# Bank of Ireland Sectors Team Agriculture H2 2023 Insights and Outlook

**July 2023**

Bank of Ireland

Classification: Green

# H2 2023 Review


## Summary:

As ever, Irish farmers remain vulnerable to shocks stemming from extreme weather events, geopolitical tensions, policy changes and developments in other markets, potentially tipping the delicate demand-supply balance and impacting prices and farm incomes. While record farm gate prices in 2022 buffered increased input prices, dramatic and rapid falls in farm gate prices this year are not matched by reductions in input prices leading to expected margin contractions in 2023. Farmers are used to this volatility and have come into the year in a strong position. More concerning for farmers is the lack of clarity around future environmental policies that may restrict output and reduce their confidence to invest in their farms. Environmental policies are beginning to impact the sector – most noticeably in land prices in dairy intensive areas but also in terms of the future shape and structure of Irish farming.


## Price Developments – June 2023 v June 2022

**Food price index (FAO):** down 21% in 12 months

**Grain Price:** down 33% to €200/t (Green Barley)

**Milk price (CSO):** down 25% to €0.39/L

**Beef Price (DG Agri):** up 2% to €5.00/kg

Pig Price (DG Agri): up 18% to €2.22/kg

Fertiliser price (CSO): down 28% to 180 (base year 2015 = 100)

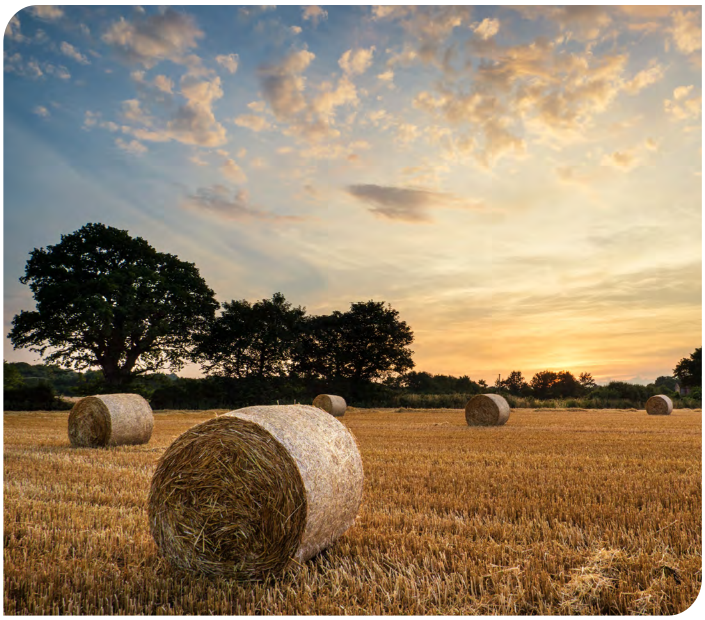
Feed prices (CSO): up 14% to 168 (base year 2015 = 100)

## Key Sector Trends

**Farmers entered 2023 in a strong position:**
2023 will go down in history as a record year for Irish farms with record prices, record production and record farm incomes. It was also a year where inflation saw production costs rise significantly on farms. However, the output prices achieved buffered the impact of the increased costs and average farm incomes increased by almost a third (32%) to €45,800 in 2023 (Teagasc) and are now 68% higher than 2021 figures. Average dairy farm incomes rose 53% to €150,900. Average tillage farm incomes rose 33% to €76,700. Average Cattle rearing incomes fell 14% to €9,400 (Teagasc).

**Overall debt levels on Irish Farms continues to fall:**
While total debt on Irish farms has been declining over the past 15 years along with the numbers of farmers with debt, the average debt on farms has been increasing. The number of farms with debt has fallen from 53% five years ago to 39% in 2022 (Teagasc). However, the average level of debt has increased by 22% since 2019 to €73,000 in 2022 (Teagasc). Nevertheless, the total debt levels on Irish farms continues to decline as Irish farmers pay down debt at a faster rate than taking out new borrowings. The latest figures from the Central Bank show that total bank debt on Irish farms stood at €2.8bn at the end of March 2023- down €72m compared to March 2022. At the same time, new lending to Irish farms in Q1 2023 fell by €11m (-6%) compared to the Q1 2022, reflecting the strong farm output prices, cashflows and profitability in 2022. Overdraft utilisation rates – have started to increased but still remain at lowest levels in 5 years.

