

AGRICULTURAL INCOME

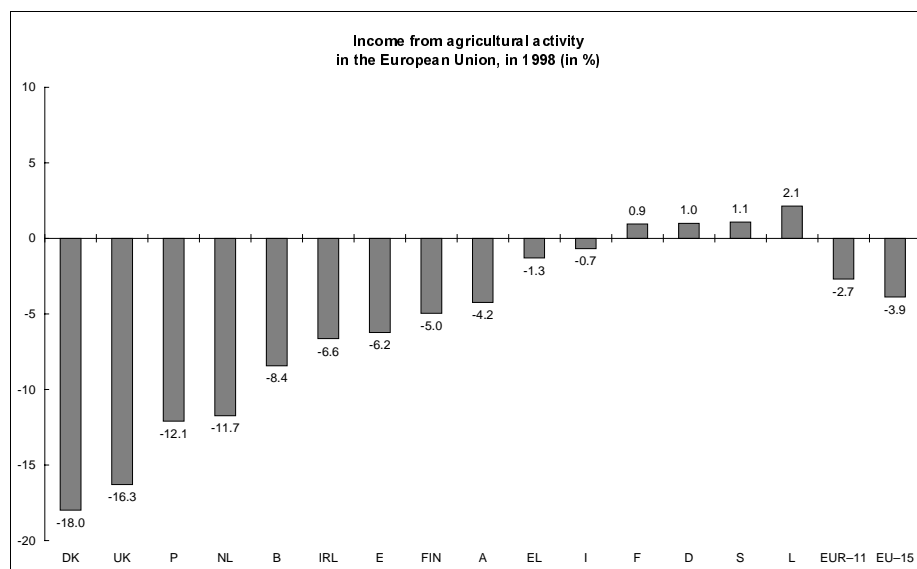
Widespread declines in 1998

across the EU

Ulrich Eidmann

An exhaustive new report from Eurostat titled *Income from Agricultural Activity, 1998* has just been published, in which the main results (both short- and long-term) and factors are analysed.

According to the report, income from agricultural activity per full-time worker equivalent is estimated to have fallen moderately in 1998 (-3.9% when measured by Indicator 1) for the European Union as a whole (EU-15). There were declines in eleven Member States (see graph below), the strongest rate being in Denmark (-18.0%). By contrast, the fastest rate of increase was in Luxembourg (+2.1%).



The EU-15 decrease for 1998, together with that for 1997, should be viewed against three years of appreciable income growth (reaching the highest level for 20 years in 1996); the level of income from agricultural activity for EU-15 in 1998 is estimated to have been around 12% higher than the average level of the years 1990 and 1991. For EUR-11 as a whole, the member countries of the euro zone, the level of Indicator 1 declined by 2.7% for 1998 but remained some 16% above the 1990-1991 level.

Indicator 1 measures the change of real (i.e. deflated) net value added at factor cost related to the change in total agricultural labour input (in annual work units). Emphasis is placed on this measure of income from agricultural activity in the rest of this Statistics in Focus.

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Summary of the main factors determining the development of income in 1998

The decline in the level of Indicator 1 for the European Union as a whole in 1998 can largely be attributed to the following factors:

- **a notable fall in producer prices:** the average price level for agricultural goods as a whole (final agricultural output) fell by 5.3% in real (i.e. deflated) terms, mainly as a result of much lower real-terms prices for animals (down by an average of 13.2%, with pig prices plummeting by 27.1%);
- **a decline in subsidies:** the real value of total subsidies paid out in 1998 decreased strongly (-6.4%).

However, there also were several factors which partly offset the downward pressure on the level of EU-15 income from agricultural activity.

These factors were:

- **a small rise in the volume of final output** on the back of similar rates of increase in the volumes of final crop (+1.6%) and final animal (+1.4%) output;
- **a lower value of intermediate consumption goods** due to a strong fall (-5.2%) in real-terms prices (the biggest decrease being for animal feedingstuffs) and a slightly higher volume purchased (+1.0%);
- **a slightly lower (real) level of depreciation** than in 1997 (-0.4%);
- **a further decline in the volume of total agricultural labour:** -1.7%, similar to 1997, compared with an average of -3.8% for the period 1990 to 1996; this confirms a slow-down in the rate of decline.

