

Newsletter on the Common Agricultural Policy

No. 7

June 1971

REPORT ON THE STATE OF EUROPEAN AGRICULTURE

	Page:
Introduction	1
1. General economic situation	2
2. Effects of general economic trends on agriculture	3
(a) Agricultural wages	4
(b) Cost of production inputs	4
(c) Producer prices	4
3. Agricultural output	5
4. Productivity and farm incomes	6
(a) Productivity	6
(b) Farm incomes	8
Appendices:	
Table A 1: Per capita gross product (1967-71)	9
Table A 2: Indices of agricultural wages, cost of production inputs and producer prices (1967-70)	10

Published by the Division for Agricultural Information in collaboration with the Directorate-General for Agriculture of the European Communities Commission – 200, rue de la Loi, 1040 Bruxelles

485/X/71-E

Errata

2. In the "Newsletter on the Common Agricultural Policy" nr. 7 of June 1971,
in note (1) on page 6 read :
- | | | |
|------|---|-------------------|
| 1964 | ∅ | 1963, 1964, 1965 |
| 1968 | ∅ | 1967, 1968, 1969. |

REPORT ON THE STATE OF AGRICULTURE

Introduction

The Commission of the European Communities has just submitted to the Council proposals for fixing farm prices for the 1972/73 marketing year and granting income subsidies to certain categories of farmers. Price proposals from the Commission must be accompanied by a report on the state of agriculture containing data which should make it possible for the Council to assess the situation in agriculture in the Community.

Since the 1970 report was not submitted to the Council until February 1971, the 1971 report is not in fact a new, comprehensive annual report but rather an up-to-date version of the earlier one. It differs from the previous report both in form and content.

The 1971 report comprises the following sections:

- A. General economic factors affecting the state of agriculture.
- B. Structural aspects of agricultural holdings.
This section contains some of the results of the survey carried out by the Statistical Office of the European Communities towards the end of 1966 and early 1967.¹
- C. Market trends for various commodities, including flax and hemp and fishery products.
- D. Consolidated supply balance sheets (meat, and oils and fats).

The text of the report confines itself to describing the situation during the 1969/70 marketing year and outlining the prospects for 1970/71. The tables accompanying the four sections have been rearranged in an annex with cross-references to corresponding tables in the 1970 report.

Unfortunately, the preliminary comments in previous years' reports about the comparability of statistics hold good for 1971 too. The Commission deplores the fact that progress in coordinating and harmonizing national statistics at Community level has been far too slow. To bridge the gaps in official statistics, the Commission was forced either to draw on other sources of information or to make its own estimates.

.../...

¹ cf. "Newsletter on the Common Agricultural Policy", No. 4/1971.

The report for 1971 was completed during May 1971.

The main purpose of this Newsletter is to discuss the section of the report dealing with general economic factors affecting the state of agriculture.

1. General economic situation¹

Since agriculture is more and more becoming an integral part of the economy, economic trends, particularly with regard to growth, prices and wages, are exercising an increasing influence on agriculture and on the adjustments which should be made in this sector.

Economic growth is reflected in an increase in per capita GNP. In 1970 this increased by an estimated 4.6% for the Community as a whole. The corresponding figure for 1969 was 6.3%, which means that economic growth has slowed down to some extent.

This slackening was most marked in Germany (3.7% as compared with 6.9% in 1969) and in Luxembourg (2.4% as compared with 6.4% in 1969); in France, the growth rate was 5.1% as compared with 7.1% in 1969, in Italy 4.4% as compared with 5.1% in 1969, in Belgium 5.2% as compared with 6.2% in 1969 and in the Netherlands 4.5% as compared with 3.9% in 1969. The highest growth rate in 1970 was achieved by Belgium (5.2%) with France in second place (5.1%). Forecasts for 1971 indicate that the slackening noted in 1969 will continue into 1971; it is expected that per capita GNP in the Community will increase by about 3.3% in terms of volume. For the period 1970-1975, however, it is estimated that the annual rate could be in the region of 4.5%.²

This slower rate of economic growth was accompanied by a more marked tendency towards inflation. In response to the strong pressure of demand, economic strain - already very serious in 1969 - became even more pronounced, causing prices and costs to rise more rapidly. In contrast to developments over the years 1965-1969, there was very little difference in the rates at which prices rose in the six Community countries in 1970, implying that inflationary trends in the Member States had become generalized. For the Community as a whole the implicit price index rose by 6.2% in 1970 as compared with 4.9% in 1969.

.../...

¹ See Table A 1.

² Outlook for 1975. Economic policy trends and problems in the Community. (Study Group on Medium-term Economic Forecasts, Commission of the European Communities.) March 1971.

