

17 December, 2008

Economic Accounts for Agriculture 2008

1st Estimate

In 2008, the income generated by agriculture should increase 4.8%

According to the first estimates for 2008 on Economic Accounts for Agriculture, it is estimated that the Income from the agricultural activity should increase 4.8%.

The agricultural year 2007/2008 was characterized by an autumn / winter with little precipitation and lack of moisture in the soil, intense rainfall in spring and warm summer. This meteorological framework favoured some cereals, pasture and forage, damaging, however, orchards, olive and wine.

It is estimated that the production of the agricultural industry has grown 1.1% in volume and 5.6% in value in 2008. The change in volume reflects the different behaviour of the two main components, with crop production falling 2.3% and livestock production rising 6.6%.

Intermediate consumption is expected to increase 9% in nominal terms, as a result of high growth in prices, which are still reflecting the indirect impacts of high growth in the price of oil and other raw materials until the middle of this year in international markets. Indeed, discounted the effect of price growth, it is estimated that in 2008 there was a small decrease in volume of intermediate consumption, of approximately -1%.

As a result of the differential between the nominal growth of output and intermediate consumption, it is expected that the Gross Value Added (GVA) at basic prices decreases 1.6% in nominal terms, in 2008. However, since this differential reflects the uneven dynamics of prices, the GVA will register a growth of 6.4% in volume.

The negative evolution of nominal GVA should be offset by an increase in Other subsidies on production (+14.5%), allowing Factor income to increase 2.4% in 2008. In real terms, the increase should be marginally positive (+0.3%) which, combined with a reduction in the Agricultural Labour Input (ALI), that is estimated at -4.3%, should lead to an increase in the agricultural income of 4.8% in real terms, in comparison with the previous year. It should be noted that in 2007 the value of this indicator was -4.1%.

CROP OUTPUT

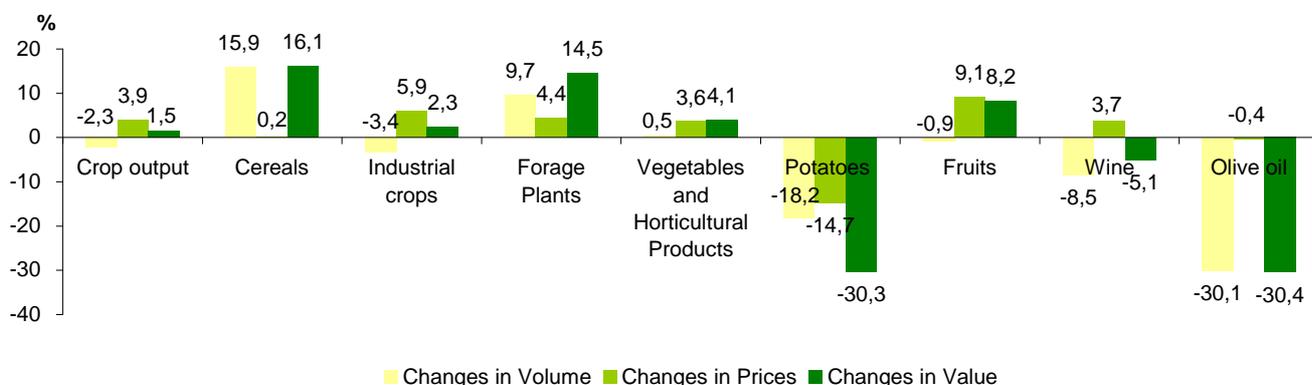
The meteorological framework for 2007/2008 affected the production of potatoes, vines and orchards. It is expected that, in 2008, the Crop Output should record an increase, in value, of 1.5%, with special highlight for the nominal increases in cereals (+16.1%) and the decreases in value in potatoes (-30.3%) and olive oil (-30.4%). The crop output volume should decrease 2.3%, with an estimated increase, at basic prices (+3.9%).