Animal output

Real value of final animal output sharply down overall following some considerable price falls

The animal production sector in 1998 was characterised by sharply falling prices. On average, the 1998 price level for the final animal output of the EU-15 as a whole was 8.9% lower than in the previous year. The sharpest rates of decline in prices occurred in the pig production sector (-27.1% for EU-15) as a result of a market imbalance caused by a sharp rise in output, only a slight increase in internal demand and the loss of the Russian export market. Cattle producers received a slightly higher average price (+1.6% in real terms) in 1998, although this was only due to the upward price trend in the first half of the year. Here too, however, the absence of demand from the Russian export market sent prices tumbling as from mid-August 1998. Real milk prices in 1998 fell just short of the previous year's level (-1.1%).

The overall volume of final animal output rose in 1998, the growth rate of 1.4% falling just short of that for crop output. The fastest rate of growth within the animal sector was for pigs (+7.6% in output volume for EU-15), triggered by the then sharp price increases at the beginning of 1997, when there was an outbreak of swine fever in the Netherlands.

The combination of price and output volume developments for animals and animal products in 1998 resulted in the real value of final animal output declining by an estimated 7.7% compared to the value of the previous year. In the individual Member States, the biggest single fall (-17.3%) occurred in the United Kingdom (where considerably lower values were experienced by producers of cattle, pigs, sheep, goats, poultry and milk).

Crop output

Opposing volume (up) and price (down) trends leave output value virtually unchanged (+0.1%)

The developments in volumes, prices and hence values within the crop sector differed from one product to another and between the individual Member States, particularly on account of the varying sensitivity of crops to climatic conditions, but also because of the various market situations.

The volume of final cereals output in EU-15 once again reached a record level in 1998. In contrast, cereal prices fell sharply over the course of 1998 (by -9.2% in real terms). On the one hand, this took place against the background of rising intervention stocks and what turned out in the first few months of the 1998/99 marketing year to be a record Community harvest. On the other hand, world market prices fell to their lowest level for five years in the wake of two successive

bumper harvests (and on account of a slow-down in world market demand due to the economic crisis in Southeast Asia). Following on from the decline in volume in the previous year, potato output for EU-15 showed a further sharp fall (-6.5%) in 1998 as a result of a smaller production area in several potato producing countries and widespread inclement weather. Owing to the reduction in market supply (and against the backdrop of a very low price level in the two previous years) real potato prices soared in 1998 (+38.6% for EU-15). The average output volumes of fresh fruit, vegetables and particularly of grape must and wine were above previous year's levels. However, in the case of fresh vegetables this volume increase was partly offset by lower real term prices. The output volume of olive oil for EU-15 decreased in 1998, while real term prices decreased very sharply (as in the previous year).

Other components of the calculation of agricultural income in the EU

A significant decline in the real-terms prices of **input goods and services** as a whole in EU agriculture (and in particular for animal feedingstuffs, energy and fertilizers), accompanied by a slight rise in volume, is estimated to have led to a decline in the real value of inputs in 1998 (-4.3%). The decline in the real value of final agricultural output in the EU-15 together with intermediate consumption led to a fall in the average real-terms **gross value added at market prices** within the EU of 3.5%.

The real value of the **subsidies** received by the agricultural production branch in 1998 fell strongly (while **taxes** linked to production remained unchanged

in real terms). The level of **depreciation** in the European Union in 1998 (as in 1997) was almost unchanged compared with the previous year (-0.4%). **Real net value added at factor cost** for the European Union in 1998 declined by -5.5% on average.

The total volume of **agricultural labour** continued to decline steadily in almost all the Member States, the exceptions being Spain and the Netherlands where the rise in hired labour more than offset the decline in the volume of family labour. The total volume of agricultural labour input in the EU fell by 1.7% in 1998. The decline in the level of Indicator 1 (-3.9 %) in 1998 was therefore somewhat tempered by the decline in labour input.

