping
for Agriculture and
Food





Koncernoversigt

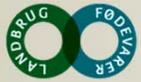




The Knowledge Centre for Agriculture – who are we?

The Knowledge Centre is a key driver in the development of a diversified and competitive sector

- Common development facility for the entire agricultural sector
- Service- and innovation centre for the 31 agricultural advisory companies
 - Experts of the experts – Advisers of the advisers
- Approx. 450 employees + approx. 100 in subsidiaries (AgroTech a.o.)
- Covers special knowledge in the areas of livestock production, environment, business economics, crop production, organic farming, technology, tax, land maintenance, health & safety, landscaping
- Forms a professional and neutral basis
- Close professional cooperation with universities, GTS institutes, the financial industry, public authorities, companies



The Knowledge Centre is part of Agro Food Park

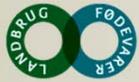
Ambitions for Agro Food Park 2020:

- One of the 5 most powerful areas within agriculture and food innovation world-wide
- Employs a total of 3,000 employees in 40-50 companies

FASE 2
150.000 M2

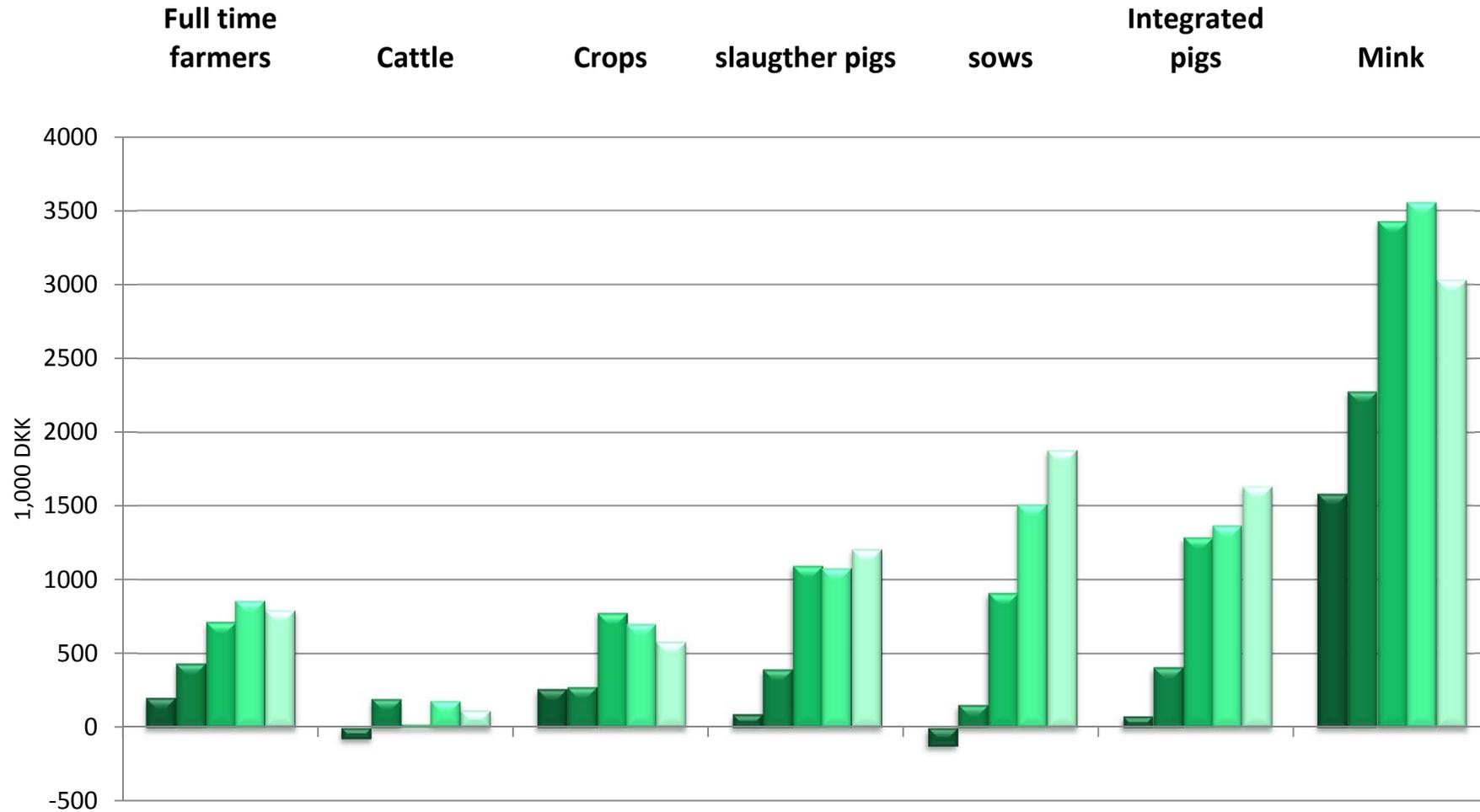


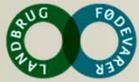
