The viability of the Irish farming sector in 2015

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Viability Analysis

The Teagasc National Farm Survey (NFS) income report is published annually. Family farm income, which represents the return from farming for the farm family to their labour, land and capital, is the principal economic measure published in this report. While family farm income is a useful measure, it does not account for the economic viability of the farm business nor does it make any allowance for the role of income earned outside of the farm in safeguarding the economic sustainability of farm households. This report presents the NFS viability analysis which accounts for these factors. The analysis is conducted on a sample of 898 farms that participated in the 2015 survey. This sample represents 84,259 farms nationally and is representative of farming at both a national and regional level.

1. Measuring viability

A farm business is deemed to be *economically viable* if the family farm income is sufficient to remunerate family labour at the minimum agricultural wage, which is assumed here to be €19, 167 per labour unit, and provide a 5 percent return on the capital invested in non-land assets, i.e. machinery and livestock. It follows that farms with relatively modest incomes can be viable if the labour input and capital investment is low and similarly farms with seemingly large incomes may not be viable if there is a substantial labour input and/or significant capital invested in machinery and livestock.

Farms that are not economically viable but have an off-farm income, earned by either the farmer or the spouse, are considered to be *economically sustainable*.

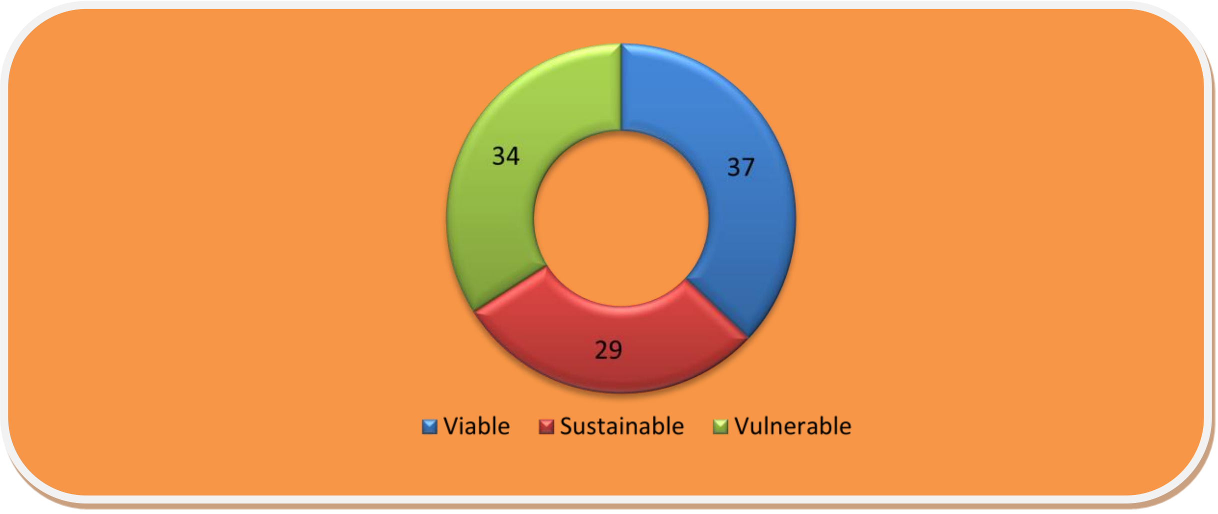
Farm households that are operating non-viable farm businesses and where neither the farmer nor the spouse works off the farm are considered *economically vulnerable*. Vulnerable farms are in a difficult economic position as the farm business is not producing a sufficient profit to sustain itself and there is no other form of market income in the household.

Concept	*Definition*
Viable	A farm business is viable if the farm income can remunerate family labour at the minimum agricultural wage and provide a 5% return on the capital invested in non-land assets.
Sustainable	If the farm business is not viable the household is still considered sustainable if the farmer or spouse has an off-farm income.
Vulnerable	A farm household is considered to be economically vulnerable if the farm business is not viable and if neither the farmer nor spouse work off the farm.