In 2008, the production of cereals increased due to an augment of the productivity and cultivated areas. In 2007 and part of 2008, significant rise in prices incentivised the production of grain, despite the escalating prices of the means of production (see intermediate consumption). In spite of a general increase in the price of all other cereals, there was a significant decline (-26.4%) in the producer price of maize, resulting from the existence of large quantities in inventories on the importers' side and a reduction on the demand. The weight of this cereal in the structure of the output of cereals (56.5% in 2007) strongly contributes to the stability of the prices for this product group, in comparison with 2007 (+0.2%).

The production of Potatoes decreased 18.2%, in volume, determined by weather conditions and a decrease in the cultivated area (due to difficulties in flowing off the output in 2007 and to the increase in the costs of production in 2008). There were problems related to the small size of the tubers and with product preservation that caused a relevant decrease in prices (-14.7%).

The bad weather conditioned the quantity and quality of olives for olive oil in the campaigns 2007/2008 and 2008/2009. Therefore, in 2008, it is expected a decrease in the manufactured olive oil, in volume and price (-30.1% and -0.4%, respectively).

Chart 1. Changes in volume, prices and values of some Crop output products, in 2008



ANIMAL OUTPUT

An increase of 11.8% in value of the output of livestock is estimated, especially due to nominal increases in Cattle and Milk (14.0% and 16.6%, respectively). Overall, an increase of 6.6% for the volume of animal production is expected, whilst basic prices should grow 4.9%.

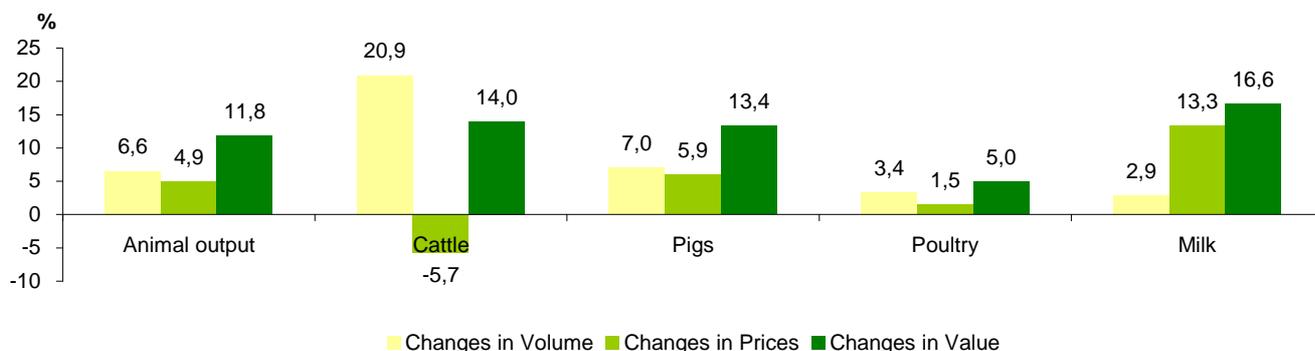
The estimated increase in the volume of cattle production (+20.9%) represents a recovery after the low figures that have occurred in 2007. A decrease in prices (-5.7%) due to the sharp fall in calves prices was observed, since the price level of adult bovines is expected to remain the same.

It is foreseen that the output of Pigs production should increase 7.0%, in volume. Prices should register an increase of 5.9% despite the large supply of animals in the domestic market. This increase can be considered as a recovery, considering the steep decline of the prices in 2007 and it is also the result of the increase in the production costs.

In 2008 an increase in volume (+3.4%) and price (+1.5%) of the production of Poultry is expected. The current situation, more stable now after a decline in the prices of feedingstuffs in the second half of 2008 (after the good harvest for cereals), caused an increase in the supply of animals for slaughter.

As far as milk is concerned, it is anticipated a significant increase in prices (13.3%), due to higher demand and increased costs of production. 2007 was marked by shortages of raw materials for the dairy industry, caused by rising cereal prices (and hence feed), shutdown of production units and transfer of milk producers for the production of bio-fuels. The expected increase in the volume of milk (2.9%) is a reaction of producers to demand.