**Relatively high farm deposits start to reduce:**
According to the Central Bank, deposits for primary industries (including agriculture) have increased 55% since the onset of Covid in March 2020. In the past 12 months (March 22 to March 23) deposits have increased 14%. Deposit balances peaked in December 2022 and in the first 6 months of 2023, Agri deposit balances have declined c.7%.



**Weaker cashflows and larger tax bills looming:**
As output prices have fallen and the price of key inputs has remained high, cashflows have weakened on farms over the first 6 months of 2023. Tax liabilities particularly on farms operating as sole traders could rise by as much as 70% in 2023 as result of their 2022 tax returns which could significantly impact cashflow on some farms.

**Slowdown in investment as sector sees growth stabilisation:**
Despite the opening of a €370m Targeted Agricultural Modernisation Scheme (TAMS) to provide funding for capital investments on farms there has been a progressive slowing of investment (farm development) over the past 12-18 months. Figures from the CSO show that planning permissions granted for farm buildings in the first 3 months of 2023 are down 29% compared to the same period in 2022. Plans granted for Agricultural buildings fell by 41% to 670 in 2022. This reduction in investment is predominantly driven by a stabilisation in the expansion of the dairy sector due to a lack of clarity around future policy, along with increased environmental regulations, additional measures introduced under the Nitrates Action Programme, labour challenges and increased building costs. The knock-on impact of a slowdown or reduction in dairy output for businesses upstream (feed and fertiliser suppliers) and downstream (dairy processors) could be significant for the rural economy due to the multiplier effect of farming activity.

**Lack of Environmental policy clarity undermining farmer confidence:**
While the Government has set ambitious targets to reduce greenhouse gas emissions for the sector by 25% by 2030 on 2018 levels, and the sector's climate action plan sets out a roadmap, there is less clarity around the policies that will ensure the target is achieved. For example, will a reduction in the national herd be required and what form would this take? Furthermore, as farmers grapple with increased measures introduced under the Nitrates Action Programme earlier this year, in the longer term, the future of Ireland's nitrates derogation hangs in the balance.

**War continues to drive farm income volatility:**
Russia's invasion of Ukraine is continuing to have a major impact on agricultural markets, production costs and therefore volatility in farm incomes. The invasion which resulted in higher energy and fertiliser prices for farmers in 2022 has seen these costs remain at elevated levels during the first half of 2023. While the increased cost of many key inputs in 2022 was buffered by record farm gate prices across most agri commodities, the fall in farm gate prices in 2023 has been faster than the fall in input prices, leading to margin tightening across many tillage and dairy farms in particular.