Although the implicit price index in Germany had been rising at one of the lowest rates in the Community over the last few years, Germany had one of the highest rates in 1970 (7.3%). During the same year, the implicit price index rose by 6.8% in Luxembourg, 6.3% in Italy, 5.7% in France, 4.8% in the Netherlands and 4.2% in Belgium.

In addition to the pressure of demand on general price levels, there was a sharp increase in production costs. In 1970, earnings of industrial workers increased by 19% in Italy, 16.5% in Germany, 12.5% in the Netherlands, 11% in Belgium, and 10% in France. There had already been a very marked increase in industrial earnings over the previous three years, the figures being 39.4% for France, 38.5% for Germany, 37.1% for the Netherlands, 35.7% for Italy, and 26.1% for Belgium. These high rates far outstripped increases in productivity in each of these countries and consequently contributed to a more rapid rise in the general level of prices during 1970. They will certainly continue to exert pressure on prices in 1971. The implicit price index can therefore be expected to rise by about 5.3% in 1971.

The increase in per capita gross product in terms of volume combined with inflationary trends meant that per capita gross product rose by 11.1% in terms of value in 1970. The corresponding figure for 1971 could be in the region of 8.8%.

2. Effects of general economic trends on agriculture¹

The general economic trends described above were bound to have considerable repercussions on agriculture.

In the first place, continued economic growth, amounting to some 4.6% in 1970 in real terms, is forcing agriculture to make a determined effort to improve its structure to enable it, by stepping-up productivity per worker, to keep pace with this rate of growth so that the existing gap between farm and non-farm incomes does not widen.

In the second place inflationary trends in the economy as a whole put additional pressure on the trend towards higher wages in agriculture with the result that the cost of production inputs increased.

.../...

¹See Table A 2.

(a) Agricultural wages

As a general rule agricultural wages tend to follow increases in other sectors of the economy after a certain time-lag. A marked increase in industrial earnings ranging from 10 to 19% in 1970 was matched by an appreciable increase in agricultural wages. In Italy the rate of increase amounted to about 15% in 1970. In Belgium the increase appears to have been fairly moderate (about 5%). In Germany, on the other hand, agricultural wages in 1969/70 rose by more than 11% over the previous period. No statistics are available for the other three countries as yet.

(b) Cost of production inputs

At the same time, the cost of agricultural inputs was influenced by the general trend of prices. Where available, national statistics seem to indicate a definite tendency towards a more rapid increase in the cost of inputs. Thus, after a long period of relative stability, the average price index in Germany in 1969/70 increased by 3.3% over the previous year. This trend was sustained because a comparison of the index for the last quarter of 1970 and the last quarter of 1969 shows that there was an increase of more than 4%. In France, the price index for inputs was approximately 5.1% above the 1969 level in 1970. During the same period this index rose by 3.4% in Belgium. Between the last quarter of 1969 and the last quarter of 1970, the increase in France was as much as 6.3% as compared to 2.8% in Belgium.

This upward trend appears to be mainly attributable to the increased cost of machinery. Fertilizer prices, by contrast, continued to be fairly stable in 1970. This was also true of feed prices in Germany. In France, however, in the Netherlands, and to a lesser extent in Belgium, feed prices showed a definite upward movement.

(c) Producer prices

Prices for agricultural products underwent considerable changes during 1970, though these are concealed by a comparison of annual indices.

The general farm price indices for 1970 (1969/70 for Germany) show an increase on the previous year (4.9% for Germany, 5.9% for France, and 0.7% for the Netherlands). Apart from Italy and Luxembourg, for which no 1970 figures are available, Belgium is the only country in which the general index fell slightly (by 0.4%).

.../...

The general tendency for annual farm price indices to rise was also in evidence for crops, the rates of increase being 15.0% in the case of Germany,¹ 9.4% in the case of France, 9.3% for the Netherlands, and 15.0% for Belgium. As far as livestock are concerned, the annual farm price index in 1970 increased by 1.8%¹ in Germany, and by 4.4% in France as compared with 1969 but fell by 1.7% in the Netherlands and by 3.9% in Belgium.

These figures do not give an accurate picture of developments during the last quarter of 1970. Apart from Italy and Luxembourg (for which no monthly farm price indices are available) there was a sharp drop in the general producer price index and in the indices for crop and livestock products.

This development was particularly marked in Germany where the general farm price index during the last quarter of 1970 was more than 8% below the corresponding figure for the last quarter of 1969. In the same period, the Netherlands and Belgian indices fell by 5.0% and 8.4%, respectively. In France, on the other hand, the general farm price index remained more or less steady during this period.

Generally speaking the fall in farm prices during the second half of 1970 was much more marked for crop products as a whole than for livestock products as a whole. The price index for crop products fell between the last quarter of 1969 and the last quarter of 1970 by 11.6% in Germany, 9.0% in the Netherlands, 7.6% in Belgium, and 2.3% in France. The corresponding reductions for livestock products were 7.2% in Germany, 4.0% in the Netherlands, and 5.2% in Belgium, while the French index went up by 2.0%.

