

FORECAST OF AGRICULTURAL ACCOUNTS FOR 1994

1994: clear rise in agricultural income

- Rise in agricultural income in most of the Member States and by +5.7% in the European Union in 1994
- Another reduction in the prices of agricultural products for which the market organizations have been reformed (cereals and cattle) and upgrading of direct compensatory payments
- More favourable economic climate in the fruit, vegetable and wine sectors
- New increase in the overall amount of subsidies for the agricultural branch. It must be remembered that only the aid actually paid in 1994 has been taken into account in estimating agricultural income (viz. around 83% of aid connected with the CAP reform payable for the 1994/95 "marketing" year).

Overview of results

According to the provisional agricultural accounts, agricultural income in the European Union¹, measured by net value added at factor cost per annual work unit (AWU), is likely to have grown strongly in real terms by +5.7% in 1994. This increase in agricultural income follows the slight rise recorded in 1993 (revised figure). The trend is found in the majority of the Member States since there was a fall only in Luxembourg and Italy. The increase is even likely to exceed +10% in Greece, France, Spain and Portugal.

¹ The provisional agricultural accounts consider Germany in its current territorial situation. The results obtained by aggregation for the European Union are thus for the European Union as a whole.

These results arise from the interplay of the following trends:

- a slight fall (-0.5%) in the volume of both crop and animal production, particularly for cattle (-2.3%), pigs (-2.0%), cereals (-1.3%) and milk (-0.2%);
- a stabilization of the real prices of final agricultural production (+0.1%) for the first time since 1989, mainly due to a rise of +2.5% in the real prices of crop production (particularly of potatoes, fresh vegetables, fresh fruit and wine), whereas the real prices of animal production fell by -2.2%;
- a decline in the real value of intermediate consumption (-1.0%)
- a clear rise in subsidies by +10.3% in real terms, due in the main to the upgrading of compensatory payments introduced as part of the CAP reform;
- a reduction in labour input volume of -2.5% (which represents a significant slow down compared with 1993, -5.4%).

These developments can be explained in the light of the following factors: (1) the **reform of the Common Agricultural Policy**, now in its second year of application and resulting, for certain types of production (arable crops and cattle) in a lowering of price support, in measures designed to control production and the granting of new direct compensatory payments together with the upgrading of existing types of aid; (2) a **phenomenon of "catching up" (or stabilization) of real prices** after the strong falls recorded in 1993 (and in 1992 for some productions) following structural (pigs and wine) or economic (in particular fresh fruit, fresh vegetables and potatoes) imbalances.

The development of the income indicators

The forecasts for agricultural income for 1994 are based on the **initial estimates** which the statistical services of the Member States sent to Eurostat between 24 November and 6 December 1994. The **provisional** character of this information should be emphasized and there may be major revisions during 1995.

Two indicators² allow the development in agricultural income to be measured.

Net value added in agriculture at factor cost, in real terms and by total annual work unit (self-employed and employees) (**indicator 1**) rose by +5.7% in the European Union (EUR 12). This follows the slight increase of +0.5% in 1993³ (revised figure, see Table 1). Agricultural income would thus go above the high level achieved in 1989 by more than 3%, having stabilized for four years.

Net income from agricultural activity of the total labour input (net value added at factor cost less rents and interest payments), in real terms and by total AWU (**indicator 2**) increased by +7.5% for EUR 12.

² The third indicator of agricultural income normally used, i.e. the **net income from agricultural activity of the family labour input** (net income of total agricultural activity less compensation of employees) in real terms and by family AWU (holders and members of their family working on the holding) has not been estimated. The calculation of compensation of employees was not possible in Germany on a basis comparable to that of the other Member States in view of the specific structure of agricultural holdings in the five new Länder.

³ The initial estimates which foresaw a fall of -1.2% in agricultural income in the European Union in 1993, but have been revised upward for Germany, Spain, France and Italy.

The reform of the Common Agricultural Policy and the system of support for agriculture

The reform of the CAP mainly concerns arable crops and cattle. It came into force in the 1993/94 marketing year (apart from oilseeds, for which the new common organization of the market took effect in the 1992/93 marketing year) having been decided on in the Spring of 1992.

The main objective of the reform of the CAP is to adjust agricultural production to internal and external demand in order to achieve better market equilibrium as well as improved competitiveness for Community agriculture.

