



# Arable profitability outlook

May 2024

Volatility in profits shows need for active risk management

## AT A GLANCE

### Forecasts for harvest 2024

#### Receipts and income



Receipts from crop sales are expected to be over £200/ha lower than in 2023, due to lower yields from poor weather conditions and more spring cropping (in line with AHDB's Early Bird planting survey).

#### Costs



Variable costs have fallen considerably, mainly due to lower fertiliser prices. Fixed costs are expected to increase, due to cost inflation in fuel, labour and property maintenance.

#### Profitability



The net margin of the average-performing farm is expected to fall to £80/ha, £119/ha lower than in 2023 (which itself was a challenging year) and 82% lower than our baseline year of 2021. The net margin of the higher-performing farm has also fallen, but only by a third to £271/ha.

### Forecasts for harvest 2025

#### Receipts and income



Crop receipts increase by £150/ha as we have assumed that rotations and yields return to more normal levels. Basic Payment receipts continue to fall and are partially offset by increases in agri-environment income.

#### Costs



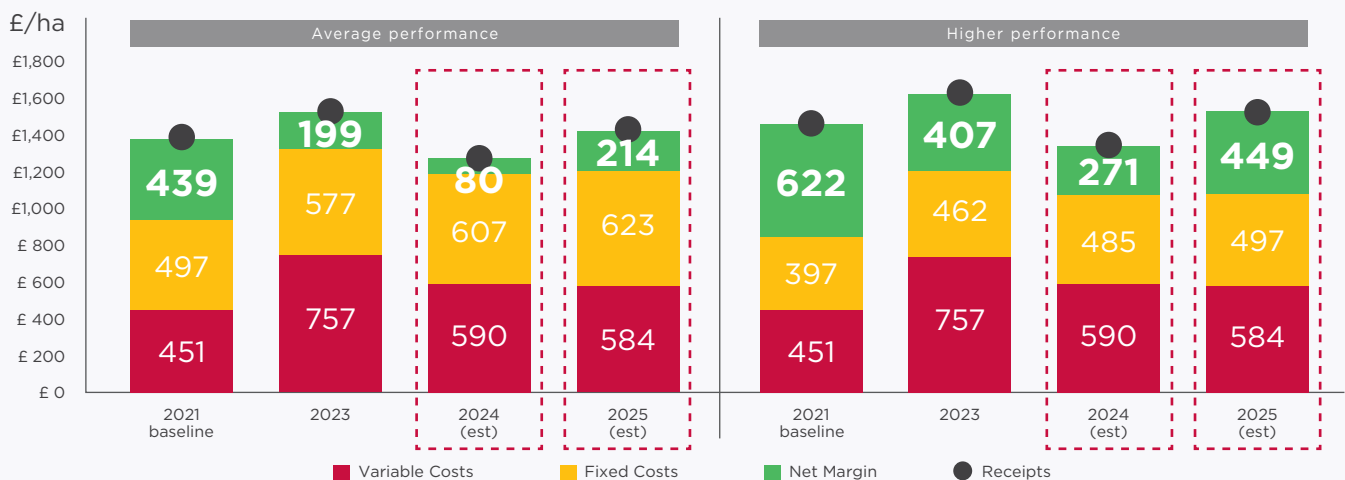
Variable costs should fall slightly as fertiliser costs reduce. However, we expect fixed costs on average farms to increase to £623/ha, which is 25% more than on higher-performing farms.

#### Profitability



Profits for the average-performing farm should increase significantly to £214/ha but will remain well below the levels seen in 2021 and 2022 and is barely financially sustainable. This will be less than half the profits of higher-performing farms (£449/ha).

Figure 1 Net margins, costs and receipts for average- and higher-performing arable farms, 2023 to 2025 (est) compared to the base year 2021 (£/hectare).



## OVERVIEW

After six months of exceptionally wet weather, we have reviewed our arable profitability forecasts and in particular the assumptions that were used when we last ran the numbers.