2. The viability of Irish farming in 2015

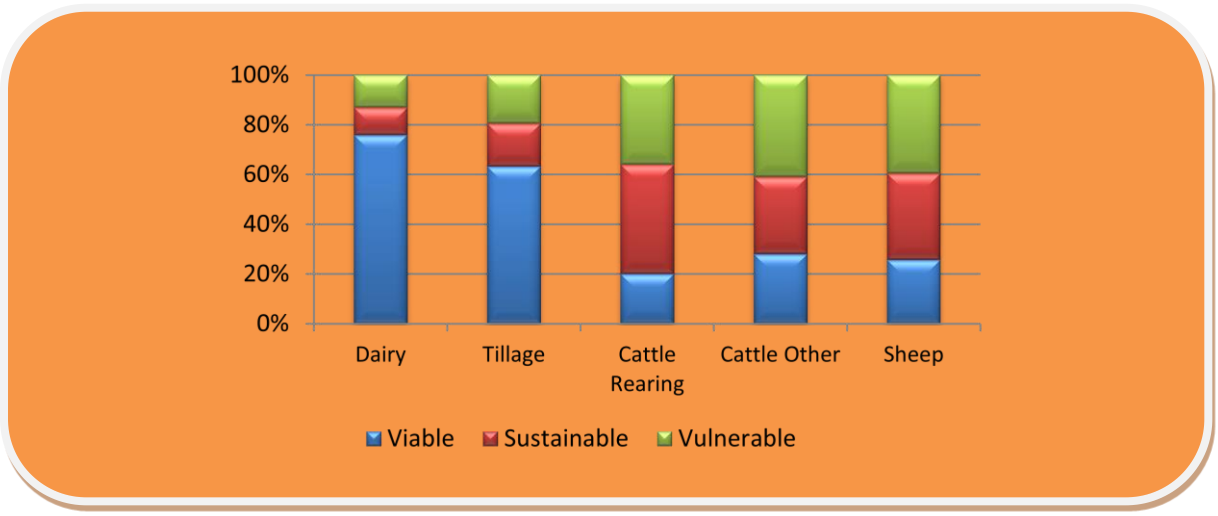
Figure 1 presents the viability of the farm population as represented by the NFS in 2015. Thirty-seven percent of farms were economically viable in 2015, a further 29 percent of farm households were sustainable because of the presence of off-farm income while the remaining 34 percent of farms are economically vulnerable.

Figure 1: Viability of Irish Farming 2015



The viability of farming varies quite substantially by farm system. The data in Figure 2 show the vast differences between dairy, tillage and mixed livestock farms and the drystock sectors, namely cattle and sheep. In 2015 76 percent of dairy farms and 63 percent of tillage farms were economically viable. On the other hand, only 20 percent of cattle rearing farms, 28 percent of cattle other farms and just 26 percent of sheep farm businesses are economically viable. There are about 11,300 viable cattle farm businesses, 3,300 viable sheep businesses and almost 12,000 viable dairy farm businesses.

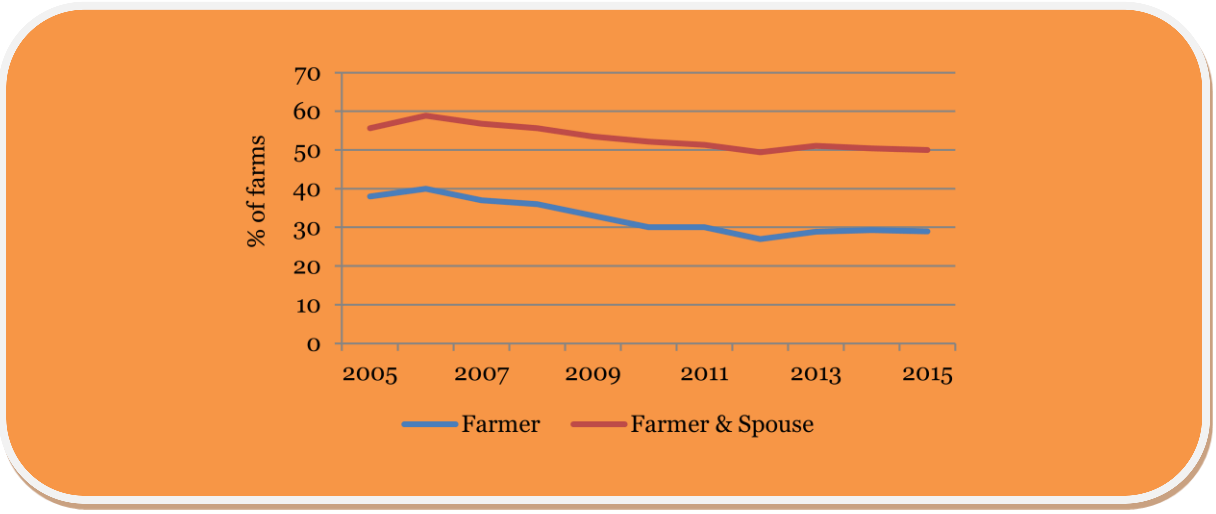
Figure 2: Viability of Irish Farming by Farm System 2015