Chart 2. Changes in volume, prices and values of some Animal output products, in 2008

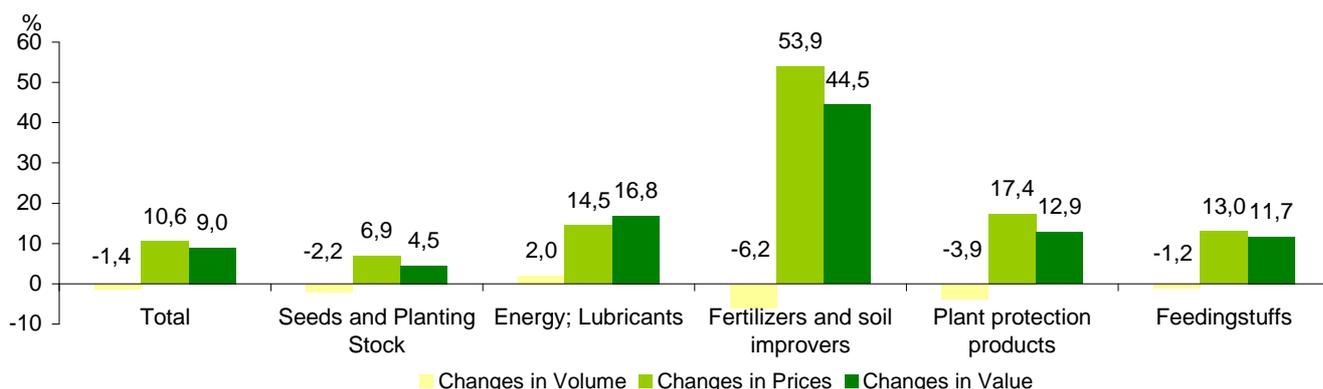


INTERMEDIATE CONSUMPTION (IC)

In 2008, the IC is expected to increase 9.0% in value, due to growth in prices (10.6%), considering that a decrease of 1.4% in volume is expected. The main cause for this trend in prices is the general rise in the prices of the means of production, with special emphasis on the observed increases in the prices of fertilizers and soil improvers (+53.9%), plant protection products (+17.4%), energy and lubricants (+14.5%) and feedingstuffs (+13.0%). Generally, the significant growth in prices can be explained by the increase in the world demand (higher consumption by emerging countries), as well as the increase in the prices of the raw materials. Considering the case of fertilizers and soil improvers, higher export taxes imposed by producer countries such as China have enlarged the imbalance between supply and demand, expanding the price growth.

Feedingstuffs are the most important IC item (representing about 39% of total IC, in 2008). It is expected that this item should decrease 1.2%, in volume. This trend is partly due to the decrease in consumption of compound feedingstuffs. The reduction in the capital stock of livestock units strongly affected by the high prices of food compounds, resulting from the significant rise in the prices of the raw materials, in 2007 and in the first half of 2008, caused a decrease in demand in all market segments. Despite significant, the price increase observed is already tempered by the decline of prices for cereals and oilseeds in the second half of 2008.

Chart 3. Changes in volume, prices and values of some IC items, in 2008



SUBSIDIES

It is estimated that, between 2007 and 2008, the total subsidies paid to farmers should increase 12.8%. In structural terms, according to the Single Payment Scheme (SPS), the effect of the gradual transition of the amounts recorded under "Subsidies on products" to "Other subsidies on production" remains. This transition is less clear in 2008 because there have been payments related with previous Community Support Frameworks (CSF) and settlement of payments related to previous campaigns - the last type of subsidies represents 77% of the total subsidies, as opposed to 76% observed in 2007.