The figures we have produced should be seen as broad guide only. The impact of the weather has been felt everywhere, but some areas are clearly worse affected than others.

This analysis assumes that growers have managed to drill spring crops on any unplanted winter crop area, but in some areas even this has proved impossible and/or growers have chosen to enter more land into schemes like the Sustainable Farming Incentive (SFI).

Even when applying this 'best case' scenario, our analysis points to worryingly low net margins – which can be considered to be the equivalent of profit, before rent and finance – for an average-

performing business for harvest 2024, considering the level of risk and capital involved.

This raises important questions around risk management which we address in the section on Implications for Management (below). The net margin for a higher-performing business is projected to be around £200/ha higher than that of an average-performing business in both years, highlighting the importance of attention to detail.



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## IMPLICATIONS FOR MANAGEMENT

Farm profitability is likely to be something of a postcode lottery in 2024 due to the impact of the weather in different regions and on different soil types.

However, the figures we have produced are a clear demonstration of the level of volatility that farming businesses are facing because of weather extremes, changes in commodity prices and falling Basic Payments. This highlights two key points:

- The value of applying the level of attention to detail and behaviours that get businesses into the top 25% of performers
- The need to consciously and actively manage risk.

Weather extremes, geopolitics, and commodity price volatility, as well as input availability and costs have all combined to increase the level of risk within combinable crop businesses. The amount of working capital required has increased significantly over the past couple of years because of input cost inflation, and higher interest rates have made this capital much more expensive. This is one of the reasons why interest in Strutt & Parker's new Financial Brokerage service is growing as people seek the most favourable terms for funding their businesses.





### Focusing efforts

The Sustainable Farming Incentive (SFI) is currently the big talking point in the English farming sector and can be a valuable tool in terms of implementing a more active risk management strategy. It allows growers to take out the worst-performing areas, or lowest margin crops within a rotation and replace with a fixed return with almost zero risk. While the return may not be as high as that produced by a really good crop, it does avoid the risk of costly losses.

Taking this approach should also mean that growers can focus their efforts on the more profitable crops in the rotation, managing them in a more timely fashion to make them even more profitable. Of course, farming is a cyclical business and there are good years and bad. So farms which choose to minimise risk by focusing on increasing their fixed income sources will reduce the opportunities to take advantage of any upsides when they come.

### Reducing fixed costs

Higher-performing businesses have lower overhead costs per hectare, which is largely down to lower machinery costs, although their labour, property and administration costs also tend to be lower because resources are being deployed more efficiently. If businesses are reducing their cropped area, they will need to look for ways to reduce their fixed costs with possible solutions including machinery sharing and greater use of contractors or alternative business structures such as a joint venture or a Contract Farming Agreement. Without Basic Payments there are inevitably some farms which

will find it is no longer viable to operate as an independent, ring-fenced business, particularly those which are not big enough to have economies of a scale but are too large to rely on older and smaller equipment.

### Risk reduction

Other strategies for reducing risk might include taking a different approach to crop marketing to reflect the greater production risks growers are now facing. Spotting opportunities to sell into special markets which deliver a premium is another possibility.

When it comes to maximising farming productivity, we also know that having the right people in place is vital. Research consistently points to the top-performing businesses being led by, and employing, people who have a mindset which is open to change, an attention to detail, a focus on marginal gains and who are constantly looking for new opportunities. Losing such people is clearly a big risk factor.

Motivating and rewarding staff and family members appropriately can have a big impact on efficiency and staff retention so that needs to be a priority. Having a staff member unavailable for a long period because of illness or injury can also be incredibly difficult, so some farming businesses are now offering private healthcare as part of their financial package.

Volatility is here to stay, but by identifying, assessing and then addressing threats farmers can put themselves in the driving seat of their businesses and shield themselves from the worst of the impact.

