

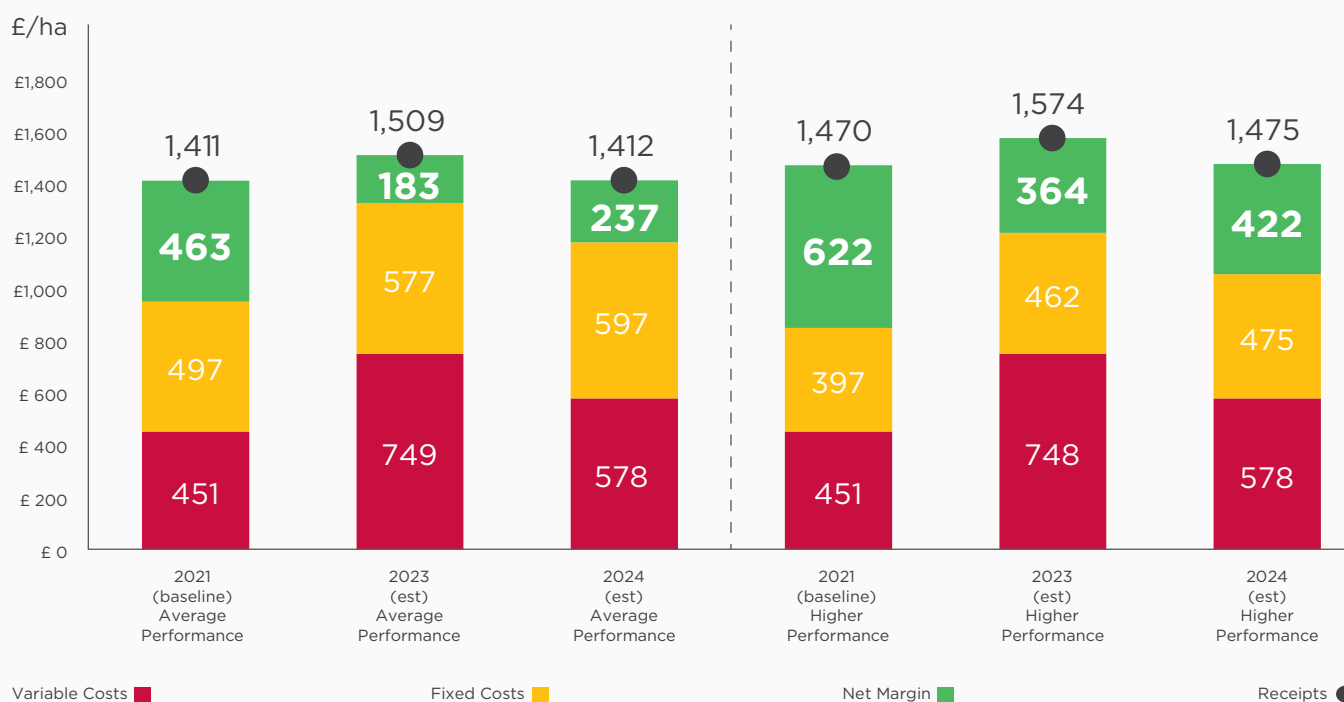
# ARABLE PROFITABILITY FORECASTS

SUMMER 2023

## OVERVIEW

Profit forecasts highlight value of attention to detail

**Figure 1** Net margins, costs and receipts for average and high-performing arable farms, 2021, 2023 and 2024



The rollercoaster for UK arable farmers looks set to continue, with growers facing more than a 50% drop in profits for harvest 2023, due to the impact of lower commodity prices, higher working capital requirements and the drop in Basic Payments Scheme (BPS) receipts.

The prospects for next season are looking a little better, although net margins – which can be considered to be the equivalent of profit (before rent and finance) – are still forecast to be significantly lower in 2024 than they were in 2021 (arguably a better comparison than 2022 given the huge volatility in input and crop sales values we saw that year).

The following information is based on a Strutt & Parker model which compares crop and other receipts, expenditure and profits for arable farms, based on a universal set of assumptions, to provide an overview of the outlook for the sector. See the methodology section for more details.

Growers who would like to see forecasts based on their own data should contact a member of the Strutt & Parker Farming team.

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## AT A GLANCE

### Forecast profits for harvest 2023

#### Receipts and income



Crop receipts are expected to fall by 14% from 2022 levels because of the fall in grain prices over recent months.