In general the viability of dairy farming is high relative to other farm systems but it declined in 2015 as a result of lower milk prices. In 2014 just over 80 percent of dairy farm businesses were economically viable compared to 76 percent in 2015. The reverse is the situation with cattle farms, while viability in general is quite low in cattle farming there was an improvement in 2015. The viability of cattle rearing farms improved from 15 percent in 2014 to 20 percent in 2015 while cattle other farms improved viability from 19 percent in 2014 to 28 percent in 2015.

Almost 45 percent of cattle rearing farms, 31 percent of cattle other farms and 35 percent of sheep farms are sustainable because of the presence of off-farm employment. Over 40 percent of cattle other and sheep farms are classified as economically vulnerable, while 36 percent of cattle rearing farms are vulnerable. The incidence of economic vulnerability has increased with the contraction in off-farm employment. The data in Figure 3 show the contraction in off-farm employment from 2007. Off-farm employment rates have started to show slight signs of recovery since 2013, albeit at a slow pace.

Figure 3: Off-farm employment rates 2005 to 2015

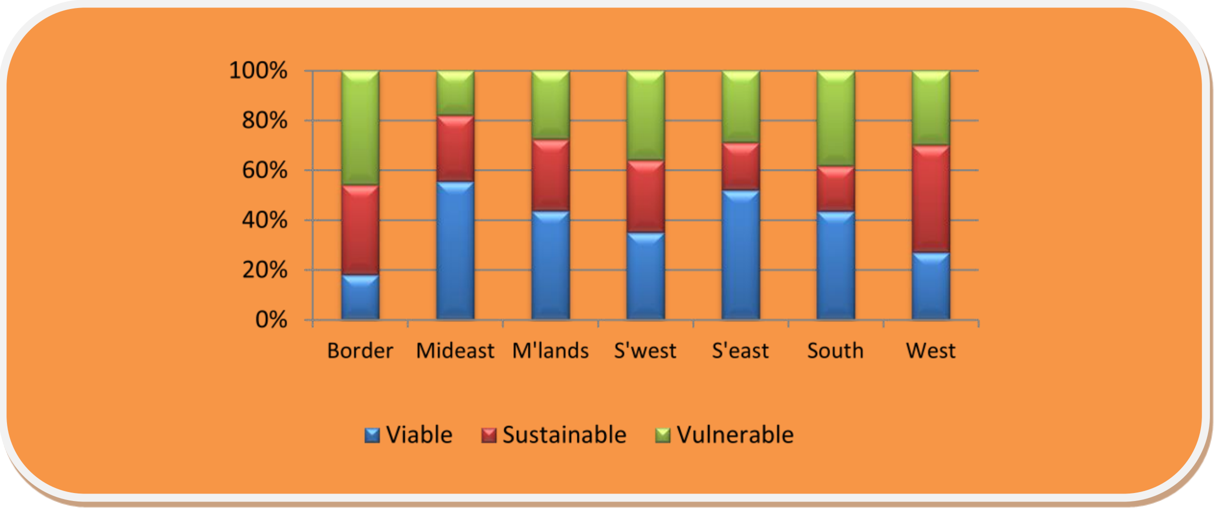


3. The viability of Irish farming by region in 2015

The NFS sample is selected to be representative of farming on a regional basis at a NUTS3 level. The viability of farming at a regional level is presented in Figure 4. The Dublin region is excluded due to the small sample size in that region.

