

## *Agri-sector has stability in demand but volatility in spades*

Contact: Richard Ramsey  
Chief Economist, Northern Ireland  
02890 276354 or 07881 930955

[Richard.ramsey@ulsterbankcm.com](mailto:Richard.ramsey@ulsterbankcm.com)  
[www.ulsterbank.com/economics](http://www.ulsterbank.com/economics)  
Twitter @UB\_Economics

### ***Appears in Belfast Telegraph Business Month published 12<sup>th</sup> May 2014***

Northern Ireland has been experiencing something of an economic recovery, with demand returning for various sectors. However, total private sector output still remains over 14% below its pre-downturn peak, and the construction sector is still experiencing a lack of demand with output less than half of that of mid-2007.

By contrast, strong demand is a given within the agri-food sector. Indeed, the fact that the UK has a trade deficit in food of over £18bn per annum indicates the scale of food demand, and the potential for local firms to grow significantly by capitalising on this.

Over the last number of years, the demand for agricultural products has soared and this trend is set to continue. *'Buy farms, not flats'* was the headline on a recent editorial of the Money Week magazine. The publication highlighted that one of the greatest global bull markets ever seen is taking place within agricultural land. Other sectors of the economy would crave for the demand stability that agriculture clearly possesses.

Whilst agriculture enjoys stability in demand, it has volatility in spades elsewhere. Northern Ireland's agricultural sector, like the industry worldwide, has traditionally been the sector most exposed to global markets, exchange rates and adverse weather conditions. As a result, the agricultural sector experiences more volatile conditions than any other. Annual double-digit increases or decreases across a range of indicators are par for the course.

Despite this volatility, the agriculture and wider agri-food sector has been one of the best performers during the downturn. Output, sales and employment are all up relative to 2007. Gross agriculture output by volume was up 4% in real terms, although gross input was up 4 times this figure. As a result, gross value added actually fell by 10%. However, unlike other sectors, gross value added and output are not the key indicators to measure agricultural performance.

Within agriculture, however, fluctuations in prices and subsidies mean the key performance measure is income and profitability, not output. Last year was a strong year for the agriculture sector as far as farm income was concerned with total income from farming (*TIFF*) increasing by 31% in real terms. However, this followed a decline of the same amount in 2012 and highlights the volatility within the sector. Last year's increase was attributed to a rise in producer prices, notably the 21% rise in milk prices, and an increase in the value of farm subsidies.

Despite volatility in recent years, last year *TIFF* was still some 27% higher in real terms relative to 2007, which was a bumper year for the agriculture sector, as it was for other sectors such as the property sector. *TIFF* increased by 48% in real terms in 2007. This figure jumps to 88% when comparing the rise between 2006 and 2013. At a headline level, comparing the performance of the local agriculture and construction sectors over this period could be summarised as seven years of feast and famine.

The agriculture sector has been one of the few areas to be fairly resilient to job losses. Over the six-year period from Q4 2007-Q4 2013, Agriculture, Forestry & Fishing recorded a rise in employment of 6.5% (780 jobs). If the rise in employment numbers in the food processing sector is included employment has risen by an additional 1,200 jobs. This position of net employment growth compares favourably with the Northern Ireland economy as a whole. Over the corresponding six-year period, the average decline for all sectors of the economy was 3.1%. This is after 36% of the jobs lost during the recession have been recouped. The average for all sectors conceals the 36% decline in construction employment over the past six years.

Analysis of Northern Ireland's manufacturing sales and exports survey also reveals that the local Food, Drink & Tobacco (FDT) sector has been the star performer throughout the downturn. In 2012/13, NI's FDT sector posted annual sales of £8.8bn which represented more than half of all manufacturing sales. This represented a rise, in real terms (*adjusting for inflation & exchange rates*), of 4.0% or £343m, on the previous year's record high. Over the 4 years to 2012/13, FDT sales to the Republic of Ireland and to Great Britain have increased cumulatively by 46% and 34% respectively.

Given that FDT accounts for more than half of total manufacturing sales, its performance has concealed even greater declines in other sectors. Stripping out FDT sales reveals that in 2012/13 the remaining sub-sectors have sales levels 24% below the 2008/09 peak. At a market level, manufacturing sales to the RoI (*excluding FDT*) in 2012/13 were a staggering 61% below their 2007/08 levels.

The surge in GB sales largely stemmed from significant moves in the sterling exchange rate against the euro. During the downturn, the big moves in the sterling / euro exchange rate resulted in a marked appreciation in the euro against sterling which made Irish exports to GB uncompetitive. Local manufacturers stole a march by displacing their RoI counterparts as suppliers to the GB market. Looking ahead, however, the exchange rate tailwind that the agri-food sector has enjoyed throughout the downturn appears to have run its course. Given the strength in sterling against the euro in 2013/14, this price competitiveness should ease.

That said, with wider conditions for the industry, notably the high demand from within the UK, in place to support growth, the agri-food and drink industry should enjoy a bright future into the years ahead.

*Richard Ramsey,  
30<sup>th</sup> April 2014*

This document is issued for information purposes only for clients of Ulster Bank Group who are eligible counterparties or professional customers, and does not constitute an offer or invitation to purchase or sell any instrument or to provide any service in any jurisdiction where the required authorisation is not held. Ulster Bank and/or its associates and/or its employees may have a position or engage in transactions in any of the instruments mentioned.

The information including any opinions expressed and the pricing given, is indicative, and constitute our judgement at time of publication and are subject to change without notice. The information contained herein should not be construed as advice, and is not intended to be construed as such. This publication provides only a brief review of the complex issues discussed and readers should not rely on information contained here without seeking specific advice on matters that concern them. Ulster Bank make no representations or warranties with respect to the information and disclaim all liability for use the recipient or their advisors make of the information. Over-the-counter (OTC) derivatives can involve a number of significant and complex risks which are dependent on the terms of the particular transaction and your circumstances. In the event the market has moved against the transaction you have undertaken, you may incur substantial costs if you wish to close out your position.

Ulster Bank Limited Registered Number: R733 Northern Ireland. Registered Office: 11-16 Donegall Square East, Belfast BT1 5UB.  
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Member of The Royal Bank of Scotland Group.

Ulster Bank Ireland Limited . A private company limited by shares , trading as Ulster Bank , Ulster Bank Group and Bank Uladh. Registered in Republic of Ireland. Registered No. 25766. Registered Office: Ulster Bank Group Centre, George's Quay, Dublin 2. Member of the Royal Bank of Scotland Group. Ulster Bank Ireland Limited is regulated by the Central Bank of Ireland.

Calls may be recorded.



**Ulster Bank Limited accepts no liability for the outcome of any actions taken arising from the use of this article**