FORELØBIG VERSION 12-05-2011
OPDATERES



Forecast of agricultural operating result – March 2013

Operating results of Agriculture 2010-2014

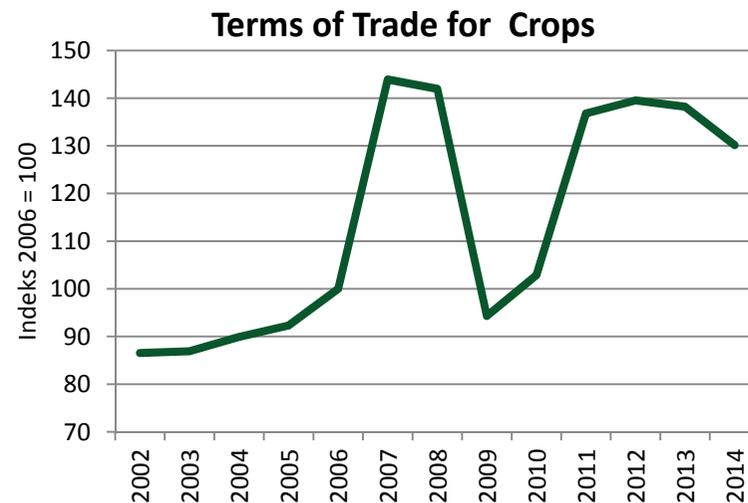
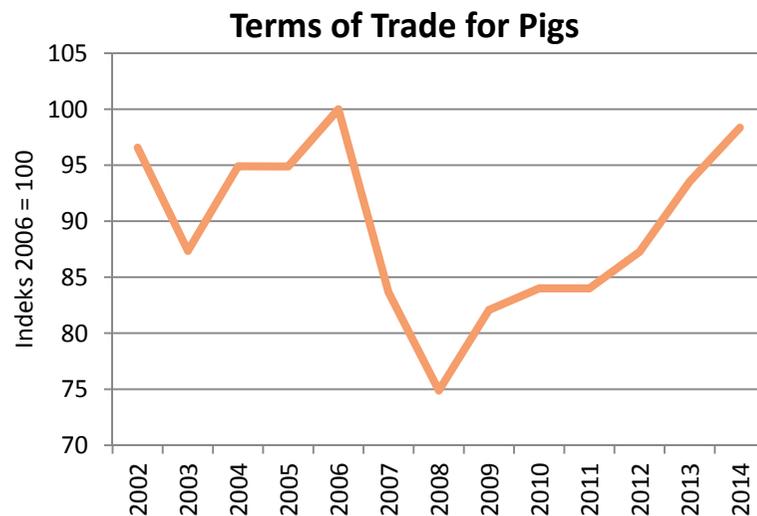
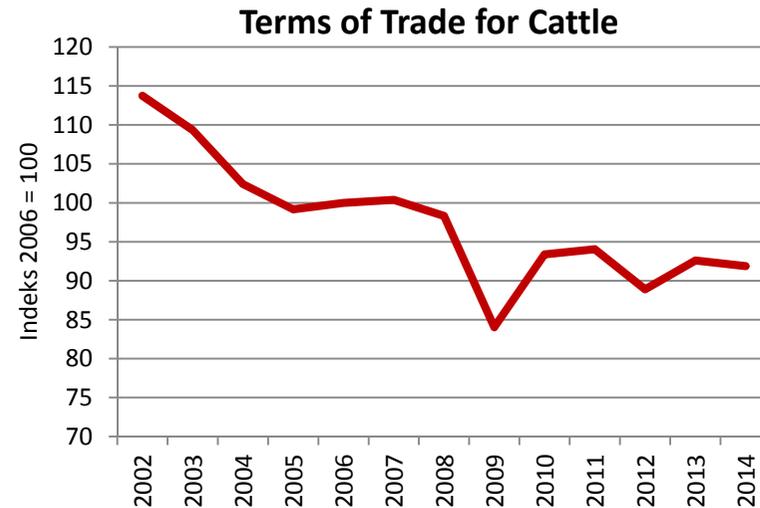
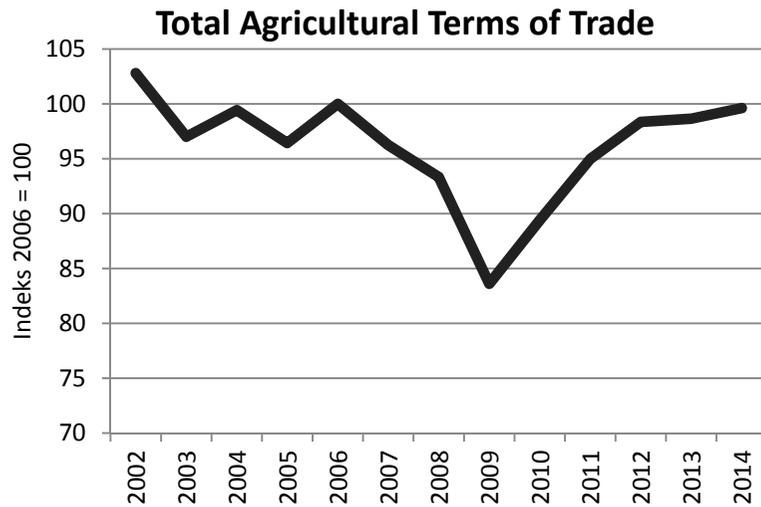


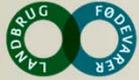


General income forecast trends

- 2011: DKK 400,000 - close to being an average year for the agricultural sector
- 2012-2014: Operating result level is DKK 700,000-860,000
- The reasons for higher income levels are:
 - Improved terms of trade
 - Continued low interest rates (despite higher institutional costs)
 - Increase in productivity
 - Fewer losses on financial contracts
- An operating result of approx. DKK 700,000-860,000 for an average full time farmer is close to a satisfactory level, however
 - But: Exclusive of mink producers: DKK 350,000-500,000
 - Before compensation of the owner's labour effort and return on equity

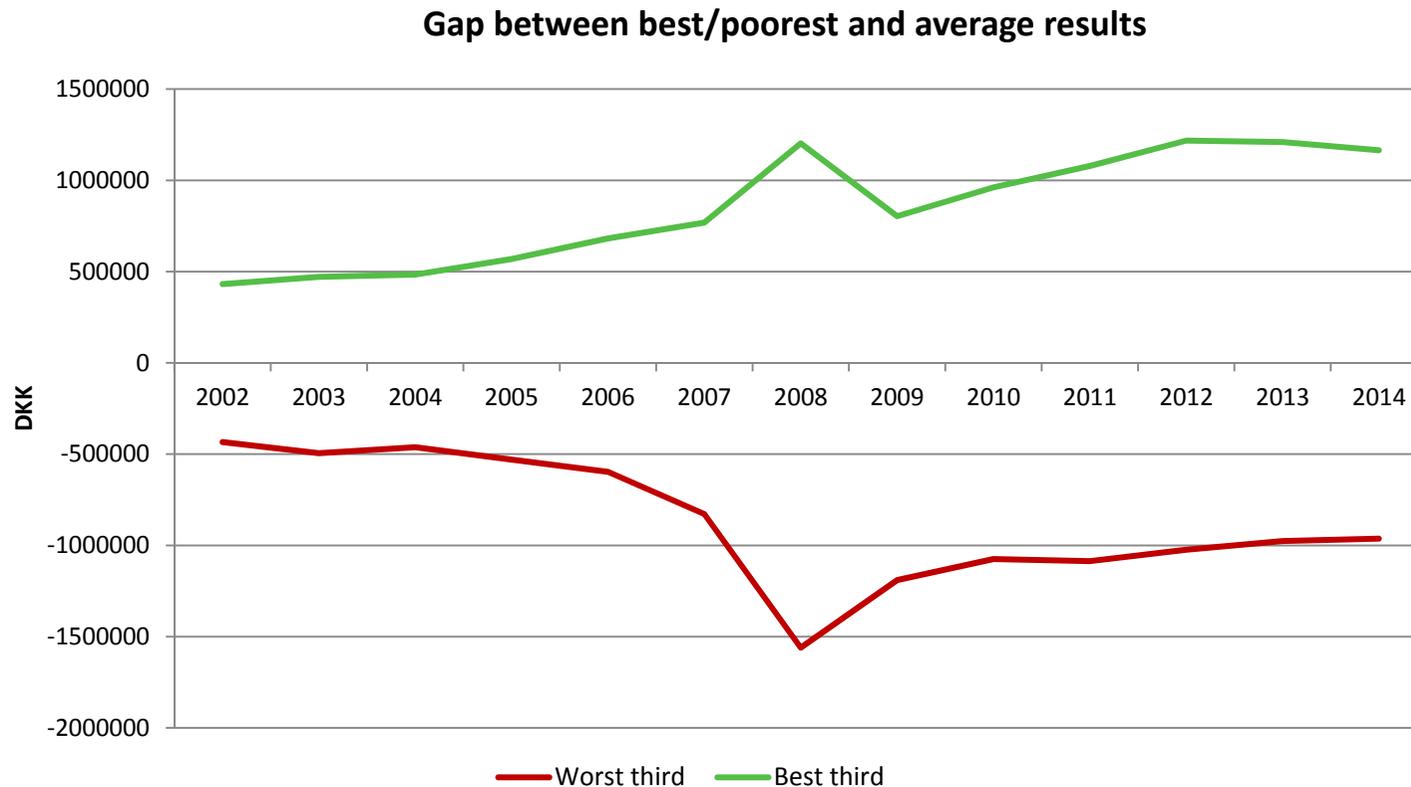
Strong terms of trade for pigs and crop – weak for cattle

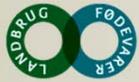




Heavy diversification of results

- Always be careful not to generalize
- Approx. +/- 1 Million DKK between best/worst third and average