The main measures adopted under this reform centre on the three following elements:

- (i) a lowering of the prices of agricultural products: almost -10% for intervention prices for cereals in 1994/95, after a fall of nearly -25% in 1993/94; abolition of guaranteed prices for protein plants and oilseeds; a fall of -5% in the intervention prices for cattle in 1994/95 (after -5% in 1993/94);
- (ii) measures designed to control production (in particular, the set-aside of land);
- (iii) granting of compensatory payments to producers (new direct compensatory payments and upgrading of certain types of existing aid), the amount of which increased considerably in 1994/95.

The reform of the CAP is characterized essentially by the transition from a support policy via prices to direct aid to producers. This new orientation of the CAP has brought about some major changes in the structure and development of agricultural accounts; the fall in prices and production volumes is reflected in a clear decline in final production and gross value added at market prices. Nevertheless, the large amounts spent in the form of direct compensatory payments and in reinforcing certain existing types of aid have led to a high increase in subsidies. This significant rise in subsidies reflects a modification in the support system for agriculture, with a fall in the amounts paid for market support (prices and export restitutions) and an increase in direct compensatory payments to producers. In view of the new importance of the item "operating subsidies" in the composition of agricultural income, it should be recognised that the bookkeeping of this item is carried out according to the criterion of actual payment and not payment due. Thus, only the operating subsidies actually paid during the 1994 calendar year are taken into account in calculating agricultural income in that year. It is estimated that almost 83% of the total amount of aid due under the CAP reform for the 1994/95 "marketing year" was paid in 1994 and therefore taken into account in forecasting agricultural income for 1994. However, certain subsidies for the 1993/94 marketing year which were not paid to producers until 1994 have been included in the calculation of agricultural income for 1994.

Development in final agricultural production in the Union as a whole

The following remarks are the first attempts at analysing the development of agricultural income in 1994.

Expressed in nominal terms, the value of **total final agricultural production** increased by +2.7% in 1994 (breaking down into +3.3% in nominal prices and -0.5% in production volume) owing to a clear rise in the value of **crop production** (+5.3%) and a stabilization in the value of **animal production** (+0.1%). The slight fall in the volume of agricultural production follows the major fall recorded in 1993 (-2.5%), the first significant reduction in the volume of agricultural production

since 1981. Taking account of inflation,⁴ the **real value of final production** has in fact fallen slightly by -0.4% in spite of the **stabilization of real prices** (+0.1%).

Crop production: clear rise in real prices and slight fall in harvests

The nominal value of crop production rose on average by +5.3% owing to the fall in the volume of production (-0.5%), which was more than offset by the major upswing in nominal prices (+5.8%). In real terms, the rise is less pronounced (+1.9%), under the combined effect of a lower volume and an increase in real prices of +2.5% on average. The real value of crop production fell in 1994 only in three Member States (Denmark, Luxembourg and Italy). It went up in all the others, particularly in five: in Greece and Ireland, under the effect of production volumes, in the Netherlands and Spain because of the considerable increase in real prices and in Portugal under the combined effect of these two factors.

Examination of the main groups of crop products reveals another fall in average harvests over 1993 for potatoes (-11.2%), sugar beet (-7.8%), olive oil (-3.9%), cereals (-1.3%), grape must and wine (-0.9%) and fresh vegetables (-0.7%). This average trend is nevertheless based on very different estimates in the Member States; for example, the production of cereals decreased in seven countries (from -17.4% in Spain to -3.1% in France and -1.0% in Belgium) but went up in the five others (from +2.1% in Denmark to +22.3% in Greece). Only the production of oilseeds (+23.4%), fresh fruit (+1.8%) and flowers (+0.9%) increased in volume terms. This average fall in production volume follows the major decline in harvests in 1993 (-4.8%). The rise in real prices of crop products more than offset the fall in volume since the real value of most types of crop production went up, with the exception of cereals (-9.1%) and sugar beet (-9.3%). The price increases result to a great extent from a phenomenon of "catching up" after the severe falls in 1993 (and in 1992 for certain crops) owing to structural or economic imbalances. This applies to potatoes (+59.0%), olive oil (+9.6%), wine (+6.2%), fresh fruit (+5.7%) and fresh vegetables (+3.6%). The real prices of cereals (-7.9%) and oilseeds (-9.4%) fell owing to the reform of the common organization of the market; the intervention prices for cereals fell by about 10% in 1994/1995 and oilseeds no longer benefit from guaranteed prices. The impact of these changes is seen in most countries but to varying degrees.