The calculation of the annual changes in income from agricultural activity Indicator 1 1998/97 and 1997/96 (%), and the resulting long-term indices

Member state	NVAfc nominal		Deflator (GDP price index)		NVAfc real		Total labour input (in AWU)		Indicator 1 (real NVAfc/AWU)		Indices of indicator 1 ("1990"=100)	
	97/96	98/97	97/96	98/97	97/96	98/97	97/96	98/97	97/96	98/97	1997	1998
B	2.0	-9.4	1.4	1.5	0.6	-10.7	-3.9	-2.5	4.6	-8.4	79.5	72.8
DK	-4.8	-17.9	1.9	2.1	-6.6	-19.6	-4.0	-2.0	-2.7	-18.0	117.2	96.1
D	0.3	-2.3	0.6	0.9	-0.3	-3.1	-3.4	-4.1	3.1	1.0	131.6	132.9
EL	0.8	0.7	6.9	5.5	-5.7	-4.6	-3.0	-3.3	-2.9	-1.3	97.5	96.2
E	-2.3	-2.8	2.0	2.4	-4.2	-5.1	0.2	1.2	-4.4	-6.2	139.3	130.6
F	-1.7	-0.6	1.0	1.0	-2.7	-1.6	-2.5	-2.5	-0.3	0.9	120.7	121.8
IRL	-5.3	-4.4	2.2	3.4	-7.3	-7.6	-7.9	-1.0	0.6	-6.6	130.0	121.4
I	-2.8	0.2	2.6	2.4	-5.3	-2.1	-1.4	-1.5	-3.9	-0.7	112.8	112.0
L	-4.9	2.7	2.4	2.1	-7.1	0.6	-2.7	-1.5	-4.5	2.1	96.3	98.3
NL	15.9	-8.9	2.2	1.9	13.4	-10.6	0.5	1.3	12.8	-11.7	92.0	81.2
A	-8.9	-5.3	1.6	1.1	-10.3	-6.4	-3.0	-2.2	-7.6	-4.2	97.7	93.6
P	-13.0	-10.7	2.8	3.7	-15.4	-13.9	-2.1	-2.1	-13.6	-12.1	102.8	90.4
FIN	-7.5	-6.0	2.2	1.5	-9.5	-7.4	-2.3	-2.5	-7.4	-5.0	94.3	89.6
S	3.9	-0.7	1.2	1.5	2.7	-2.2	-3.4	-3.3	6.3	1.1	72.3	73.1
UK	-21.9	-15.3	2.7	2.8	-24.0	-17.6	-1.1	-1.6	-23.1	-16.3	96.4	80.7
EUR-11	-1.3	-2.4	:	:	-2.8	-4.1	-1.9	-1.5	-0.9	-2.7	119.8	116.6
EU-15	-2.7	-3.5	:	:	-4.5	-5.5	-2.0	-1.7	-2.6	-3.9	116.1	111.8

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

1. **Net value added at factor cost** is calculated by taking the value of final agricultural output and deducting intermediate consumption, depreciation and taxes, and then adding subsidies. The **deflator** used to calculate real prices and values for each product or aggregate in each of the Member States is the implicit price index of GDP. The real rates of change of net value added at factor cost are divided by the rates of change in the number of **annual work units** to obtain the rates of change for Indicator 1.
2. The volume of labour is calculated on the basis of **annual work units (AWUs)**, to reflect the role of part-time and seasonal work in agriculture. An AWU is equivalent to the time worked by one person employed full-time in agricultural activities on a holding over a whole year.
3. The income indicators refer to the **agricultural branch** only, and are therefore not representative of the overall income of farmers, who may have other sources of income (secondary activities, wages, social benefits, etc.).

SOURCES

The **results** published in this *Statistics in Focus* were provided by the relevant authorities in the Member States towards the **end of January / beginning of February 1999**. These results are still provisional.

FURTHER READING

The Eurostat report **Income from agricultural activity, 1998** (Theme 5, Series D) presents a detailed analysis of changes in income from agricultural activity in 1998 over 1997 and between 1980 and 1998 in the European Union and Member States. In December 1998, Eurostat has published the Economic Accounts for Agriculture and Forestry, 1992-1997 (Theme 5, Series C), which will also be available in CD-ROM format, and the Unit Values of Agricultural Products, 1989-1997 (Theme 5, Series C).

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