

Off-Farm Employment and the Economic Downturn in Northern Ireland

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Outline

“The recession at farm-level”

- The recession in NI
- Farm structure
 - Effects of the down turn on farm households
- Analytical approach
- Results
 - Baseline
 - Credit crunch
- Conclusions



Recession!

- NI recession began early 2008
 - Rapid deterioration with the banking turmoil autumn 2008
 - Decline steeper than other regions of UK
- Job losses
 - Unemployment rate increased from 3.7% to 7.1%
 - Border regions among worst affected
- Credit squeeze hitting businesses and households
 - ~50% increase in bankruptcies between Q1 2007 and Q1 2009
 - Housing market collapse (-32% in year to June 2009)
 - But so far agricultural land market fairly robust – c. £19,000/ha



Severity reduced by

- Sterling devaluation
 - January 2007 €1 = 0.66
 - October 2009 €1 = 0.92
 - Sterling value of Single Farm Payment has increased by approx 30% (after modulation)
- Retail sector fairly robust
 - Influx of shoppers from ROI
 - Reduced VAT stimulus
- Large public sector has cushioned job losses in short-term
 - 22% of male employee jobs
 - 39% of female employee jobs



Farm Structure

23,500 Farms



Source: DARDNI, EU Farm Structure Survey 2007



Farm Structure

23,500 Farms

20,000 (85%)
Very Small or Small
Businesses
*[Predominantly Beef/
Sheep]*

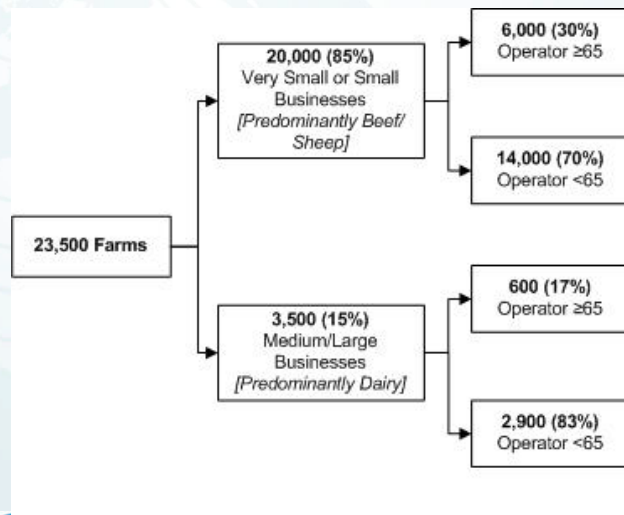
3,500 (15%)
Medium/Large
Businesses
[Predominantly Dairy]



Source: DARDNI, EU Farm Structure Survey 2007



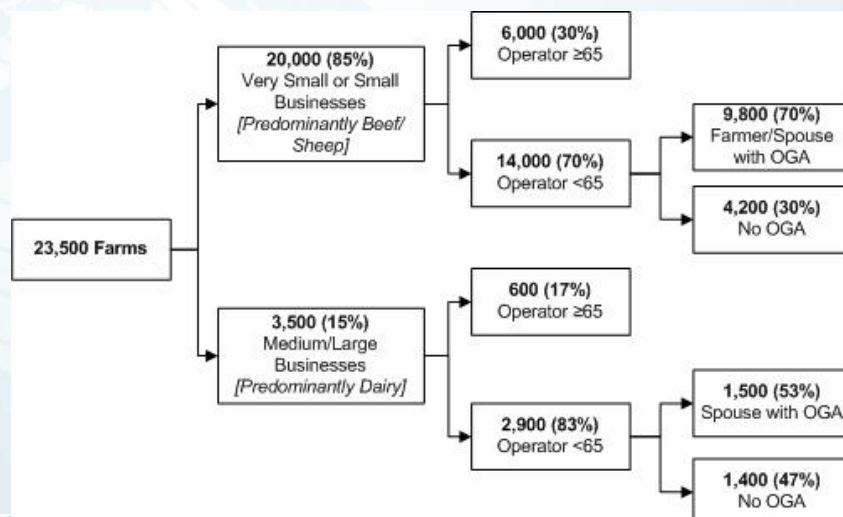
Farm Structure



Source: DARDNI, EU Farm Structure Survey 2007



Farm Structure



Source: DARDNI, EU Farm Structure Survey 2007



Recession and Farm Households

- Small farm businesses
 - Effect of the recession on labour market jobs/earnings
 - Males dependence on manufacturing, construction and transport sectors
 - Approx. 12% of these jobs lost between June 07 and June 09
 - Reduced hours and some pay cuts
 - Females dependence on service sector and public sector
 - So far less affected
 - c. 50% farm females work in public sector (esp. health, education)
 - Average levels of debt very low (~1% of total assets)
 - Many have built up significant cash savings
 - Demonstrated resilience