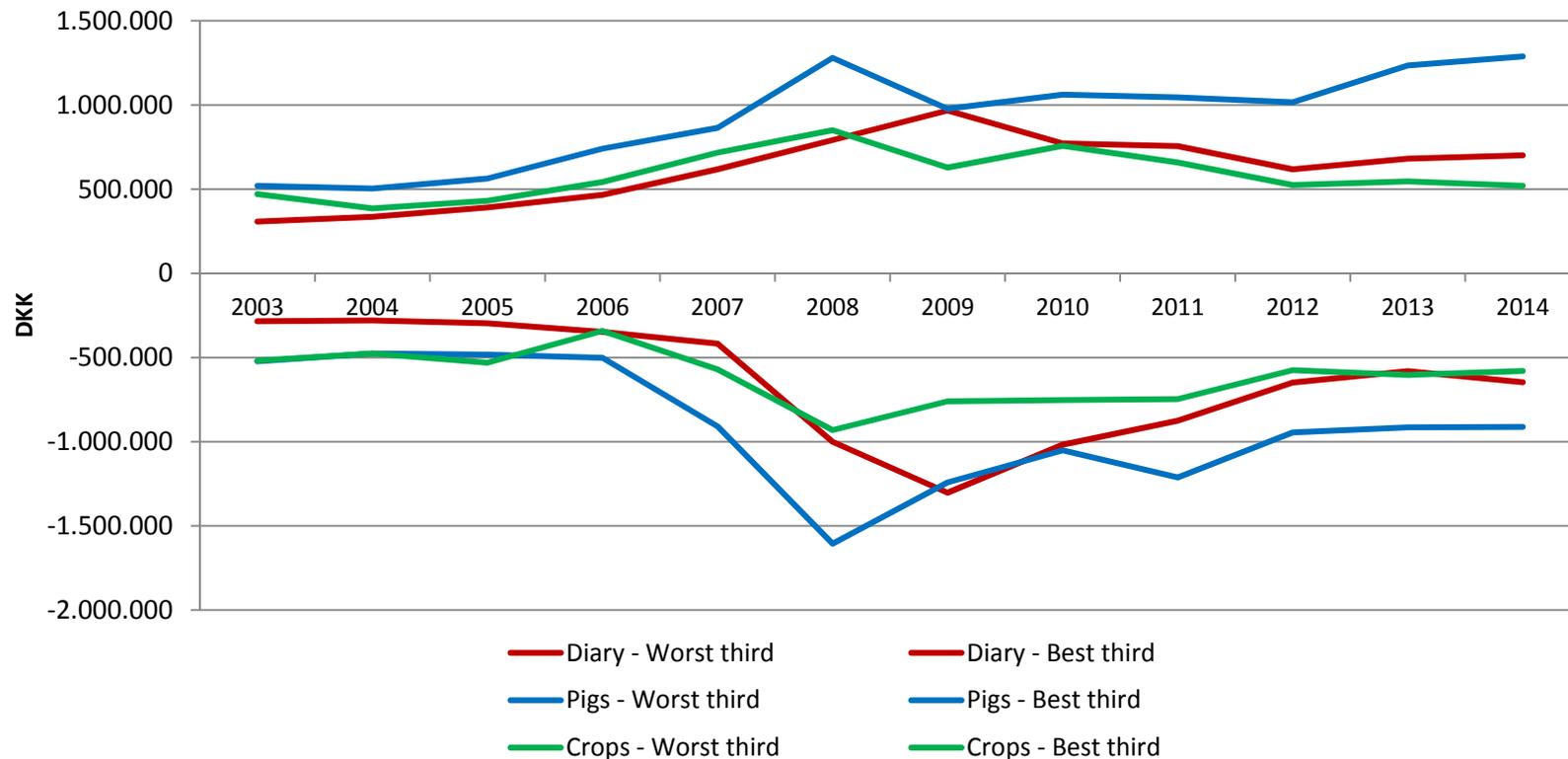


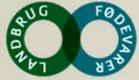


Heavy diversification of results

- Heaviest diversification within pig production
- But also more than DKK 1 Million gap between best and worst third of other operating activities

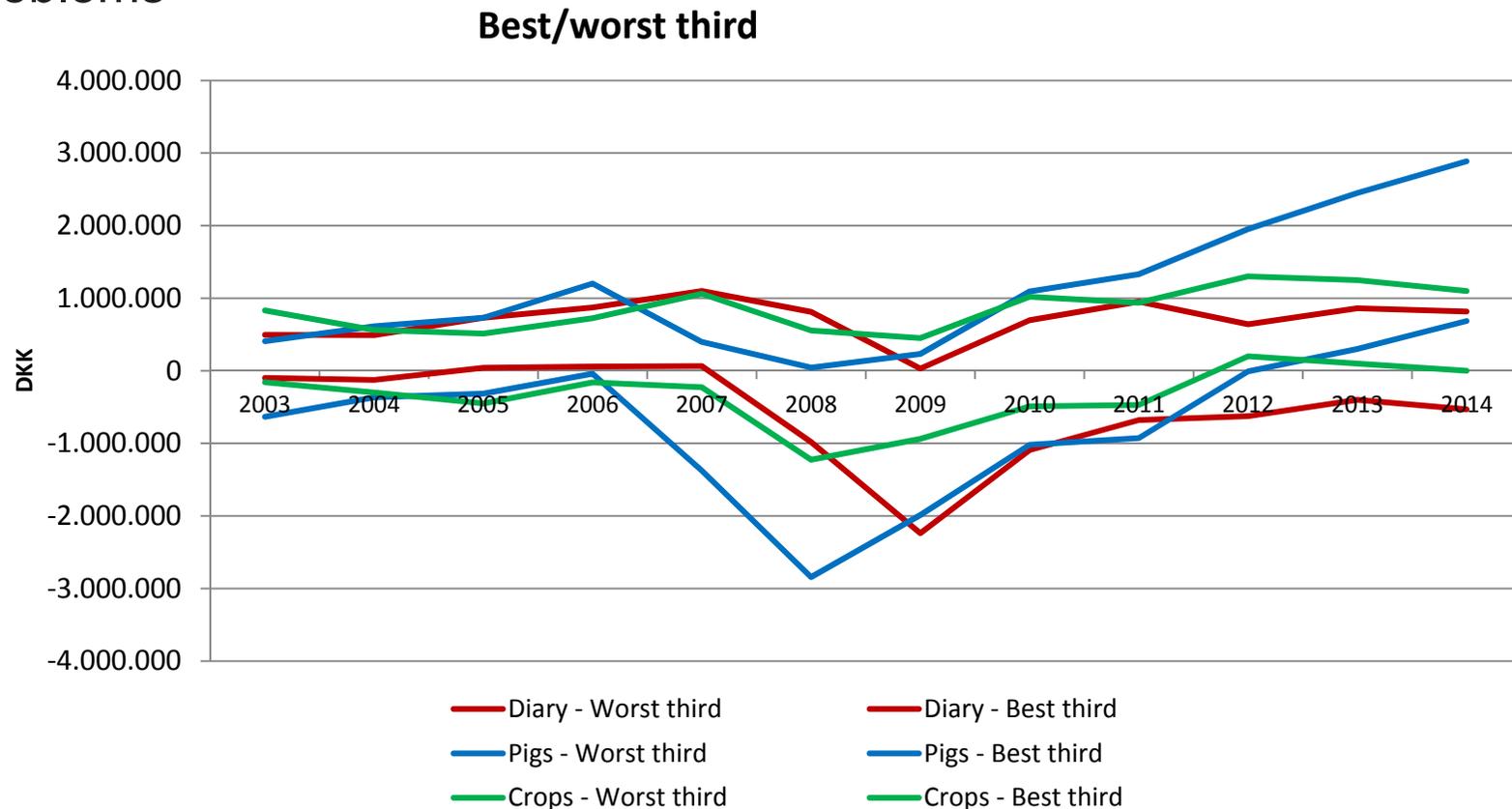
Gap between best/worst and average

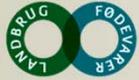




Heavy diversification of Results

- Even the worst third of pig producers have the prospect of profit in 2013 and 2014
- The best dairy farmers do well – the worst will continue to have serious problems