Animal production: general stability in production volumes and decline in real prices

The nominal value of animal production remained stable (+0.1%) owing to the standstill in nominal prices (+0.7%) and the volume of production (-0.5%, the figures varying with product), these trends cancelling each other out. In real terms, there was a decline in the value of animal production by -2.7% owing to the fall in real prices (-2.2%). The real value of animal production declined in most of the Member States with the exception of two (Greece and Spain) where it rose. This reduction was particularly apparent in Ireland, Luxembourg and Germany (the strong decline of -6.9% being mainly due to a major fall in the production of cattle in volume terms and one of the steepest declines in average real prices).

The year 1993 was marked by the persistent crisis in the pig sector owing to a structural imbalance in the Community market. Despite the fact that supply was still plentiful, this sector seems to have stabilized somewhat with a fall in production volumes of -2.0% on average and real prices holding up better (-0.1%) after collapsing last year. These average trends are found in most of the Member States with the exception of Spain and Germany, where production volume is likely to have fallen

⁴ See methodological note 3.

by almost -5%, and Italy and the United Kingdom where real prices may have fallen by almost -7%. After a reduction of -5.2% in 1993, the volume of cattle production was reduced again by -2.3%. However, this trend was very variable, from -20% in Portugal and -12.3% in Germany to an increase of +5.6% in the United Kingdom. Thanks to a reduction in supply and despite the new fall in institutional prices of -5% following the CAP reform, the real prices of cattle fell by -2.8%.

Finally, it is forecast that milk production, the prime agricultural product at European Union level, will have stayed relatively stable in 1994 (-0.2%), the variations in the Member States being similar (though there was a more pronounced fall in Spain). Milk quotas were maintained for 1994 at their 1993 levels in most of the Member States. Benefiting from the stabilisation of production, prices went up slightly by +0.8% in nominal terms but fell in real terms by -2.0% on average (with considerable differences between Member States, from +13.0% in Greece to -7.6% in Luxembourg).

Development of the other components of agricultural income in the Union

Owing to a slight increase in volumes used (+0.6%) and nominal prices (+0.7%), the nominal value of **intermediate consumption** rose by +1.3%. This trend would put an end to the deterioration in the "price scissors" in Community agriculture which has been recorded for the last 4 years, there being an increase in 1994 of +2.6%. On the other hand, the apparent productivity of intermediate consumption fell once again (-1.2%). The rise in prices of intermediate consumption was less than inflation and their value fell by -1.5% in real terms. Intermediate consumption in respect of animal feedingstuffs went up in volume (+2.0%), probably connected with the fall in the prices of raw materials of agricultural origin. Consumption of fertilizer declined considerably once again in volume terms in most of the Member States, with the notable and sole exception of Spain; the major upswing here (+20.0%) brought about a certain stabilization in the average consumption at Union level.

The trends in intermediate consumption and final agricultural production led to a significant rise in **gross value added at market prices** of +3.7% in nominal terms (or +0.4% in real terms). The clear rise in **subsidies**⁵, which went up by +13.8% for EUR 12 in nominal terms (+10.3% in real terms), mainly reflects the measures to compensate for reduced price and market support under the reform of the CAP. The increases varied from +9.8% in Luxembourg to +67.9% in Portugal.⁶ However, three Member States appear to have seen their subsidies fall in real terms; these being the United Kingdom (-0.1%), Greece (-3.6%) and Italy (-16.7%). One should remember that it is estimated that almost 83% of the total amount of new or upgraded aid under CAP reform and payable for the 1994/95 year has been taken into account in calculating agricultural income in 1994 (for bookkeeping reasons, only the subsidies actually paid in that year are taken into account).

By adding subsidies and deducting **taxes linked to production**, which fell by -11.4% in nominal terms (or -14.0% in real terms, mainly because of the disappearance of the milk co-responsibility levy in the Spring of 1993), one arrives at **gross value added at factor cost**, which went up by +5.7% in nominal terms (or +2.3% in real terms).

⁵ In the Economic Accounts for Agriculture, subsidies comprise only direct transfers to agriculture, i.e. they exclude such items as price support, investment aid, aid paid to the agro-food industry (even if it is designed to support agricultural production) and transfers to agricultural households.

⁶ This clear increase is mainly due to the accounting of aid connected with CAP reform and payable for the 1993/94 and 1994/95 marketing years. The resulting development in agricultural income does not, therefore, simply correspond to income from agricultural activity in 1994.