Recession and Farm Households

- Larger 'commercial' farm businesses
 - Commodity prices weakened by global downturn
 - Indebtedness
 - Farm investment/expansion
 - 25% of dairy farms have borrowings >£50,000
 - 5-10% of farms in serious situation
 - Credit constraints affecting working capital
 - High input production systems
 - In some cases operating at MC>MR
 - But, on the positive side:
 - Reduction in input prices: diesel, fertiliser, concentrate feed
 - Average debt levels ~5% assets
 - Significant proportion have no debt at all



Methodology

- Dynamic farm household model
 - Recursive programming structure
 - Time horizon: 1993/94 – 2016/17
 - Imperfect foresight and adaptive price expectations
 - Tracks range of physical and financial metrics
 - Simulates land use, on-farm and off-farm labour supply, net worth, cash flow, farm income, off-farm income, capital income, taxation, ...
 - Detailed specification of farm level policy measures
 - Provides a consistent way to evaluate the effects of policy and other economic scenarios



Representative Farms

	VSBEEF	SBEEF	MDAIRY
Farm Size (SLU)	0.4	0.9	2.1
Land area owned (ha)	22	38	45
Farm enterprises	LFA Beef cows, store cattle		Dairy cows, beef cattle, replacements
Household in 1993/94	Married couple aged 35 with three children (4, 6 and 8 years of age)		



Off-Farm Employment Scenarios

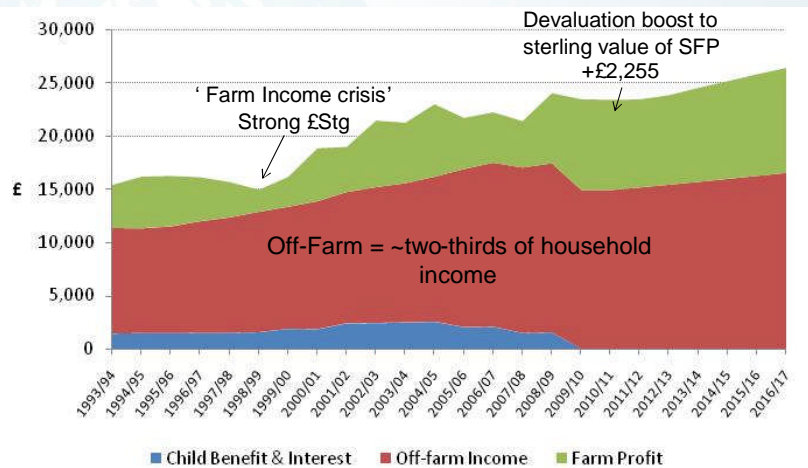
- 'No wage' scenario
 - Applies to SBEEF and MDAIRY farm household
 - Household income dependent on farming, no off-farm wage
- 'One wage' scenario
 - Spouse employed off-farm full-time (40 hrs/week);
 - Gross wage rate/hr: median for employee jobs
 - Gross off-farm earnings £19,434 in 2007/08
- 'Two wage' scenario
 - Applies only to VSBEEF farm household
 - Farm operator and spouse both in off-farm employment
 - One full-time and one part-time basis (24 hrs/week);
 - Gross off-farm earnings £31,094 in 2007/08



Results (1): Incomes



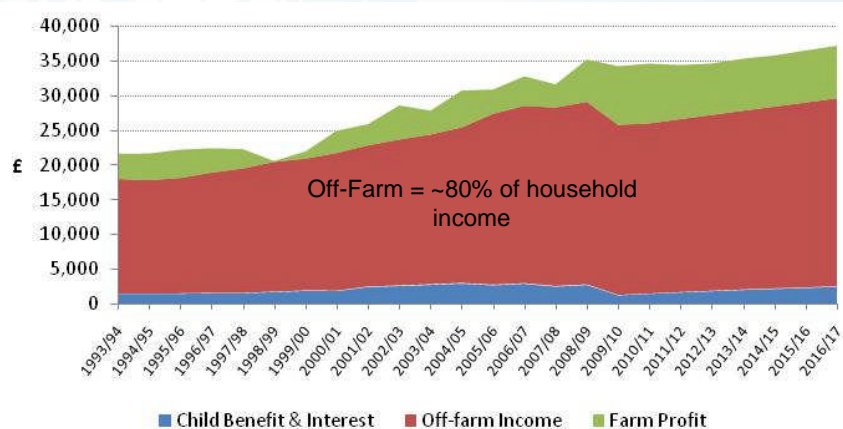
VSBEFF: Simulated composition of nominal household disposable income under 'one wage' scenario



Av. Farm Profit 1993/94-2007/08 = ~£4,500 p.a.