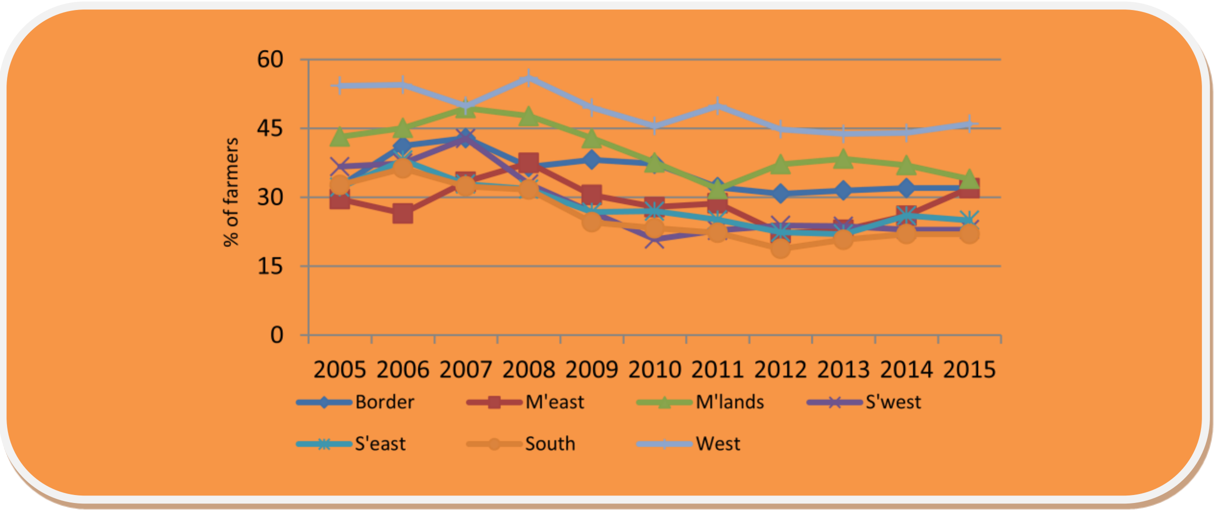
The mideast and southeast contain the greatest proportion of viable farms in the country with 55 and 52 percent of farms viable in each region respectively. The border and west regions have the poorest viability ratings with just 18 and 27 percent of farms viable in the respective regions. The presence of off-farm employment improves the economic situation in most regions the exception being the border region, where almost half of all farm households are classified as economically vulnerable because the farm business is not viable and there is no off-farm income present in the household. Almost 8,000 farm households in the border region are in this economically vulnerable position.

Figure 4: The viability of Irish Farming by region 2015



The relative decline in off-farm employment across the various regions has contributed to the high rates of vulnerability, see Figure 5. Off-farm employment rates of the farmer are highest in the west but have also declined very rapidly in that region. The impact of the economic recovery in the wider economy is more apparent in some regions than others. For example, employment rates have started to recover in south and Mideast but seem to be stagnating in some other regions.

Figure 5: Farmers' off-farm Employment rates by region



4. Concluding Comments

Slightly more than one in three, 37 percent, farm businesses was operated on an economically viable basis in 2015. The viability of the farm sector in general was more or less unchanged on the 2014 level. Despite the poor milk price in 2015, viability rates for dairy farms businesses remain high with over three quarters of specialist dairy farms considered economically viable. By contrast, only one in five cattle rearing farm businesses are producing a profit that is sufficient to reward the labour and capital invested and this is despite 2015 being a relatively good year for cattle prices. The viability of cattle other farms did improve in 2015 with 28 percent of farms viable compared to just 19 percent in 2014.

Off-farm income is critical to safe-guarding the economic well-being of a large proportion of farm households. Nationally, almost one in three farm households rely on off-farm income to sustain both the household and the farm business. This reliance on off-farm income is particularly pronounced for dry stock farms. Just over one third of farm households, or 28,000 households nationally, can be considered economically vulnerable as the farm business is not viable and there is no off-farm income present in the household.

The viability of farming varies quite considerably by region. Only 18 percent of farm businesses in the border region are economically viable and over half of the farm households are economically vulnerable. Of the 28,000 vulnerable farm households that exist nationally, almost 12,000 of those are in the border and west regions.