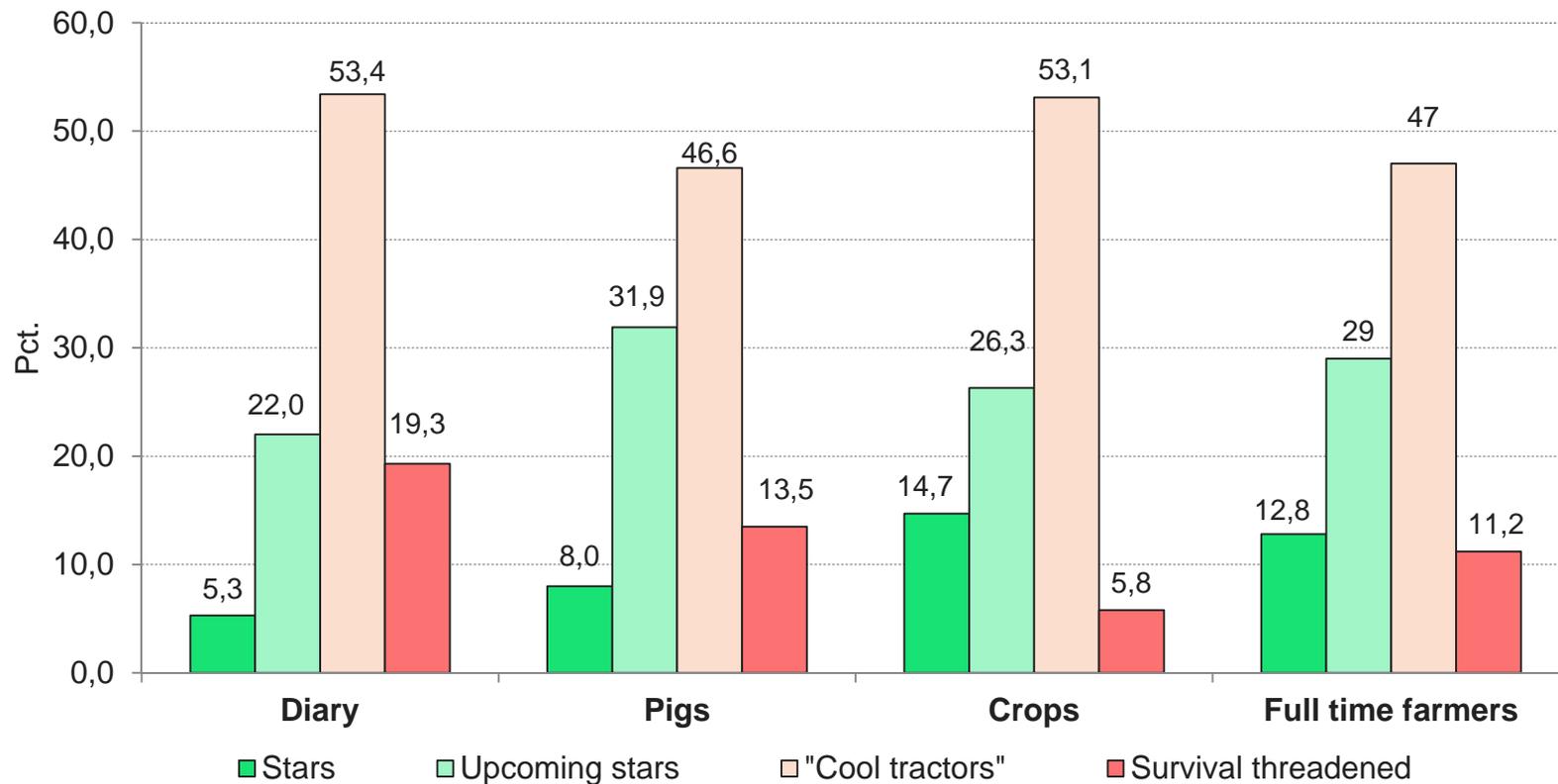
Economic strength in Danish Agriculture

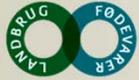
		Preconditions						
		Product prices	Interest rates	Debt pct	Reinvestments/savings	Owner remuneration	Private income	Requirements for return on equity
Development Category	Stars							
		5 years average prices - 1 std. dev.	+ 2,0 pct.	< 70 pct.	Total depreciation (Machinery, inventory and buildings etc.)	DKK 300,000	Incl.	4 pct.
	Upcoming Stars							
Risk Category		5 years average prices - ½ std. dev.	+ 1,0 pct.	-	Total depreciation (Machinery, inventory and buildings etc.)	DKK 300,000	Incl.	2 pct.
	”Cool tractors”							
		5 years average prices	5 years average Interest	< 70 pct.	Depreciation of machinery and inventory	DKK 300,000	Incl.	0 pct.
	Survival threatened							

Survey of economic strength in Danish Agriculture

- More than 40 pct. of all farms have development power
- A little less than 60 pct. don't
- Every eighth farm is survival threatened