## AVERAGE-PERFORMING IN-HAND ARABLE FARMS

Our model estimates the net margin for harvest 2024 has fallen to just £80/ha and this assumes that growers have managed to get crops into the ground.

The outlook for harvest 2025 is slightly better, assuming that rotations and yields return to more normal levels, but a net margin of £214/ha would still be around half of the levels seen in 2021 and 2022.

**Figure 2 Net margins, costs and receipts, 2021 to 2025 (est)**

(£/ha unless otherwise indicated)	2021 baseline	2022	2023	2024 (est)	2025 (est)
Basic Payment receipts	£218	£183	£148	£113	£85
Agri-environment receipts	£47	£47	£61	£66	£68
Crop receipts	£1,122	£1,489	£1,324	£1,098	£1,268
<b>Receipts</b>	<b>£1,387</b>	<b>£1,719</b>	<b>£1,533</b>	<b>£1,277</b>	<b>£1,422</b>
Seeds	£75	£83	£96	£93	£83
Fertilisers	£173	£314	£377	£229	£217
Sprays	£203	£244	£284	£268	£284
<b>Variable Costs</b>	<b>£451</b>	<b>£640</b>	<b>£757</b>	<b>£590</b>	<b>£584</b>
Power	£228	£262	£281	£297	£305
Labour	£70	£73	£77	£81	£84
Property	£101	£111	£121	£131	£136
Admin	£98	£98	£98	£98	£98
<b>Fixed Costs</b>	<b>£497</b>	<b>£545</b>	<b>£577</b>	<b>£607</b>	<b>£623</b>
<b>Net Margin</b>	<b>£439</b>	<b>£534</b>	<b>£199</b>	<b>£80</b>	<b>£214</b>
Change from Winter 2023/24 update			-£9	-£179	
Working capital (variable + fixed costs) / ha	£948	£1,185	£1,334	£1,197	£1,207
Change from Winter 2023/24 update			+£9	-£15	
Working capital (variable + fixed costs) / farm	£124,154	£155,251	£174,748	£156,856	£158,146
Change from Winter 2023/24 update			+£1,144	-£1,920	

## 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 net margin and also as a quick check to cost levels on your farm.

Profits are more sensitive to changes in receipts, due to changes in commodity prices. A 10% fall in receipts (from £1,277/ha to £1,149) has a greater effect on net margins than a 10% increase in costs (variable and fixed).

**Figure 3 Sensitivity analysis: Effect of changes in costs on net margin (£/ha)**

	Variable Costs						
	£443	£531	£590	£649	£738		
	-25%	-10%		10%	25%		
Fixed Costs	£455	-25%	£379	£290	£231	£172	£84
	£547	-10%	£288	£199	£140	£81	-£7
	£607		£227	£139	<b>£80</b>	£21	-£68
	£668	10%	£166	£78	£19	-£40	-£129
	£759	25%	£75	-£13	-£72	-£131	-£220

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

	Net margin with our standard assumptions	Net margin with a 10% fall in receipts (and no change in costs)	Net margin with a 10% increase in costs (and no change in receipts)
2024 net margin	£80	-£48	-£40

## HIGHER-PERFORMING IN-HAND ARABLE FARMS

The net margin of the higher-performing farms is expected to fall but only by a third to £271/ha. It should then return to more sustainable levels in 2025.