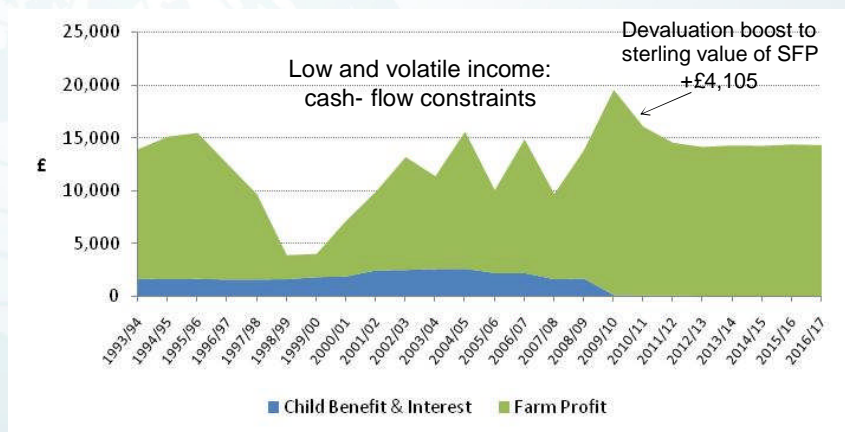
VSBEFF: Simulated nominal household disposable income under 'two wage scenario'



Av. Farm Profit 1993/94-2007/08 = ~£3,400 p.a.



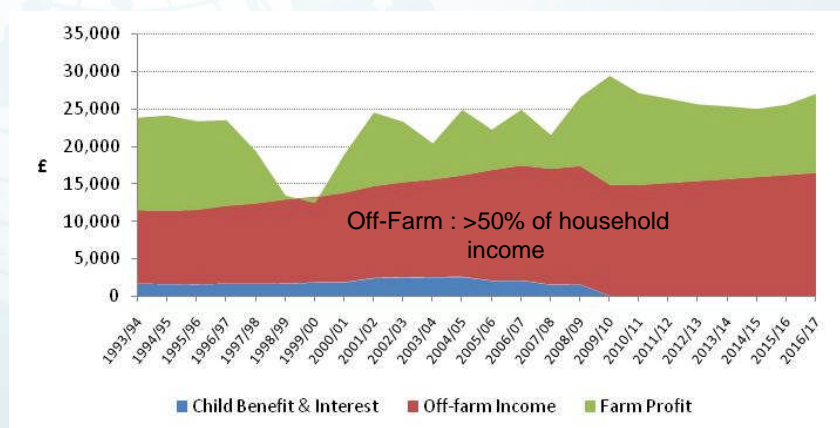
SBEEF: Simulated nominal household disposable income under 'no wage' scenario



Av. Farm Profit 1993/94-2007/08 = ~£9,000 p.a.



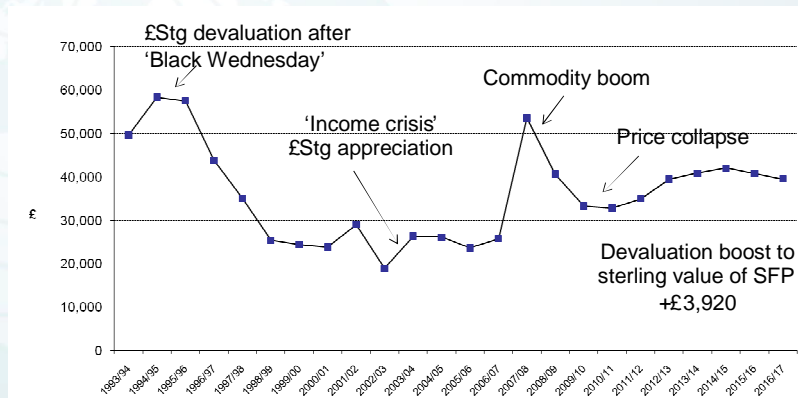
SBEEF: Simulated nominal household disposable income under 'one wage' scenario



Av. Farm Profit 1993/94-2007/08 = ~£7,250 p.a.