Economic Strength

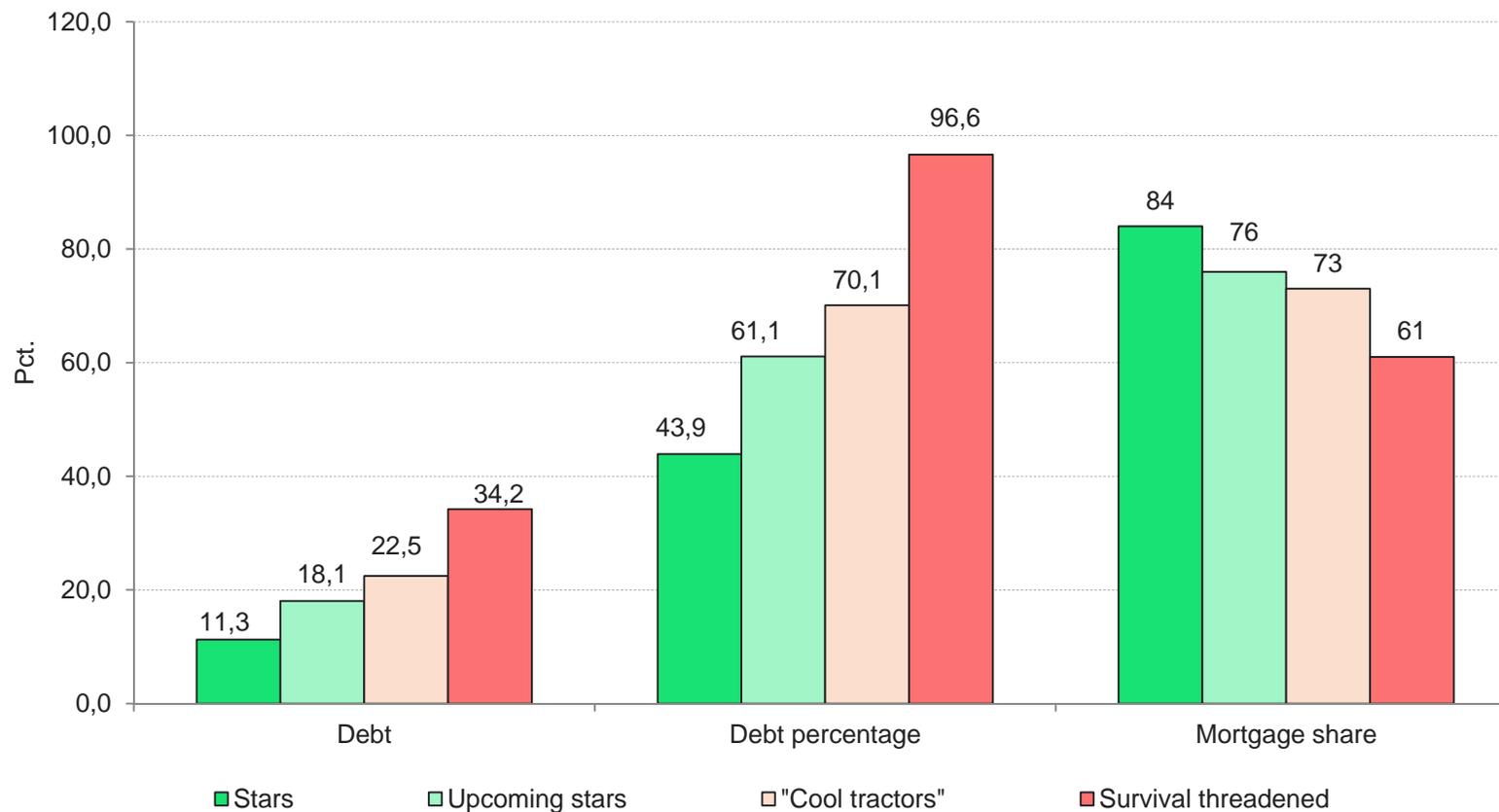




Comparison of debts and interest - Milk

- The development category has significantly smaller and cheaper debts

Debts, Debt Percentage and Mortgage Share - Milk
Debt in Million DKK

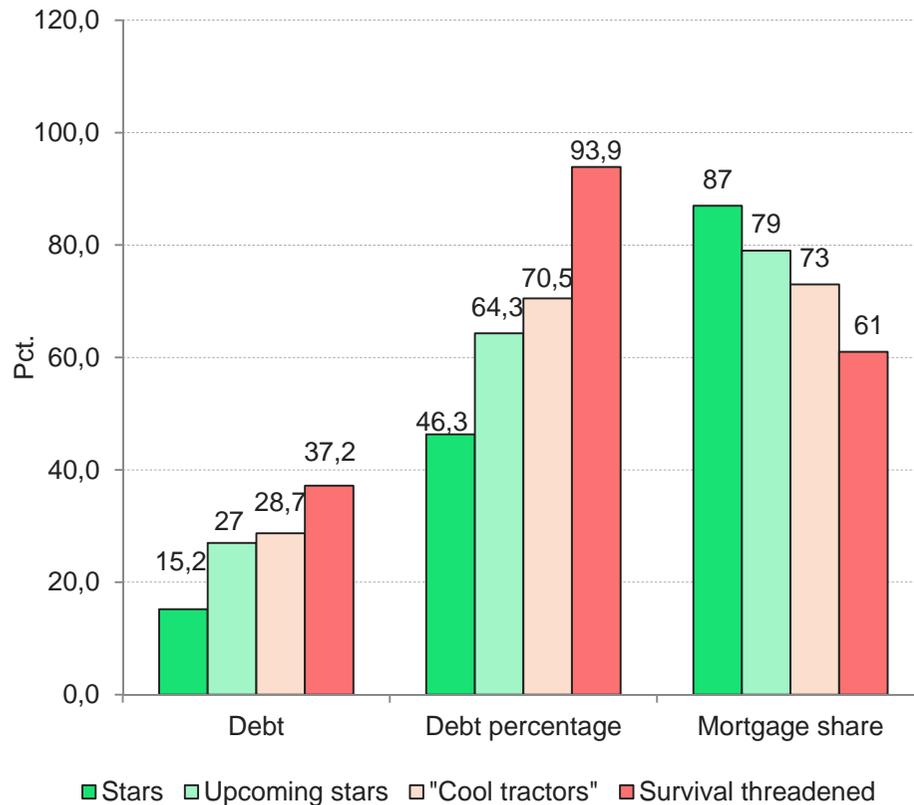


Comparison of debts and interest – Pigs and Crop

- The development category has significantly smaller and cheaper debts

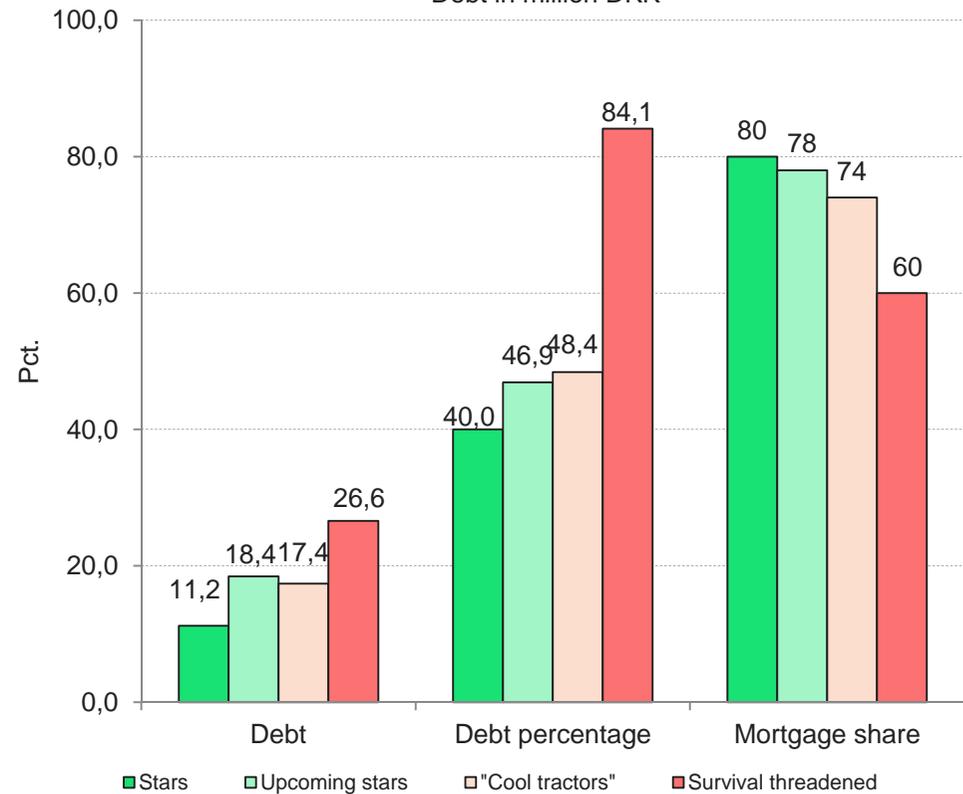
Debts, Debt percentage and Mortgage Share – Pigs