The model assumes an average 2023 wheat price of £200/t, on the basis of 10-15% of the harvest having been sold forward.

#### Costs



Record fertiliser prices, alongside increases in seed and spray costs, are expected to have pushed up variable costs to a record high of around £750/ha.



Property and machinery maintenance costs are forecast to have risen by 20% in 2023.

#### Profitability



The net margin for an average farm is expected to be **£183/ha**, which is 68% lower than in 2022 and 60% lower than the 2021 baseline



The net margin for a higher-performing arable farm is expected to be **£364/ha**, which is 52% lower than in 2022 and 42% lower than in 2021.

### Forecast profits for harvest 2024

#### Receipts and income



Crop receipts are budgeted to fall by another 6% based on an average of £190/t for 2024 wheat sales.

**BPS**  
**-48%**

Further cuts in BPS receipts mean that farms who received payments between £30,000 and £50,000 before 2021 will only receive 48% of the original amount.



#### Costs

Falling gas prices should provide a much lower ammonium nitrate (AN) price than seen for harvest 2023.



Due to the fall in input costs, working capital requirements will be lower than in 2022 and 2023, but are still 24% higher than they were in 2021.

#### Profitability



The net margin for an average arable farm is forecast to be **£237/ha**, which is 29% higher than has been budgeted for 2023.



The net margin for a high-performing arable farm is forecast to be **£422/ha**, which is 16% higher than in 2023.

## IMPLICATIONS FOR MANAGEMENT

Successful businesses find ways to manage risk and time spent on budgeting and cash flow forecasting is more important than ever. The past three years have seen high levels of volatility with many businesses (although not all) making record profits in 2022, but now facing one of their most challenging years for some time. The forecast for 2024 is better, but still worrying, which puts further pressure on businesses to look for areas where they can improve performance.

The net margins of higher-performing businesses are forecast to be more than 75% higher than those of the average-performing farms in 2024, highlighting the value of quality farm management and attention to detail. While a higher wheat yield on such farms improves financial output, it is the lower level of fixed costs which makes the greatest difference (£597/ha vs £475/ha), pointing to the fact there are still many farms with scope to reduce their machinery and equipment costs.

We are expecting further announcements on additional Sustainable Farming Incentive (SFI) options shortly which have the potential to add around £60/ha to a farm's net margin.

## AVERAGE PERFORMING IN-HAND ARABLE FARMS

**Figure 2 Net margins, costs and receipts, 2021 to 2024**

(£/ha unless otherwise indicated)	2021	2022	2023 (est)	2024 (est)
Basic Payment receipts	£218	£183	£148	£113
CSS / ELM receipts	£47	£47	£61	£66
Crop receipts	£1,146	£1,523	£1,299	£1,233
<b>Receipts</b>	<b>£1,411</b>	<b>£1,753</b>	<b>£1,509</b>	<b>£1,412</b>
Seeds	£75	£83	£87	£80
Fertilisers	£173	£314	£377	£214
Sprays	£203	£244	£284	£284
<b>Variable Costs</b>	<b>£451</b>	<b>£640</b>	<b>£749</b>	<b>£578</b>
Power	£228	£262	£281	£287
Labour	£70	£73	£77	£81
Property	£101	£111	£121	£131
Admin	£98	£98	£98	£98
<b>Fixed Costs</b>	<b>£497</b>	<b>£545</b>	<b>£577</b>	<b>£597</b>
<b>Net Margin</b>	<b>£463</b>	<b>£568</b>	<b>£183</b>	<b>£237</b>
Working capital (variable + fixed costs) / ha	£948	£1,185	£1,325	£1,175
Working capital (variable + fixed costs) / farm	£124,154	£155,251	£173,614	£153,949

## SENSITIVITY OF 2023 NET MARGIN TO CHANGES IN COSTS

Costs have been very volatile in the past two years. This table shows the effect on net margin (or profits) of 10% and 25% changes - increases and decreases - in variable and fixed costs. It can be used

to assess the risk to profits and also as a quick check to cost levels on your farm.