MDairy: Trend in Farm Profit



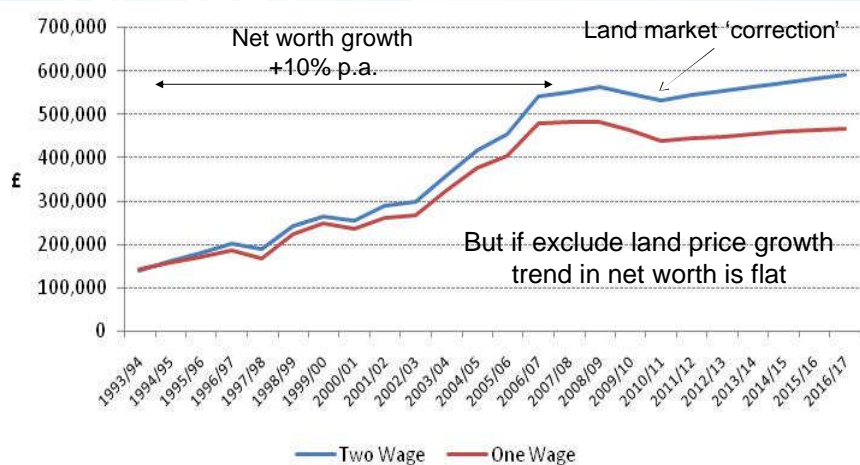
Av. Farm Profit 1993/94-2007/08 = ~£35,000 p.a.



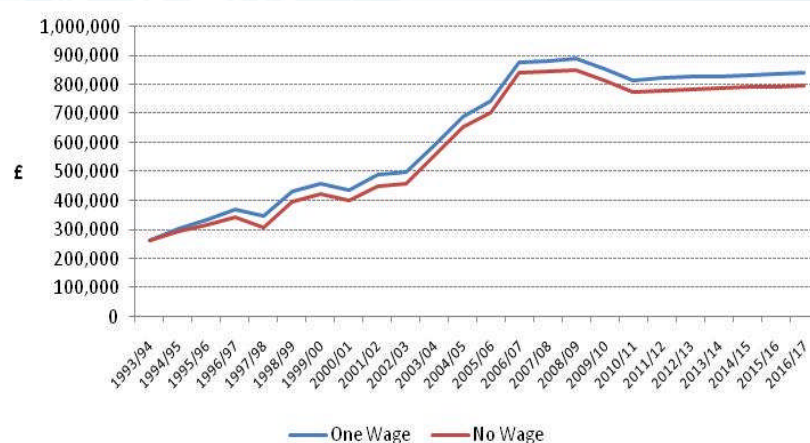
Results (2): Net Worth



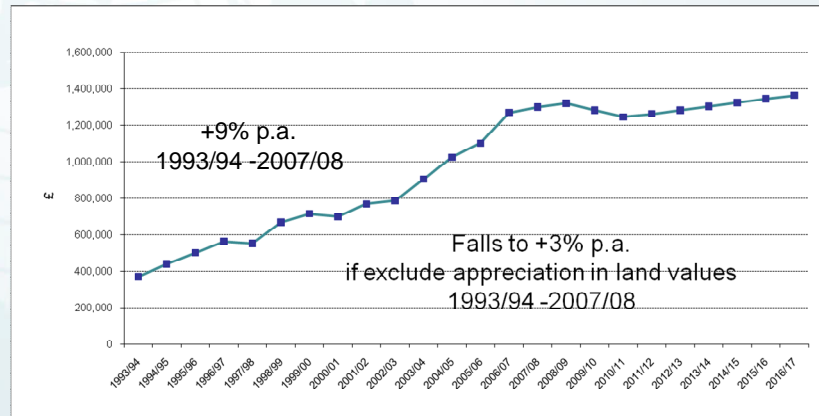
VSBEF: Trend in Nominal Household Net Worth