Similarly, deducting **depreciation** (+2.6% in nominal terms and -0.2% in real terms, with a clear rise in Spain and Portugal) from gross value added at factor cost, one arrives at **net value added at factor cost**. This has risen in nominal terms by +6.5% for EUR 12 and by +3.1% in real terms.

The reduction in the **total agricultural labour input** expressed in annual work units was -2.5% in 1994, a clear decline over 1993 (-5.4%, revised figure). The variations range from 0.0% in Portugal and -0.5% in Italy⁷ to -7.0% in Germany; there were also clear falls in Ireland and Luxembourg. This reduction in the volume of agricultural labour, allied with an increase in net value added at factor cost of +3.1%, will cause **indicator 1** to increase by +5.7% (after +0.5% in 1993).

The combined effect of the greater expenditure on **rent** and the new clear reduction in **interest** (+3.9% and -4.1% respectively in nominal terms; in real terms, the figures are +0.9% and -6.9% respectively, i.e. below the increase in net value added at factor cost overall) explains the steeper rise in **indicator 2** (+7.5%) than for indicator 1. **Net total income**, based on indicator 2, has in fact risen by +8.4% in nominal terms (as opposed to +6.5% for net value added at factor cost) and by +4.9% in real terms (as opposed to +3.1% for net value added at factor cost).

It was not possible to calculate the change in the item **compensation of employees** for the European Union as a whole, nor for the variations in the income aggregates which result therefrom, i.e. net family income and indicator 3 of agricultural income, as comparable data were missing for Germany. Nevertheless, one can say that for the 11 other Member States, the costs of compensation of employees have stabilized in nominal terms (+0.5%), which represents a fall in real terms of -2.5%, causing **net family income** to rise by +12.7% (or +8.7% in real terms). With a fall in the volume of **family labour input** of -2.0%, **indicator 3** of agricultural income has increased by +10.9% for the eleven Member States (EUR 12 without Germany).

Development in Agricultural Income in the Member States

The country-by-country analysis shows that situations differ, firstly because of the variety of agro-economic trends in 1994 and secondly because of differences in the starting point (1993), caused by trends in previous years. Agricultural income measured by indicator 1, for example, went up by more than 10% in 1994 in Greece, France, Spain and Portugal (the steepest rise in 1994, following the even greater decline in 1993). The other increases are between +2.9% in Denmark and +9.4% in the Netherlands. Only two countries saw their agricultural income fall; Luxembourg (-0.9%) and Italy (-7.6%). The fall in the former country is mainly explained by the considerable reduction in the real value of milk production. On the other hand, in Italy, it appears to result from the interplay of various factors; a fall in subsidies other than those connected with CAP reform, an increase in depreciation (the level of which is very high in that country) and a slight decrease in the agricultural labour input (after the considerable decline recorded in 1993). This reduction in agricultural income constitutes the third consecutive annual decline in Italy (whereas Ireland and the United Kingdom recorded their third consecutive annual increase).

Methodological remarks:

1. The results published in this Rapid Note are obtained from data provided by the competent authorities in the Member States for the current year, supplemented by Eurostat estimates for the volume of agricultural labour input in Portugal. Income indicators refer only to the

⁷ The change in the volume of agricultural labour input in Portugal was estimated by Eurostat. The figures for Italy are a provisional estimate.

agricultural branch and do not therefore represent the overall income of farmers since these may have other sources of income (secondary activities, wages, social benefits, etc.)

2. The concept of "final production" is applied in the Union's Economic Accounts for Agriculture. It differs from the concept of "deliveries" used in certain Member States, particularly because changes in stocks are included. This explains certain differences between national data and data published by Eurostat in accordance with a harmonized methodology.
3. The deflator used to calculate real prices and values of each product or aggregate in all the Member States is the implicit price index of GDP. The rates of change (nominal or real) for EUR 12 are averages of national rates, weighted by their share of the corresponding aggregate of the European Union in a base year, in ecus. For example, in calculating indicator 1 for long-term (or short-term) analysis purposes, nominal or real rates of change in net value added at factor cost are averages of the rates of change in the Member States, weighted in accordance with their share in net value added at factor cost in the European Union in 1985 (or 1993), measured in ecus for 1985 (or 1993). The real rates of change of net value added at factor cost are then divided by the rates of change for the number of AWU to obtain the rates of change for indicator 1.

For more details:

The estimates given above are provisional. In March 1995, Eurostat will publish revised data as well as a detailed analysis of trends in agricultural income for the European Union and for each Member State in the report *Agricultural Income in 1994* (Theme 5, series D). Eurostat will also publish, in January 1995, the annual *Economic Accounts for Agriculture and Forestry 1988 - 1993* (Theme 5, series C).

