

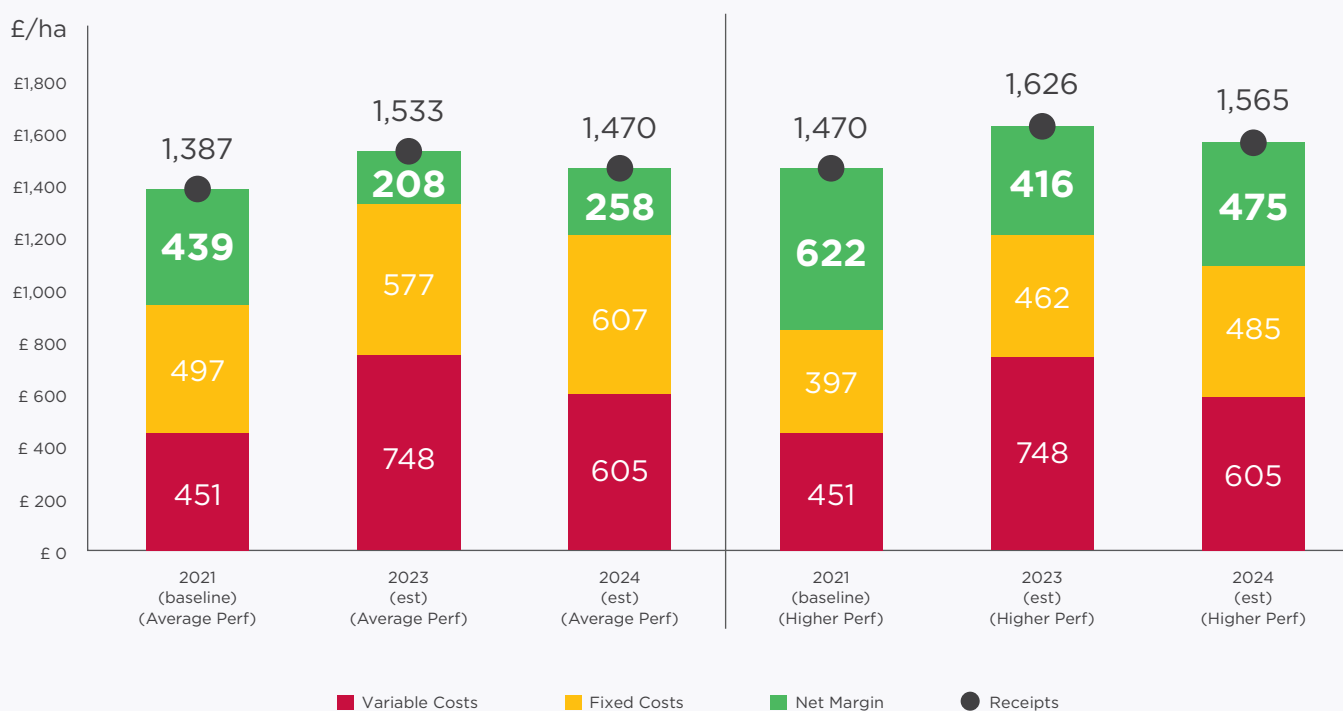
ARABLE PROFITABILITY FORECASTS

WINTER 2023/24 UPDATE

OVERVIEW

Working capital requirements for Harvest 2024 point to cash flow challenge

Figure 1 Net margins, costs and receipts for average and higher performing arable farms, 2021, 2023 (est) and 2024 (est)



Now that harvest 2023 has finally drawn to a close and attention turns to harvest 2024, we have reviewed our arable profitability forecasts and in particular the assumptions that were used when we originally ran the numbers in June of this year.

Commodity and input prices for this year's crop are now more concrete and inflation appears to be slowing, so we can build a more accurate picture of the net margin for arable farms for harvest 2023 and look at what harvest 2024 may have in store.

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AT A GLANCE

Forecast profits for harvest 2023

Receipts and income



OSR yields have been reduced to 2.7t/ha from 3.1t/ha due to yields falling generally but the market price has increased to £410/t, based on the October price for deliveries into Erith (allowing for haulage and bonuses).



