INTRODUCTION

Despite the cold, wet, spring and the summer drought, many combinable crop businesses delivered decent financial returns from harvest 2018 - higher prices off-setting losses in yield. The prospects for the upcoming 2019 harvest also currently look robust. However, not only is Brexit looming, but other issues such as high costs, lack of profitable break crops, loss of agro-chemicals, stagnant yields and low soil fertility need addressing. How should combinable cropping farms react to remain profitable over the next decade?

PRICES

Cereals prices for harvest 2018 experienced a welcome increase. This was the result of a number of factors, including the continued weakness of Sterling, higher world prices due to tighter markets, and reductions in output across northern Europe because of the drought.

Grain prices have fallen in the past month as northern hemisphere crops have emerged from the winter in good condition. Prices for harvest 2019 look set to be lower than last year, but markets are finely poised. Global wheat stocks are forecast to increase, but for coarse grains (feed grains; mostly maize), stocks at the end of the year are projected to be lower - indicating upwards price pressure. Global stocks of all grains are high in historic terms. However, over half of the tonnage is being held in China, which is both secretive about its stocks, and tends not to make them available to the world market. Global grain availability is therefore tighter than it might seem, which suggests some potential 'upside' to prices.

Oilseed rape values may well be boosted from their current lacklustre level by a lower crop in Europe. Any uplift will be restricted by issues in the wider 'oilseeds complex' - not least, US soya looking for markets now it is locked-out of China because of the US-China trade war.

Exchange rates are always key to grain prices. Ironically, any 'solution' to Brexit is likely to see the Pound strengthen which would lead to lower selling values.

POLICY

Brexit seems no nearer a resolution than when last year's Arable Outlook was written. With a Conservative leadership contest taking up much of the summer, any clarity will surely be months away. The prospect of a 'No-Deal' Brexit on the 31st October cannot be discounted. This would have significant implications with tariffs and non-tariff barriers making grain exports to our traditional EU markets far more difficult. In addition, the Government's proposed zero import tariffs would remove any protection from world market imports.

On farm support there is greater clarity, as the BPS will change whatever variety of Brexit results. The plan in England is for the direct support to be phased-out over 7 years starting in 2021, so that by 2028 there are no area payments. Instead, the Environmental Land Management Scheme (ELMS) will pay farmers for delivering 'public goods' - things like biodiversity, landscapes, public access, water quality, soil health, flood prevention and animal welfare. *It should be recognised that these plans are not enshrined in law, and a new Minister, or new administration can still revise them.*

The Government has committed to keep funding at present levels until 2022, but thereafter there are no guarantees. *It is clear that farmers will be expected to jump through more hoops to receive support in future. There will certainly be far less 'profit' than through the receipt of the BPS.*

The devolved administrations have been less forthcoming so far about future support. However, the coming months will see their thoughts on post-BPS arrangements start to emerge.

PROFITABILITY

Since 1991, Andersons has been using its Loam Farm Model to track the fortunes of UK combinable cropping farms. It comprises 600 hectares in a simple rotation of milling wheat, oilseed rape, feed wheat and spring beans. The table shows figures for four harvests.

LOAM FARM ***£ per Ha***	**2017** Result	**2018** Result	**2019** Budget	**2020** F'cast
Output	1,205	1,205	1,243	1,287
Variable Costs	395	403	439	449
Gross Margin	810	802	804	838
Overhead Costs	413	421	442	443
Rent and Finance	243	242	238	238
Drawings	77	79	79	79
Farming Margin	77	61	45	78
BPS (SPS)	228	228	226	219
Business Margin	**305**	**289**	**271**	**297**

The 2017 harvest delivered robust profits with both prices and yields good. Variable costs were at low levels because fertiliser was bought well. In 2018 yields were affected by the drought, but higher prices compensated for this. Extra costs meant that returns declined slightly. For the upcoming 2019 harvest yields from the wheat and beans are forecast to revert to normal levels. However, output of the oilseed rape is set to fall due to poor establishment and pest problems. With reasonably robust crop prices output is up a little on 2018 but overall profitability falls as costs, once again, increase.

The current budget for harvest 2020 is based on prices remaining around current levels (this is heavily dependant on the outcome of Brexit and/or movement in exchange rates). Output increases because it is assumed that oilseed rape yields will recover – it is not yet clear whether the 2019 season was just a 'blip' or heralds a fundamental issue with the crop. Overall, profit remains positive, and similar to the relatively stable situation seen for the previous three years. However, this is contingent on an 'orderly' Brexit - should there be a 'No Deal' outcome, then the prospects would be reduced.

BUSINESS MANAGEMENT

The Loam Farm figures show that combinable crop farming has had a run of good profitability, that could well continue in the short-term. However, this is more to do with external factors, not least the weakness of Sterling, rather than the fundamental strength of the business.

The interaction of yields and costs is the key determinant of profitability. High yields will reduce the cost of production per tonne, but yield increases have been far slower than cost inflation over the past decade. Without the higher prices seen over the past few seasons, profitability would have evaporated on many farms.

Yields are constrained in many cases by long-term issues of soil fertility, tight rotations, soil structure and weed burdens. Some parts of the farm, and, indeed, individual fields will be highly profitable, whilst others will generate losses. Are these latter areas known, and can remedial work improve their performance cost effectively? If not, would they be better off being left uncropped?

High rents and rent equivalents remain a barrier to profitable production. As the BPS disappears over the coming years, land providers may have to adjust their expectations on returns.

HELPING YOUR BUSINESS

With Brexit remaining unresolved, it is easy to carry-on doing much the same thing in the short-term, pending some certainty – especially if profits are robust. But, change is undoubtedly coming, and those farms that grab a head-start in improving efficiency will be best placed to prosper in the new environment.

Andersons already work with some of the most progressive cereals businesses. Our consultants can help arable farmers make the correct strategic decisions and improve profitability.

Please contact us for a FREE initial visit to discuss any of the issues raised in this brief.

Through its regional businesses, Andersons are leaders in independent business consultancy in UK agriculture. Please contact one of the offices below for more details on the topics covered in this publication.

Bury St Edmunds
Andersons Eastern
Tel: 01284 787 830
www.andersonseastern.co.uk

Salisbury
Andersons Midlands
Tel: 01722 782 800

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Tel: 01455 823 425

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Tel: 01968 678 465
www.andersonsedinburgh.co.uk

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The Andersons Centre
Tel: 01664 503 200

Brecon
The Andersons Centre
Tel: 01874 625 856

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