

Monitoring of the profitability of agriculture

Ensuring the profitability of agriculture is one of the key objectives of agricultural policy. MTT Agrifood Research Finland, which operates under the Ministry of Agriculture and Forestry, monitors the profitability of agricultural enterprises and produces official profitability figures in the agricultural sector. Monitoring is based on data collected from about 900 farms and particularly profitability indicators developed specifically for agriculture. A key indicator is the "profitability ratio", whose development has been described in budget proposals along with other information. No specific limit or objective level has been set for profitability in budget proposals, however.

According to published profitability figures, agriculture has been plagued by low profitability for several decades. On average about half of the rise in pay and production that was expected in profitability monitoring in the 2000s has been achieved.

Nevertheless, demand for agricultural labour inputs has not declined as a result of low profitability. The cost of production inputs in agriculture has increased at a faster rate than inflation, but the rise in costs has not been reflected in the volume of inputs. Actual market development appears to contradict the results of official profitability monitoring.

The audit evaluated the reliability of the information on which profitability monitoring is based and the soundness of the assumptions that are used in calculating profitability. The aim was to get some idea of how well monitoring describes farms' real profitability from the perspective of individual enterprises. One problem with this approach, however, is that there is no other reliable information concerning real profitability in agriculture. For comparison the audit consequently had to use data that were not originally collected for this purpose and are therefore subject to selection bias to a varying extent.

On the basis of the audit, it appears that the monitoring of profitability by MTT Agrifood Research Finland gives a more pessimistic picture of farms' profitability than the data that were used for comparison. This is due to calculation methods and uncertainties in source data. Some of the farms that were monitored have recorded very large numbers of work hours compared with the norms approved by the Work Efficiency Institute. According to EU legislation, capital goods financed by the state are also included in farms' assets, contrary to tax procedure, for example. This increases the return-on-investment requirement, thus weakening profitability measured using this factor.

The audit did not evaluate the real level of agricultural profitability in Finland as a whole. According to the advisory organization's indicators, production on larger farms that are classified as full-time operations has been more or less profitable in recent years.

On the basis of the audit, monitoring of the profitability of agriculture should shift to profitability indicators that are widely used in business. These should be calculated according to the guidelines issued by the Business Research Commission. This would also make comparison with other branches easier.

Advantages of the MTT monitoring system are very long time series and the possibility to examine and compare different fields of agriculture. The system also includes numerous tests that ensure the elimination of technical errors.