Table 1: Indicator 1 : Calculation of annual changes 1993/92 and 1994/93 in %

Member State	Nominal Net Value Added		Deflator (GDP Price Index)		Real Net Value Added		Agricultural Labour Input (in AWU)		Indicator 1 (real NVA / AWU)	
	93/92	94/93	93/92	94/93	93/92	94/93	93/92	94/93	93/92	94/93
B	-2.3	5.6	2.7	2.8	-4.8	2.7	-2.6	-2.6	-2.3	5.4
DK	1.3	2.5	1.6	1.7	-0.3	0.8	-2.6	-2.0	2.4	2.9
D	-15.3	1.9	3.9	2.7	-18.5	-0.8	-7.8	-7.0	-11.5	6.7
GR	9.3	17.8	13.8	10.4	-4.0	6.7	-2.3	-3.1	-1.7	10.2
E	20.4	14.2	4.5	4.0	15.1	9.8	-8.7	-2.8	26.0	12.9
F	-4.0	9.9	2.4	1.6	-6.3	8.2	-5.6	-3.4	-0.7	12.1
IRL	2.6	5.4	3.3	3.1	-0.7	2.2	-2.0	-5.0	1.3	7.6
I	-4.9	-5.1	4.3	3.3	-8.8	-8.1	-6.9	-0.5	-2.0	-7.6
L	0.1	-2.4	2.3	3.1	-2.1	-5.3	-2.4	-4.5	0.3	-0.9
NL	-12.7	8.7	1.6	2.0	-14.1	6.6	-1.1	-2.6	-13.1	9.4
P	-13.5	26.5	7.9	5.4	-19.8	20.0	-2.4	0.0	-17.9	20.0
UK	15.5	5.9	3.4	3.3	11.7	2.5	-0.7	-2.1	12.5	4.7
EUR 12	0.5	6.5			-4.9	3.1	-5.4	-2.5	0.5	5.7

Table 2 : Indicator 1 : Real Net Value Added per AWU (1985+1985+1986/3 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
B	86.8	95.2	100.3	108.3	104.4	99.5	96.2	90.9	98.1	122.8	111.3	110.7	106.7	104.3	109.9
DK	65.3	74.8	90.5	77.5	103.2	96.4	100.4	81.5	84.2	101.5	104.7	97.6	87.9	90.0	92.6
D*	87.8	88.5	107.9	89.0	102.0	92.8	105.3	87.7	108.6	131.3	116.2	101.1	120.1	106.2	113.4
GR	91.8	97.3	99.9	90.8	98.7	101.2	100.2	100.8	102.3	124.3	107.2	143.0	115.5	113.5	125.1
E	90.3	80.0	92.4	92.2	100.8	102.7	96.4	102.1	116.5	114.6	121.8	127.0	112.1	141.3	159.6
F	87.8	91.0	107.6	100.0	99.4	100.0	100.6	101.6	99.9	117.0	122.7	116.9	118.9	118.0	132.2
IRL	82.1	83.9	93.6	100.8	111.9	97.5	90.6	110.7	128.4	123.4	126.0	116.1	137.8	139.6	150.3
I	109.2	106.7	107.2	112.3	101.3	101.2	97.5	98.8	93.3	98.0	90.7	97.9	96.1	94.2	87.0
L	68.6	76.8	107.1	93.5	96.8	100.3	102.9	106.0	108.3	123.9	117.1	101.5	102.5	102.8	101.9
NL	75.1	92.2	96.8	93.3	100.7	95.5	103.7	88.0	91.4	107.8	104.2	102.9	91.7	79.7	87.2
P	97.4	92.0	102.8	98.6	99.3	97.4	103.3	101.2	85.7	101.6	105.7	94.2	81.1	66.6	80.0
UK	92.4	98.1	106.3	95.5	114.5	90.5	95.0	95.5	86.5	97.1	99.0	93.8	98.9	111.3	116.5
EUR 12*	91.5	93.2	103.1	99.2	102.1	98.4	99.5	97.1	99.2	111.6	109.4	109.7	108.6	109.2	115.3

* With figures for Germany (and EUR 12) referring to the territorial situation as before 03.10.1990 for the period 1980-1990 and as after 03.10.1990 for the period 1991-1994. The fall and then the rise recorded for 1991 and 1992 respectively reflect the large number of AWU in the new "Länder" and their significant reduction in 1992.