SBEEF: Trend in Nominal Household Net Worth



MDairy: Trend in Nominal Net Worth



Results (3): Credit Crunch

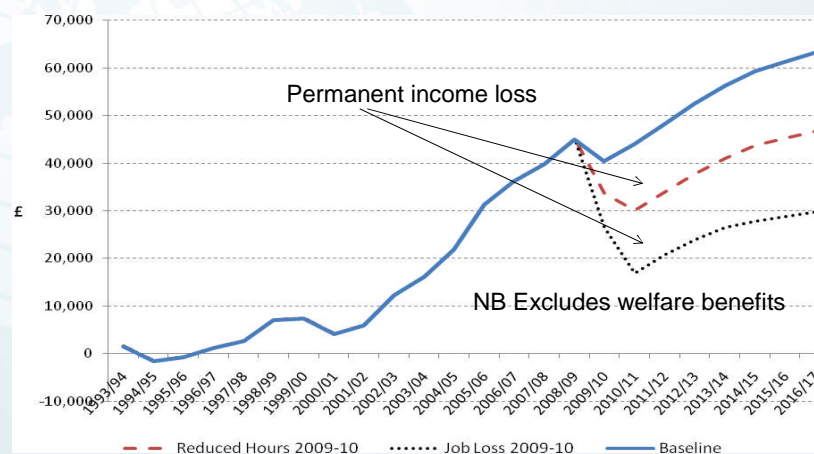


Credit crunch scenarios

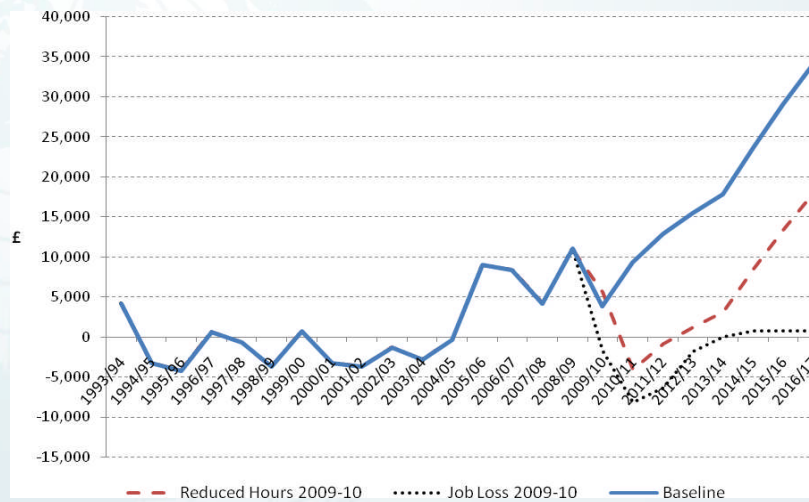
Scenario	Description
'Job loss 2009-10'	<ul style="list-style-type: none"> Loss of full-time job by <u>either</u> the farm operator or their spouse. All other off-farm income unchanged. Applies for two year period 2009 – 2010 before returning to full-time employment in 2011.
'Reduced hours 2009-10'	<ul style="list-style-type: none"> Hours of off-farm work of farm operator <u>or</u> spouse reduced to 20 hours. All other off-farm income unchanged. Applies for two year period 2009–2010 before return to pre-credit crunch hours of off-farm work
'Base scenario'	<ul style="list-style-type: none"> No change in off-farm employment.



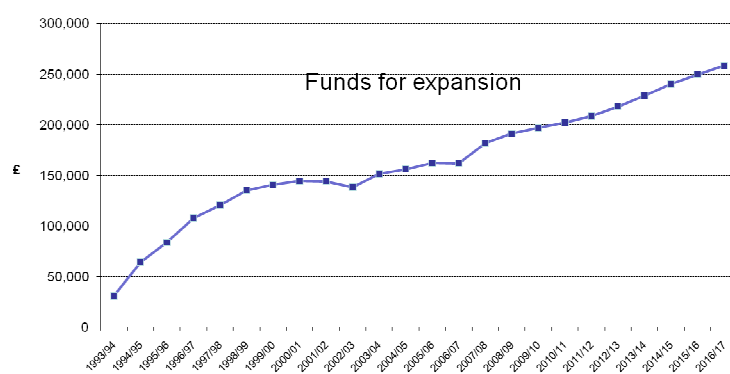
VSBEF Credit crunch scenario ('two wage' baseline): Evolution of cash balance



SBEEF Credit crunch scenario: Evolution of cash balance



MDAIRY: Simulated Closing Cash Balance



Conclusions

- Many households have diversified sources of income
 - Off-farm sources of income essential to financial sustainability of small farms.
 - Risk management strategy
 - Farm income often not a comprehensive measure of farm household financial wellbeing
- Farm income measures understate the long term return from holding agricultural assets
 - Land as a secure store of wealth
 - Tax advantages
 - Incentive to remain in farming even when farm income low



Conclusions

- Farm households in the recession in NI
 - Situation not as severe as in ROI
 - Farm households relatively good position compared to non-farm households
 - Land market fairly robust: gains in net worth intact (so far)
 - Moderate numbers affected by off-farm job loss
 - Differential impacts on males versus females
 - Sterling devaluation boost to SFP has maintained farm incomes
- Faced with a moderate economic shock most farm households prove very resilient
- Green shoots of recovery??