Spring barley prices have improved since May so we have used £240/t, assuming that most growers will have now sold their crops.

Profitability



The net margin of the farm has increased to £208/ha due to the changes in receipts, which is £25/ha higher than our estimate in June, although still much lower than profits in 2021, our baseline year.

Forecast profits for harvest 2024

Using current market data and building on evidence from harvest 2023, we have updated our projections for harvest 2024.

Receipts and income



The wheat price for harvest 2024 is pushing upwards to £200/t, but based on current over supply there is little momentum for significant further rises.

We have also assumed that OSR prices remain high, and have used £430/t.

Costs



Fertiliser prices have risen since the release of new season prices so we have increased the price in the model to £380/t for ammonium nitrate (AN). This recognises that some growers will buy their fertiliser in the spring.

EU natural gas prices have increased by 64% since June but with current autumn weather and high stock levels, demand is depressed, potentially limiting any significant price rises for spring 2024. Crude oil has also risen in price. We have assumed that red diesel is £0.85/l but, with Saudi Arabia and Russia continuing to cut supplies, it is possible prices will rise further.

Profitability



Income from crop receipts is broadly stable. Lower variable costs are partially offset by higher fixed costs (mainly due to fuel and labour cost increases) and a lower Basic Payment. The result is that the net margin is expected to increase to £258/ha, which is £50 higher than our estimate for harvest 2023.

IMPLICATIONS FOR MANAGEMENT

We include higher performing businesses in our analysis as a comparison.

They typically achieve higher crop yields than the average farm, through more efficient use of crop inputs, such as improved nitrogen use efficiency, making decisions based on better information and by applying greater attention to detail.

However, the greatest difference is that they have 20% lower fixed costs, which are largely due to lower machinery costs, although their labour, property and administration costs are also lower.

The differences in receipts and costs add up to large differences in net income / profits, which are expected to be double those of typical businesses in 2023 (£416/ha vs £208) and 84% higher in 2024 (£475/ha vs £258).

This highlights the importance of drilling down into the detailed performance of a business.

AVERAGE PERFORMING IN-HAND ARABLE FARMS

Estimated profits for 2023 and 2024 are slightly higher (£+25/ha and +£21/ha respectively) than we forecast in June but they are well below 2021's and 2022's levels. They have returned to closer to the levels seen in the late 2010s.

This is due to increases in receipts (from higher oilseed rape and wheat prices) although some of that increase has been offset by higher variable and fixed costs (from fertiliser and energy cost increases).

Figure 2 Net margins, costs and receipts, 2021 to 2024 (est)

(£/ha unless otherwise indicated)	2021	2022	2023 (est)	2024 (est)
BPS receipts	£218	£183	£148	£113
CSS / ELM receipts	£47	£47	£61	£66
Crop receipts	£1,122	£1,489	£1,324	£1,291
Receipts	£1,387	£1,719	£1,533	£1,470
Seeds	£75	£83	£87	£82
Fertilisers	£173	£314	£377	£239
Sprays	£203	£244	£284	£284
Variable Costs	£451	£640	£748	£605
Power	£228	£262	£281	£297
Labour	£70	£73	£77	£81
Property	£101	£111	£121	£131
Admin	£98	£98	£98	£98
Fixed Costs	£497	£545	£577	£607
Net Margin	£439	£534	£208	£258
Change from June 2023			+£25	+£21
Working capital (variable + fixed costs) / ha	£948	£1,185	£1,325	£1,212
Change from June 2023			-£0	+£37
Working capital (variable + fixed costs) / farm	£124,154	£155,251	£173,604	£158,776
Change from June 2023			-£10	+£4,827

SENSITIVITY OF 2024 NET MARGIN TO CHANGES IN COSTS AND RECEIPTS

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.

Profits are even more sensitive to changes in receipts, due to changes in commodity prices. A 10% fall in receipts (from £1,470/ha to £1,323) has a greater effect on net margins than a 10% increase in costs (variable and fixed).