3. Agricultural output

The agricultural accounts published by the Statistical Office of the European Communities show that the volume of final production increased between "1964" and "1968"² at an annual rate which varied between 3.9% and 4.5% depending on the Member State concerned. Luxembourg was the only country to show an increase of as little as 1.1%.

During this period, the annual growth rate for the volume of crop production in Germany and France (4.5% and 3.6% respectively) was higher than the growth rate of livestock production (3.2% in both countries). In the Netherlands for the same period crop and livestock

.../...

¹ 1969/70.

² "1964" = Ø 1963, 1964, 1965.

"1968" = Ø 1967, 1968, 1969.

production increased at the same rate (4.5%). In Italy, Belgium and Luxembourg however the annual rates of increase for crop production (+2.9%, +3.2%, and -0.9%) were appreciably lower than the annual rates for livestock production (5.5%, 4.7%, and 1.8%).

The agricultural accounts for 1969 confirm the trend towards a slower rate of increase in the volume of final agricultural production in the Community already observed in 1968. Final production in that year was only 0.3% above the level of the previous year. It should be noted that in France, Germany and Luxembourg there was an appreciable decline in crop production compared with 1968 (5.7%, 4.4%, and 1.7% respectively). There was also a decline in livestock production in France and Luxembourg (1.8% and 1.3% respectively).

Following a considerable increase in intermediate consumption, in terms of volume, agriculture's contribution to GNP at market prices in the Community as a whole was 2.4% lower than in 1969, Italy and the Netherlands being the only countries to show an increase (2.6% and 3.5% respectively).

The decline in agriculture's contribution to GNP was greatest in France (6.0%), followed by Germany (5.4%), Luxembourg (4.1%), and Belgium (1.3%).

Statistics available for 1970 show that production of a number of important products was down on 1969. This was the case with cereals (down by approximately 5%, although maize and durum wheat production increased making an exception to the general rule), rice (down by 3.4%), sugarbeet (down by 3.1%) and milk products (down by 1.5%).

This was mainly due to lower yields (rice), combined with a reduction in the area sown (cereals and sugar) because of bad weather. The drop in milk production was the result of two opposing trends: yields per dairy cow continued to increase (+0.7%), but fewer dairy cows were being kept (-1.8%). Production of a number of other products did, however, increase in 1970 - considerably in some cases. Production of oilseeds went up by 11.9% (largely because of an increase in the area under colza), pigmeat by 5.5%, poultry by 7.5%, shell eggs by 5%, fruit by 1% and vegetables by 3%.

4. Productivity and farm incomes

(a) Productivity

Owing to weather conditions, Community yields per hectare for

.../...

various products were lower in 1970 than in 1969. The reduction was in the region of 5% for all cereals (-15% for barley but +3% for maize) and 4% for sugarbeet. Yields for all oilseeds went up by about 2%.

There was only a slight increase in yield per dairy cow in the Community (0.7%). It is worth noting however that, in the Netherlands, where average yields per dairy cow represented 126% of the Community average in 1969, the yield per dairy cow increased by a further 3% during 1970.

Since no statistics are at present available for gross value added and agricultural employment in 1970, it is impossible to estimate the effects of lower yields per hectare on the productivity of labour. It seems reasonable to assume that labour productivity will have been adversely affected by the slower growth of agricultural production referred to earlier. Between "1964" and "1968",¹ labour productivity in agriculture, calculated on the basis of statistics for gross value added² and agricultural employment increased at an annual average rate of 8.2% in Germany, 8.0% in the Netherlands, 7.8% in Italy, 7.5% in Belgium, 6.1% in France and 2.5% in Luxembourg.

As part of their research into the outlook for overall development in the Community in 1975, a study group on medium-term economic forecasts³ made projections for the productivity of labour⁴ in agriculture and outside agriculture.

This research has shown that the average annual increase in all the Member States would remain higher in agriculture than in other sectors of the economy. This average annual increase is put at 7.3% for Belgium, 6.4% for France, 5.6% for Italy, 5.3% for the Netherlands, 5.0% for Germany and 4.6% for Luxembourg. This will be due to an increase in agriculture's contribution to GNP (+2.4% in Italy, +2% in France and in the Netherlands, and +0.9% in Germany) with an increasingly smaller labour force, which implies the use of more rational production methods. The study group expects that the agricultural population will continue to decline at a very high annual rate: 4.1% in France, 5.4% in Belgium, 3.9% in Germany, 3.4% in Luxembourg, 3.3% in the Netherlands, and 3.0% in Italy.

.../...

¹"1964" = \emptyset 1963, 1964, 1965
"1968" = \emptyset 1967, 1968, 1969.