**Figure 5 Net margins, costs and receipts, 2021 to 2025 (est)**

(£/ha unless otherwise indicated)	2021 baseline	2022	2023	2024 (est)	2025 (est)
Basic Payment receipts	£218	£183	£148	£113	£85
Agri-environment receipts	£47	£47	£61	£66	£68
Crop receipts	£1,205	£1,598	£1,417	£1,167	£1,377
<b>Receipts</b>	<b>£1,470</b>	<b>£1,829</b>	<b>£1,626</b>	<b>£1,346</b>	<b>£1,530</b>
Seeds	£75	£83	£96	£93	£83
Fertilisers	£173	£314	£377	£229	£217
Sprays	£203	£244	£284	£268	£284
<b>Variable Costs</b>	<b>£451</b>	<b>£640</b>	<b>£757</b>	<b>£590</b>	<b>£584</b>
Power	£177	£206	£219	£231	£236
Labour	£52	£55	£57	£60	£62
Property	£88	£97	£106	£114	£119
Admin	£80	£80	£80	£80	£80
<b>Fixed Costs</b>	<b>£397</b>	<b>£438</b>	<b>£462</b>	<b>£485</b>	<b>£497</b>
<b>Net Margin</b>	<b>£622</b>	<b>£751</b>	<b>£407</b>	<b>£271</b>	<b>£449</b>
Change from Winter 2023/24 update			-£9	-£204	
Working capital (variable + fixed costs) / ha	£848	£1,078	£1,219	£1,075	£1,081
Change from Winter 2023/24 update			£9	-£15	
Working capital (variable + fixed costs) / farm	£111,062	£141,203	£159,742	£140,856	£141,600
Change from Winter 2023/24 update			£1,144	-£1,920	

## SENSITIVITY OF 2024 NET MARGIN TO CHANGES IN COSTS AND RECEIPTS

Higher receipts and lower costs make higher-performing businesses less sensitive to changes in fixed and variable costs.

**Figure 6 Sensitivity analysis: Effect of changes in costs on net margin (£/ha)**

		Variable Costs					
		£442	£531	£590	£649	£737	
		-25%	-10%		10%	25%	
Fixed Costs	£364	-25%	£540	£451	£392	£333	£245
	£437	-10%	£467	£378	£319	£260	£172
	£485		£418	£330	<b>£271</b>	£212	£123
	£534	10%	£370	£281	£222	£163	£75
	£607	25%	£297	£208	£149	£91	£2

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

	Net margin with our standard assumptions	Net margin with a 10% fall in receipts (and no change in costs)	Net margin with a 10% increase in costs (and no change in receipts)
2024 net margin	£271	£136	£163

## METHODOLOGY

Our arable profitability tool can be used to help assess how sensitive arable net margins are to changes in some of the main variables and also to changes in rotations and yields.

To produce forecasts for harvest 2024 and harvest 2025 the following assumptions have been used:

### Average- and higher-performing farms

Figures have been generated both for an average arable business which is cropping 131 hectares in a typical rotation 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 are broadly similar for both types, with the better performance coming from using inputs more effectively.

### Receipts

An average sale price of £190/t for wheat and £230t for spring barley has been assumed. Clearly with volatile markets these figures could change.

We have budgeted for agri-environment income to increase by 40% for harvest 2024,

**Figure 8** Yields used for average- and higher-performing businesses

	Average-performing farms		Higher-performing farms	
	2024	2025	2024	2025
Winter Wheat	7.5	8.0	8.0	9.0
Spring Wheat	5.5	6.2	5.75	6.2
Winter Barley	6.0	7.6	6.25	7.6
Spring Barley	5.0	6.2	5.25	6.5
Winter Oats	6.2	6.2	6.2	6.2
Spring Oats	4.9	4.9	4.9	4.9
Rye	6.9	6.9	6.9	6.9
Winter OSR	2.5	2.7	2.7	3.1
Winter Beans	3.2	3.2	3.2	3.2
Spring Beans	3.2	3.6	3.5	3.8
Peas	3.1	3.1	3.1	3.1

compared to our baseline of 2021, and by a further 5% for harvest 2025, due to increased options released for SFI attracting more farmers into agreements.

### Variable costs

An average fertiliser price of £380/t for harvest 2024 and £345/t for harvest 2025 has been used.

Spray costs have been kept at the same level as 2023.

### Fixed costs

Labour costs are estimated to have increased by 4% and the cost of property maintenance increased by 5% in 2024.

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