**Figure 3 Sensitivity analysis (£/ha)**

			Variable Costs				
			£561	£674	£749	£823	£936
			-25%	-10%		+10%	+25%
Fixed Costs	£433	-25%	£515	£402	£327	£253	£140
	£519	-10%	£428	£316	£241	£166	£54
	£577		£370	£258	<b>£183</b>	£108	-£4
	£634	+10%	£313	£200	£126	£51	-£62
	£721	+25%	£226	£114	£39	-£36	-£148

## HIGHER PERFORMING IN-HAND ARABLE FARMS

Figure 4

(£/ha unless otherwise indicated)	2021	2022	2023 (est)	2024 (est)
Basic Payment Receipts	£218	£183	£148	£113
CSS / ELM Receipts	£47	£47	£61	£66
Crop Receipts	£1,205	£1,598	£1,365	£1,296
<b>Receipts</b>	<b>£1,470</b>	<b>£1,829</b>	<b>£1,574</b>	<b>£1,475</b>
Seeds	£75	£83	£87	£80
Fertilisers	£173	£314	£377	£214
Sprays	£203	£244	£284	£284
<b>Variable Costs</b>	<b>£451</b>	<b>£640</b>	<b>£748</b>	<b>£578</b>
Power	£177	£206	£219	£221
Labour	£52	£55	£57	£60
Property	£88	£97	£106	£114
Admin	£80	£80	£80	£80
<b>Fixed Costs</b>	<b>£397</b>	<b>£438</b>	<b>£462</b>	<b>£475</b>
<b>Net Margin</b>	<b>£622</b>	<b>£751</b>	<b>£364</b>	<b>£422</b>
Working capital (variable + fixed costs) / ha	£848	£1,078	£1,211	£1,053
Working capital (variable + fixed costs) / farm	£111,062	£141,203	£158,598	£137,960

## SENSITIVITY OF 2023 NET MARGIN TO CHANGES IN COSTS

Figure 5 Sensitivity analysis (£/ha)

			Variable Costs				
			£561	£674	£748	£823	£936
			-25%	-10%		10%	25%
Fixed Costs	£347	-25%	£666	£554	£479	£404	£292
	£416	-10%	£597	£485	£410	£335	£223
	£462		£551	£438	<b>£364</b>	£289	£176
	£508	10%	£504	£392	£317	£242	£130
	£578	25%	£435	£323	£248	£173	£61

## METHODOLOGY

Strutt & Parker's arable profitability tool can be used to help assess how sensitive arable net margins are to changes in some of the main variables, such as fertiliser and diesel costs, and crop sales values.

To produce forecasts for harvest 2023 and harvest 2024 the following assumptions have been used:

### Higher performing farms

Figures have been generated both for an average arable business and for a higher performing business. Yields for the higher performing businesses are based on 9t/ha wheat, 7.6t/ha winter barley, 6.2t/ha spring barley, 3.1t/ha oilseed rape, and it has lower fixed costs typical of the best arable businesses. The variable costs have been kept the same for both the average and higher performing farms, with the better performance coming from using inputs more effectively.

### Receipts

It is assumed that growers will have sold forward 10%-15% of grain for harvest 2023 throughout the price fall – offsetting some of the impact of falling prices for the 2023 harvest. We have therefore assumed an average sale price for harvest 2023 wheat of £200/t, and for harvest 2024 of £190/t. Clearly with such volatile markets these figures could soon change.

We have budgeted for agri-environment income to increase by 30% for harvest 2023 compared to our baseline of 2021 and by a further 10% for harvest 2024, due to increased options released for SFI attracting more farmers into agreements.

### Variable costs

For 2023, an average fertiliser price of £600/t has been assumed, based on a June 2022 price of £625/t, which increased significantly, but then dropped back in spring 2023. For 2024, calculations are based on the expectation of a new season ammonium nitrate (AN) price of £340/t. This follows the release from CF of their new season AN prices at £330/t and an expectation that most farmers would like to buy early to lock in this price, but not all farmers have the luxury of storage and cash flow to do so.

Spray costs have increased by around 20% since 2022 but it is anticipated that no further significant price rises will be seen for the 2024 harvest.

### Fixed costs

Labour costs are estimated to have increased by 10% for 2023 and by 16% for 2024 (both percentages are based on a comparison with the 2021 baseline).

Property and machinery maintenance costs are estimated to have risen by 20% in 2023 and by 30% by 2024 (again both percentages are based on a comparison with the 2021 baseline).

Working capital figures per farm are based on a typical cereals farm which has 131 hectares of arable crops





## CONTACT US

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