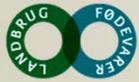
Debt in Million DKK



Debts, debt percentage and Mortgage Share – Crops

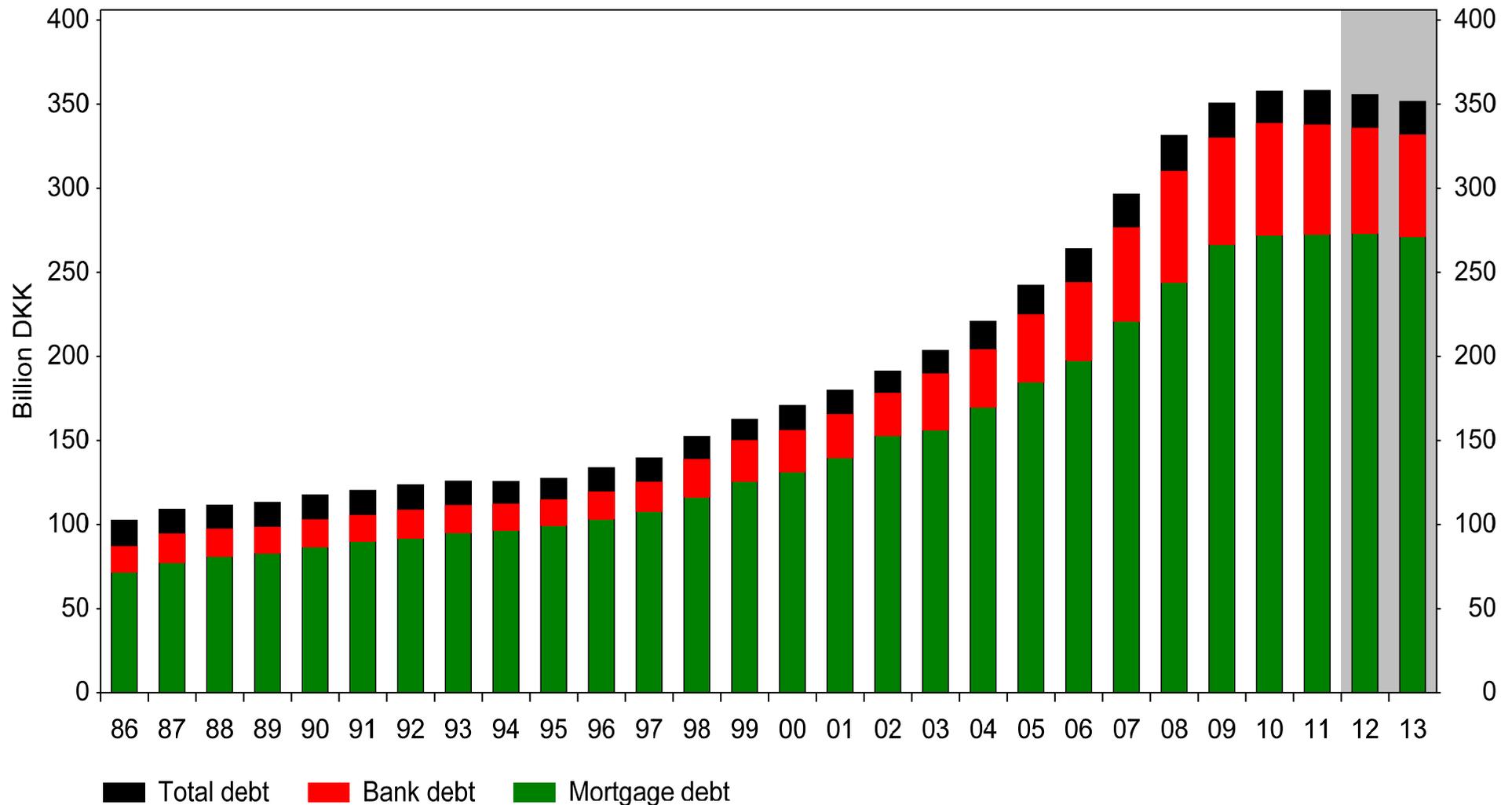
Debt in million DKK

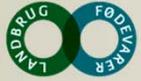




Debt is a huge challenge for the Danish agriculture

Danish agricultural debt

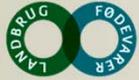




Debt has peaked

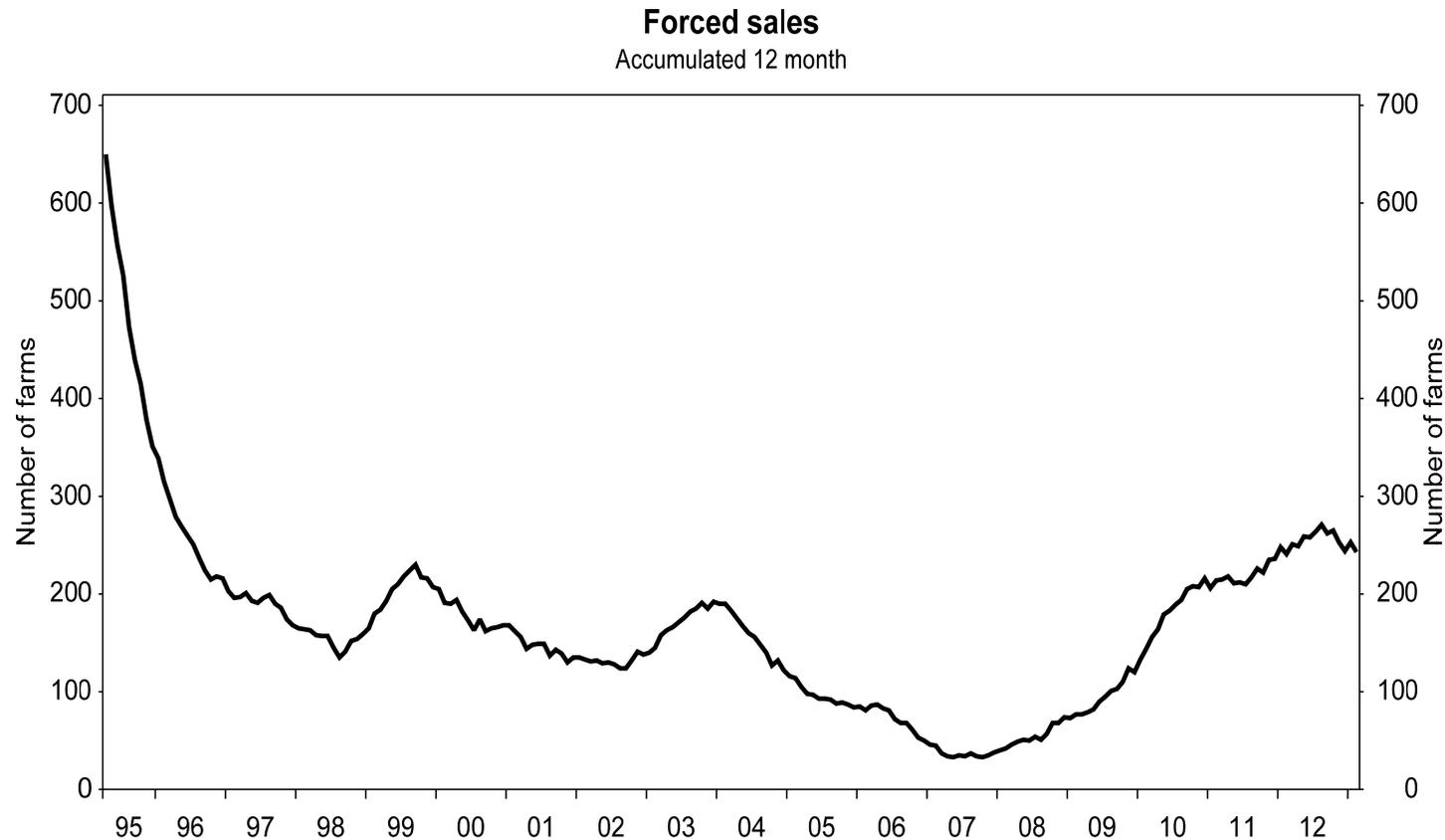
The debt of full-time farms is stagnating:

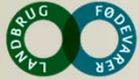
- Profits have improved
- The number of real estate deals is low
- There are relatively more sales of heavily mortgaged farms
- Investments are low levelled
- Real Estate prices have decreased
- Financial institutions take losses



Compulsory Sales of Farms

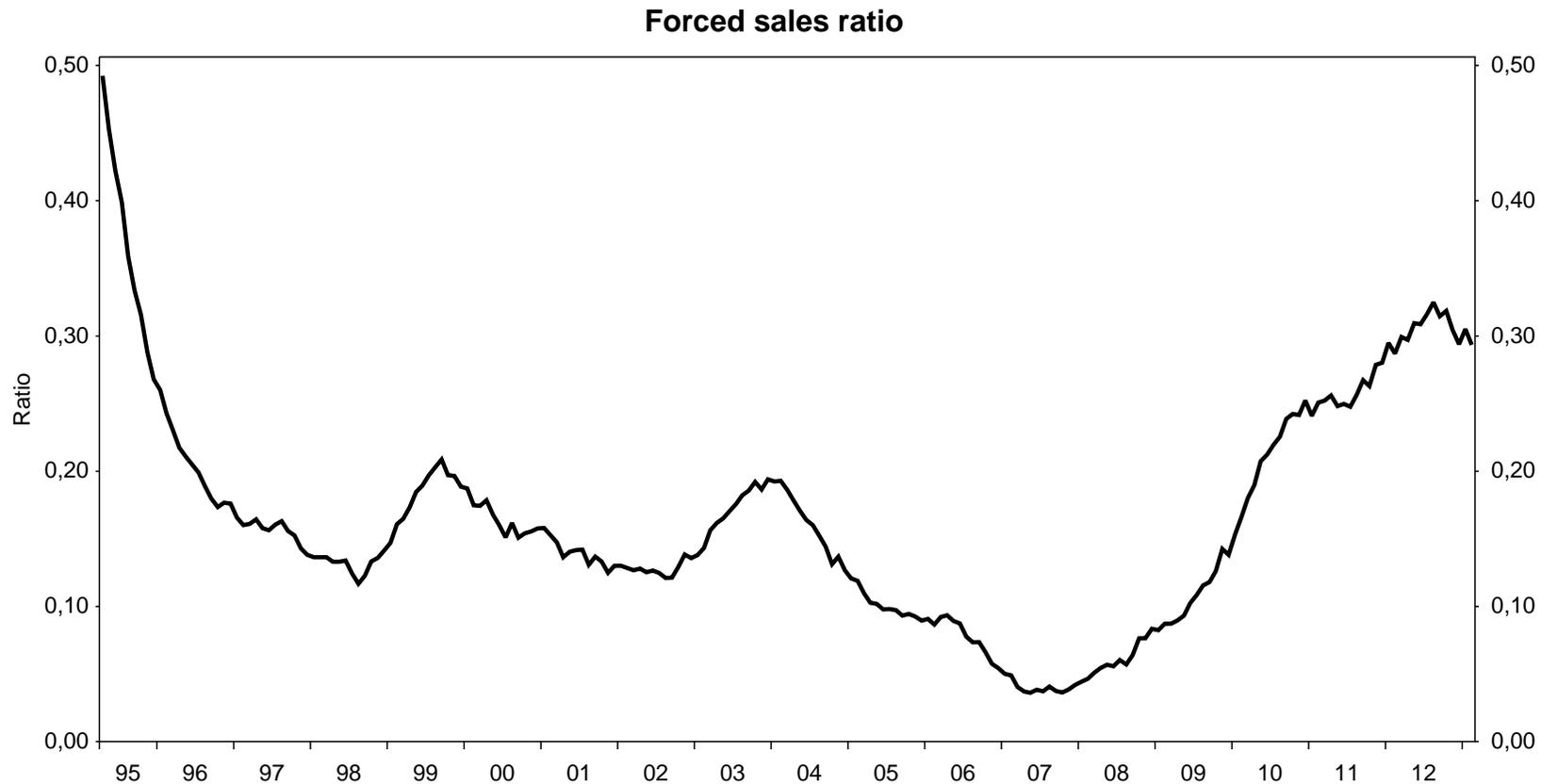
- The number of forced sales has temporarily peaked
 - Improved agricultural economy and a restrained financial sector
- However, still accumulated needs for transfer of ownership





Compulsory Sales of Farms

- The "Bankruptcy Rate" measures the number of forced sales per year compared to number of farms
- 0.3 percent of all farms are currently subject to forced sale per year



↑ In which direction should real estate prices go?

Higher prices:

- Income increases
- Value creation for the efficient farmers is really good
- Low interest rates



Lower prices:

- Supply of farms for sale overshoot demand
- Low global growth and inflation
- Legislation
- Tight credit conditions
- Modest equity
- Reduced EU-subsidy