It is expected that the value of "Subsidies on product" should grow 7.6%. The largest relative reduction should be for tomato for manufacture due to the new Common Market Organization (CMO) for horticultural products, in which the aid will now be unrelated with production. Until 2011 there will be a transitional aid. Reversely, increases should occur in cereals, sheep and goats and milk caused by increases in areas / production and settlement of payments related to previous campaigns. For the "Other subsidies on production", it is expected an increase of 14.5%, mainly explained by the starting up of payments related with the Rural Development Plan (RDP) 2007-2013 and payments still related with RDP 2000-2006.

Chart 4. Subsidies on product

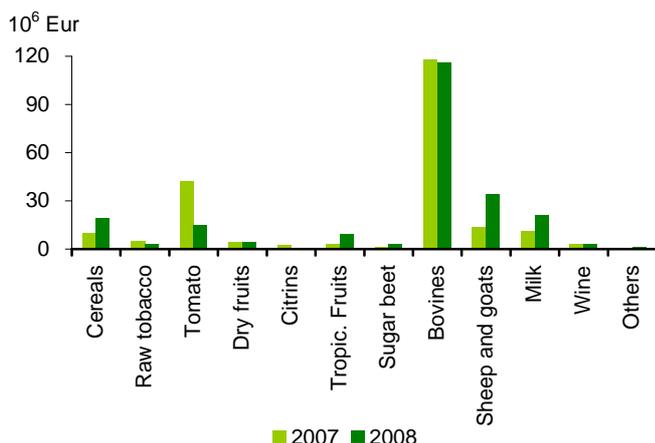
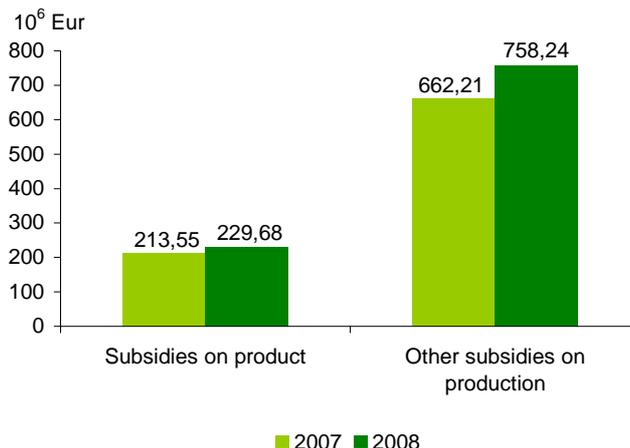


Chart 5. Total Subsidies



NET ENTREPRENEURIAL INCOME

Concerning the remaining items of the Agricultural Income, there is a slight increase in Rents payable (+1.2%), explained by the increase in some areas of arable and sunflower, tempered by the decline in the areas of rice and potatoes. Interest payable is expected to decrease 2.3% due to the small reduction of the interest rate compared with 2007, since the volume of loans is more or less the same. The Compensation of employees is foreseen to increase 2.5%, whose trend is softened by the expected decrease in the ALI. Finally, a nominal increase of 3.2% in the Net Entrepreneurial Income (REL) is estimated.