²Final production less intermediate consumption.

³Outlook for 1975. Economic policy trends and problems in the Community (Study Group on Medium-term Economic Forecasts, Commission of the European Communities), March 1971.

⁴Gross value added per person employed.

(b) Farm incomes

Since no complete and usable statistics are yet available from the information network for farm accounts, information from purely national sources must be taken into account for the trend of farm incomes in the Community in the light of increased productivity on the one hand and the terms of trade on the other. There can be no question therefore of comparing farm incomes in the six Member States. All that can be done is to draw conclusions about the overall trend in each country.

A study carried out by the German authorities¹ to establish the trend of income per worker on selected farms indicates that, in absolute terms, this fell by approximately 1.3% during 1970/71 as compared to 1969/70. In 1969/70 there had been an 11.3% increase on 1968/69.

In Luxembourg² too, results for 1970 were considerably less favourable than in 1969. There was a reduction of 1.3% in income₃ per farm although this had increased by about 7% in 1969. In France,³ gross proceeds per farm were 3.2% higher in real terms in 1970 than in 1969. The corresponding figure for 1969 had been 2.2%. These percentages correspond to increases of 8.8% and 10.0% respectively in absolute terms.

In Belgium,⁴ earned income rose by 9.8% during 1969/70 as compared with 1968/69, this increase being largely due to a jump in receipts from pig-farming.

The Commission has no information for the other Member States apart from that already presented in the 1970 report.

¹ Agrarbericht 1971. Federal Government, Bonn, 12 February 1971.

² Report on agriculture in 1969/70, presented by the Luxembourg Minister for Agriculture and Viticulture, 15 December 1970.

³ Agricultural Accounts 1970; Commission des comptes de l'agriculture de la Nation.

⁴ Trends in Agriculture and Viticulture (1969-1970)
Report submitted by the Belgian Government, December 1970.

Table A 1 - Per capita gross product
(1967-71)

Member States	1967			1968			1969			1970 ¹			1971 ²		
	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value	Volume	Price	Value
Germany	0.7	1.1	0.4	6.6	1.5	8.3	6.9	3.6	10.7	3.7	7.3	11.3	2.9	5.7	8.8
France	3.9	2.8	6.8	4.1	4.5	8.8	7.1	7.0	14.6	5.1	5.7	11.1	4.6	4.9	9.7
Italy	6.1	3.0	9.2	5.4	1.5	7.0	5.1	4.2	9.5	4.4	6.3	10.9	3.1	4.6	7.8
Netherlands	4.6	4.0	8.8	5.6	3.8	9.6	3.9	6.0	10.1	4.5	4.8	9.4	2.8	6.7	9.7
Belgium	3.2	3.0	6.3	3.1	2.5	5.7	6.2	3.6	11.0	5.2	4.2	9.8	3.6	6.3	10.1
Luxembourg	0.1	1.9	2.0	4.9	3.8	8.9	6.4	7.5	14.4	3.2	6.8	11.5	1.0	4.0	5.0
EEC ³	2.5	2.4	5.0	5.3	2.7	8.1	6.3	4.9	11.2	4.6	6.2	11.1	3.3	5.3	8.8

¹ Estimates.

² Forecasts.

³ Based on Community totals of the aggregates of the individual member countries at official exchange rates 1968 for 1967-69 and official exchange rates 1970 for 1970 and 1971.

Source: For 1967-68: National Accounts 1970

For 1969-70: Economic Situation in the Community, No. 1/1971.

Table A 2¹ - Indices of agricultural wages, cost of production inputs and producer prices
(1967-70)

Year	Germany ^{2,4}			France			Italy			Netherlands			Belgium	
	Agricul- tural wages	Cost of produc- tion inputs	Producer prices	Agricul- tural wages	Cost of produc- tion inputs									
1967	102.0	100.2	93.2	107.0	100.7	100.5	108.0	102.3	103.5	109.7	100.0	98.8	105.8	101.9
1968	106.5	101.5	98.6	113.5	104.0	101.3	112.9	106.9	98.4	118.1	100.9	98.3	112.4	104.6
1969	118.7	104.8	103.4	.	108.8	108.0	122.8	109.4	108.6	131.3	102.7	106.3	119.8	105.7
1970	115.5	114.4	141.5	107.0	125.0 ³	109.3
Last quar- ter 1969	.	103.6	103.6	.	111.3	114.1	105.1	.	106.5
Last quar- ter 1970 ³	.	108.0	95.1	.	118.1	114.0	99.9	.	109.5

¹ Tables 6, 8 and 10 of the 1970 report.

² 1967 = 1967/68, 1968 = 1968/69 and so on.

³ Estimates.

⁴ Including value added tax.

Source: Figures produced by the Directorate-General for Agriculture of the Commission of the European Commur. and based on national statistics.