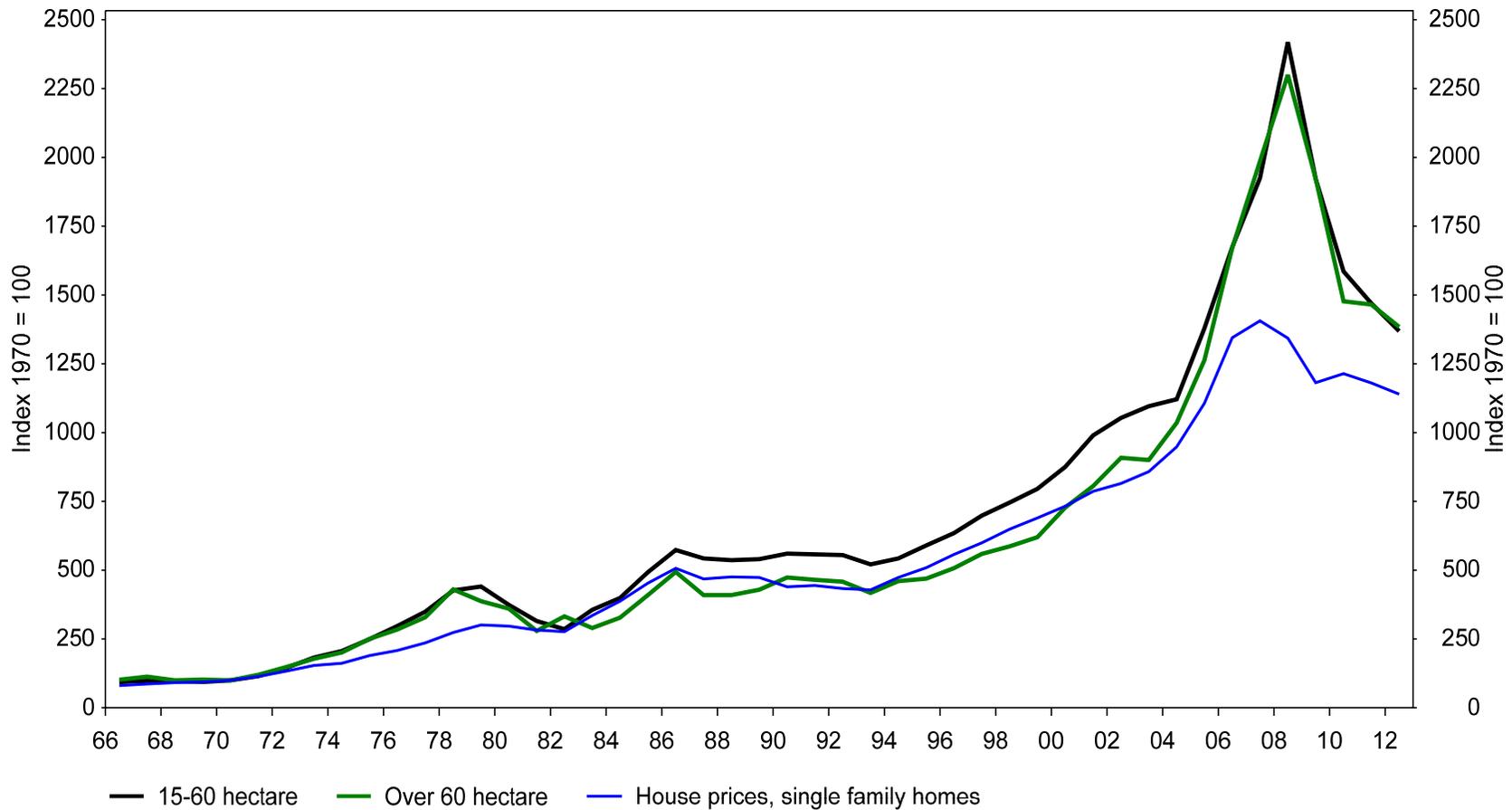


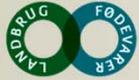
- ### Real Estate Prices:
- New ways of capital
 - LFB
 - Corporate Bonds
 - Institutional capital
 - New scheme for young farmers
 - NLK (water and buffer zone schemes, competitiveness etc)
 - Psychology and expectations

Farm Prices

- Farm Prices have experienced serious decreases since 2008

Farm and house prices



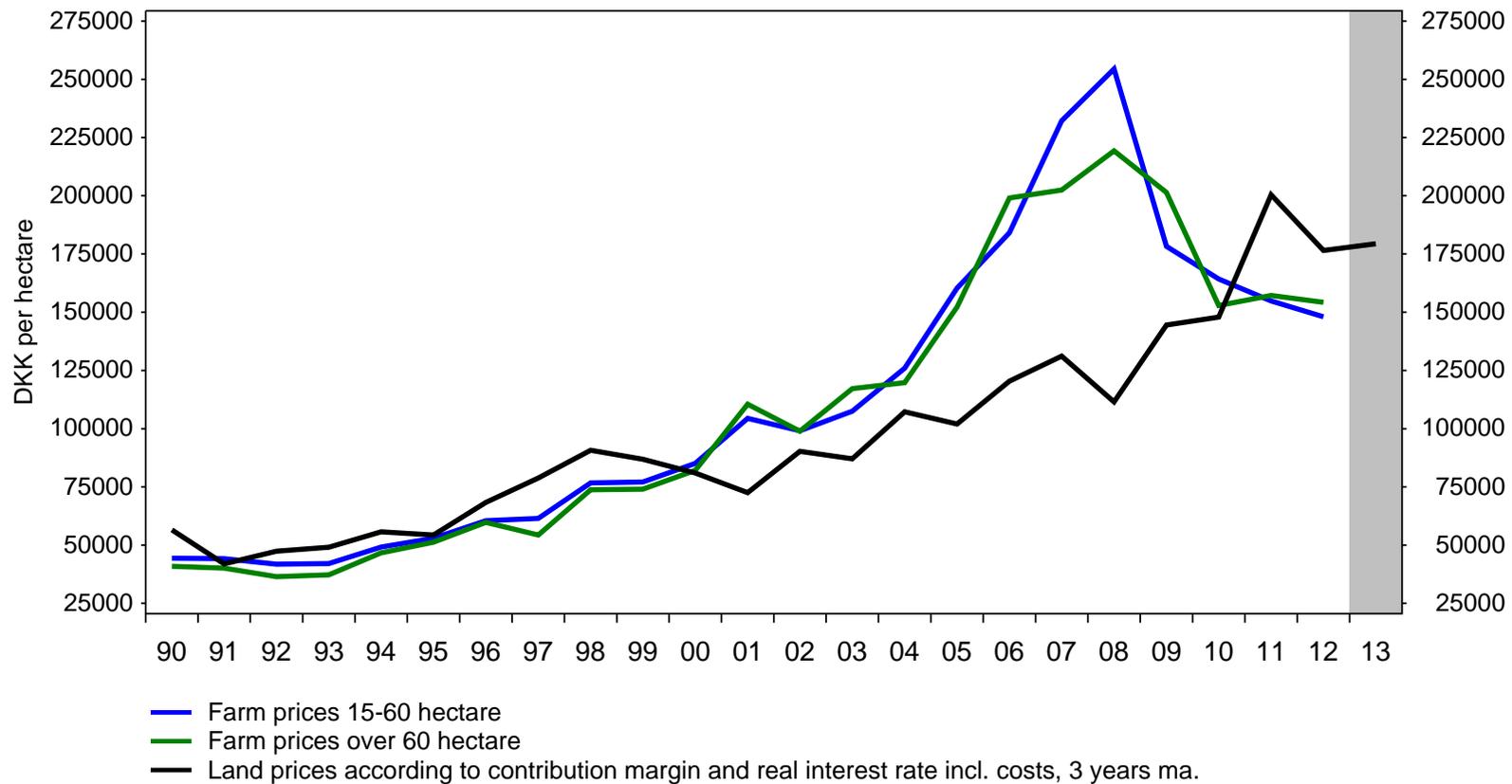


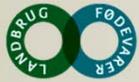
Farm Prices

- We have probably reached the bottom of farm prices by now!
- Farm prices are now lower than production values

Farm prices

Market prices and production value





Agricultural Reforms

European Union:

- 3 main elements in CAP2020:
 - 20 pct. reduction of subsidy per hectare – totalling 1.4 Billion DKK
 - Possibility of moving 15 pct. of the remaining payment between subsidy per hectare and rural development subsidy– up to DKK 1 Billion
 - National equalization of payment, in order that all hectares obtain the same amount of subsidy (allocation of "cattle payment")

Denmark:

- The Danish Commission on Environment and Agriculture
 - Selective environmental initiatives instead of general initiatives
 - Regulation based on emissions/environmental load instead of regulation based on production
 - Various legal and financial reliefs