Figure 3 Sensitivity analysis (£/ha)

		Variable Costs					
		£454	£544	£605	£665	£756	
		-25%	-10%		10%	25%	
Fixed Costs	£455	-25%	£561	£471	£410	£350	£259
	£547	-10%	£470	£379	£319	£259	£168
	£607		£409	£319	£258	£198	£107
	£668	10%	£349	£258	£198	£137	£46
	£759	25%	£258	£167	£106	£46	-£45

Figure 4 Effect on 2024 net margin of a 10% fall in receipts compared with a 10% increase in costs (£/ha)

Standard assumptions	10% fall in receipts (and no change in costs)	10% increase in costs (and no change in receipts)
£258 net margin	£111 net margin	£137 net margin

HIGHER PERFORMING IN-HAND ARABLE FARMS

Figure 5 Net margins, costs and receipts, 2021 to 2024 (est)

(£/ha unless otherwise indicated)	2021	2022	2023 (est)	2024 (est)
BPS receipts	£218	£183	£148	£113
CSS / ELM receipts	£47	£47	£61	£66
Crop receipts	£1,205	£1,598	£1,417	£1,386
Receipts	£1,470	£1,829	£1,626	£1,565
Seeds	£75	£83	£87	£82
Fertilisers	£173	£314	£377	£239
Sprays	£203	£244	£284	£284
Variable Costs	£451	£640	£748	£605
Power	£177	£206	£219	£231
Labour	£52	£55	£57	£60
Property	£88	£97	£106	£114
Admin	£80	£80	£80	£80
Fixed Costs	£397	£438	£462	£485
Net Margin	£622	£751	£416	£475
Change from June 2023			+£52	+£53
Working capital (variable + fixed costs) / ha	£848	£1,078	£1,211	£1,090
Change from June 2023			+£0	+£37
Working capital (variable + fixed costs) / farm	£111,062	£141,203	£158,598	£142,776
Change from June 2023			+£0	+£4,815

SENSITIVITY OF 2024 NET MARGIN TO CHANGES IN COSTS AND RECEIPTS

Figure 6 Sensitivity analysis (£/ha)

			Variable Costs				
			£453	£544	£605	£665	£756
£/ha			-25%	-10%		10%	25%
Fixed Costs	£364	-25%	£747	£657	£596	£536	£445
	£437	-10%	£675	£584	£523	£463	£372
	£485		£626	£535	£475	£414	£324
	£534	10%	£578	£487	£426	£366	£275
	£607	25%	£505	£414	£354	£293	£202

Figure 7 Effect on 2024 net margin of a 10% fall in receipts compared with a 10% increase in costs (£/ha)

Standard assumptions	10% fall in receipts (and no change in costs)	10% increase in costs (and no change in receipts)
£475 net margin	£318 net margin	£366 net margin

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:

Average and higher performing farms

Figures have been generated both for an average arable business and for a higher performing business. We have used the yields in Figure 8 in our analysis.

The higher performing businesses have 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.

Figure 8

	Average performing farms		Higher performing farms	
	2023	2024	2023	2024
Winter Wheat	8.0	same as in 2023	9.0 (1t/ha higher than average performing farms)	same as in 2023
Spring "	6.2	"	6.2	"
Winter Barley	7.6	"	7.6	"
Spring "	6.2	"	6.2	"
Winter Oats	6.2	"	6.2	"
Spring "	4.9	"	4.9	"
Rye	6.9	"	6.9	"
Winter OSR	2.7 (lowered from 3.1)	"	3.1 (0.4t/ha higher than average performing farms)	"
Winter Beans	3.2	"	3.2	"
Spring "	3.6	"	3.6	"
Peas	3.1	"	3.1	"

Receipts

We 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 £240/t for spring barley.

For 2024, we have kept the wheat price at £200/t and reduced the spring barley price back to £200/t.

Clearly with volatile markets these figures could 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 2023 new season ammonium nitrate (AN) price of £320/t. Prices have been increasing since June 2023 and not all farmers have the luxury of storage and cash flow to buy early so we have increased our average price across the year to £380/t (from £340/t in June).

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 in a typical rotation.



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