Table 1.1 Agricultural Income in 2008 - 1st Estimate

Main items at basic prices

Code NewCronos		2007* 10 ⁶ Euros	Change (%)			2008 10 ⁶ Euros
			Volume	Price	Value	
01000	CEREALS (including seeds)	225,97	15,9	0,2	16,1	262,44
02000	INDUSTRIAL CROPS	78,82	-3,4	5,9	2,3	80,66
03000	FORAGE PLANTS	268,53	9,7	4,4	14,5	307,54
04000	VEGETABLES AND HORTICULTURAL PRODUCTS	1.265,65	0,5	3,6	4,1	1.317,43
05000	POTATOES (including seeds)	182,76	-18,2	-14,7	-30,3	127,44
06000	FRUITS	811,34	-0,9	9,1	8,2	877,82
07000	WINE	861,49	-8,5	3,7	-5,1	817,43
08000	OLIVE OIL	135,09	-30,1	-0,4	-30,4	94,05
09000	OTHER CROP PRODUCTS	9,75	0,0	44,0	44,0	14,04
10000	CROP OUTPUT (01 TO 09)	3.839,40	-2,3	3,9	1,5	3.898,85
11000	ANIMALS	1.587,70	8,7	1,4	10,1	1.748,76
11100	Cattle	488,02	20,9	-5,7	14,0	556,52
11200	Pigs	462,38	7,0	5,9	13,4	524,16
11500	Poultry	389,99	3,4	1,5	5,0	409,30
12000	ANIMAL PRODUCTS, of which	887,41	2,8	11,7	14,8	1.018,52
12100	Milk	759,03	2,9	13,3	16,6	885,18
13000	ANIMAL OUTPUT (11+12)	2.475,11	6,6	4,9	11,8	2.767,28
15000	AGRICULTURAL SERVICES OUTPUT	282,99	0,0	5,7	5,7	299,11
17000	SECONDARY ACTIVITIES (INSEPARABLE)	33,70	1,5	3,4	5,0	35,39
18000	OUTPUT OF THE AGRICULTURAL 'INDUSTRY' (16+17)	6.631,20	1,1	4,4	5,6	7.000,63
19000	TOTAL INTERMEDIATE CONSUMPTION, of which	4.488,44	-1,4	10,6	9,0	4.891,12
19010	SEEDS AND PLANTING STOCK	192,27	-2,2	6,9	4,5	201,00
19020	ENERGY; LUBRICANTS	448,52	2,0	14,5	16,8	524,07
19030	FERTILISERS AND SOIL IMPROVERS	159,59	-6,2	53,9	44,5	230,54
19040	PLANT PROTECTION PRODUCTS	98,82	-3,9	17,4	12,9	111,53
19060	FEEDINGSTUFFS	1.900,98	-1,2	13,0	11,7	2.122,50
20000	GROSS VALUE ADDED AT BASIC PRICES (18-19)	2.142,76	6,4	-7,5	-1,6	2.109,51
21000	- FIXED CAPITAL CONSUMPTION	694,44	-1,0	2,8	1,8	706,96
22000	NET VALUE ADDED AT BASIC PRICES (20-21)	1.448,32	10,0	-12,0	-3,2	1.402,55
24000	- OTHER TAXES ON PRODUCTION	5,01			-1,6	4,93
25000	+ OTHER SUBSIDIES ON PRODUCTION	662,21			14,5	758,24
26000	FACTOR INCOME (22-24+25)	2.105,52			2,4	2.155,86
23000	- COMPENSATION OF EMPLOYEES	635,50			2,5	651,51
27000	NET OPERATING SURPLUS / MIXED INCOME (22-23-24+25)	1.470,02			2,3	1.504,35
28000	- RENTS AND OTHER REAL ESTATE RENTAL CHARGES TO BE PAID	57,34			1,2	58,01
29000	- INTEREST PAID	216,78			-2,3	211,71
30000	NET ENTREPRENEURIAL INCOME (27-28-29+30)	1.195,90			3,2	1.234,63
40000	TOTAL AGRICULTURAL LABOUR INPUT (IN 1000 AWU)	374,2			-4,3	358,0

* Data produced in September 2008

** Annual Working Unit

The "income from agricultural activity" is the agricultural income A (Annual change, in %, in factor income, deflated by the Total agricultural labour input). It was determined based on information available until 2008, 28th of November. In the EAA first estimate, the GDP deflator is determined by Eurostat, for each Member State.

$$\text{INDICATOR A} = \frac{[(\text{Factor income year } n / \text{GDP deflator}) / \text{ALI year } n]}{[\text{Factor income year } n-1 / \text{ALI year } n-1]} = \frac{[(2\,155.86 / 1.0213) / 358]}{[2\,105.52 / 374.2]} = * 100 - 100 = 4.8\%$$