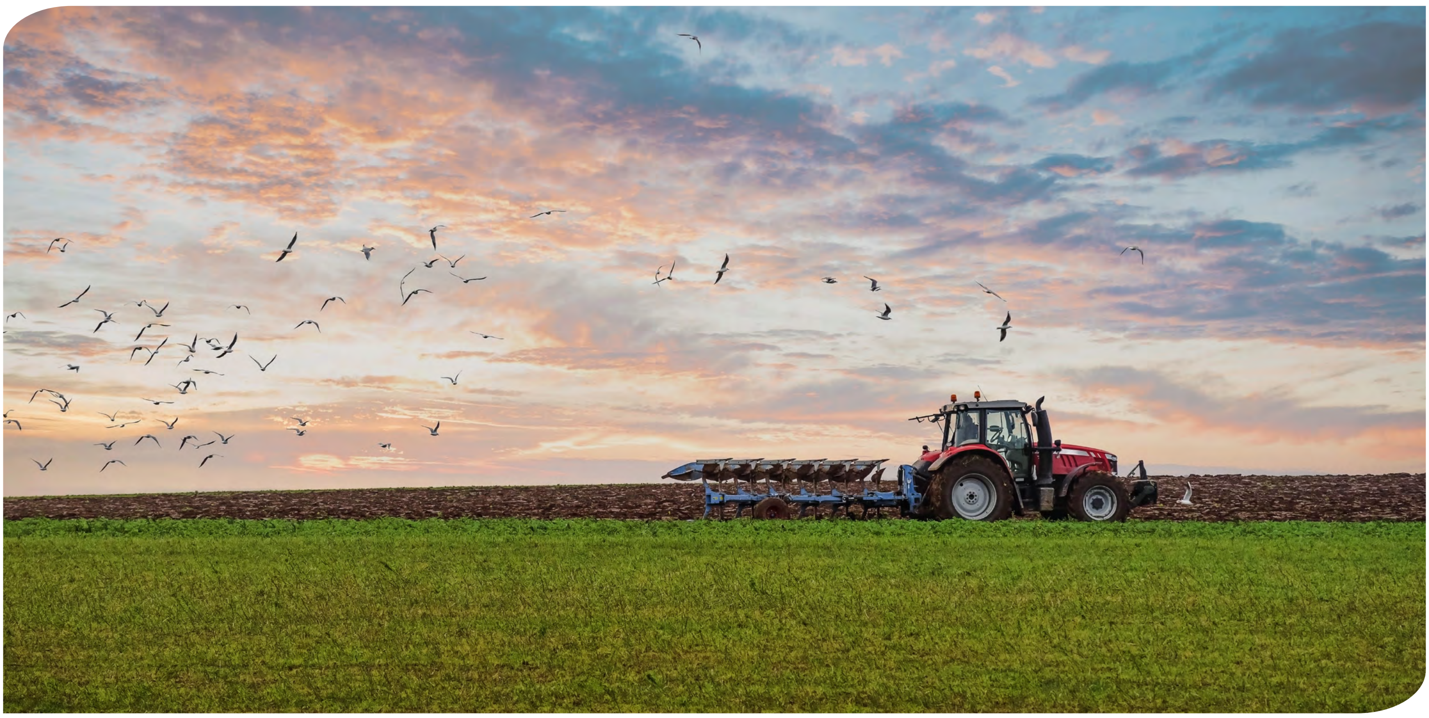
**Deflationary Price environment:**
Agricultural output prices have broadly mirrored the trend for agricultural inputs and have also become deflationary. In the period January to April 2023, input prices fell 5% while output prices reduced 12.5% (CSO). Although, it appears that food prices for consumers are continuing to rise whilst agricultural prices are falling, importantly, there is a lag between how agricultural prices evolve and how these prices are reflected in retail prices.

**Environmental compliance driving land prices:**
Agricultural land prices rose 3% to €12,288 per acre in 2022 (Farmers Journal Agricultural Land Price Report)- the highest level since the Celtic Tiger. While business buyers (non-farmers) dominated purchases in 2022, driven by favourable tax policies and the relatively safe investment land offers in the current economic environment, dairy farmers have been active buyers.

In order to maintain current levels of milk production – and to comply with new nitrates measures- many dairy farms will need to either increase their land area or reduce milk production. As a result, it is expected that land prices nationally will rise a further 8% on average in 2023 (SCSI). Individual parcels, particularly in dairy intensive regions are achieving prices well above this – in excess of €20,000/acre.

The rental land market is equally as competitive, where the 10% rises in average land rental prices seen last year, are expected to increase a further 14% in 2023 (SCSI) – driven again by the dairy sector. Tillage farmers, who had a strong year last year are very active and competing strongly in the land rental market this year. Annual land rental prices are ranging (depending on land use and locality) between €150-€600/acre.

**Further environmental policies to come:**
Emissions from the Land Use, Land Use Change and Forestry (LULUCF) sector are projected to increase over the period 2021 to 2030 as our forestry reaches harvesting age and changes from a carbon sink to a carbon source. Planned policies and measures for the sector, such as increased afforestation, water table management on agricultural organic soils and peatland rehabilitation, are projected to reduce the extent of the emissions increase.



# By sector:

## Dairy:


### Summary:

Although milk prices are forecast to decline from 2022, they are expected to be the second highest since 2014. However the continuation of relatively high production costs, driven by feed, energy and fertiliser will make 2023 a more challenging year for the sector. Of more long term concern is the impact of increasing environmental and animal welfare legislation on cost and income evolution on dairy farms.


**Global milk production growth is slowing:**
FAO's latest forecast points to a second consecutive year of slow growth (<1%) in world milk production in 2023, primarily due to extreme weather events, lower producer margins and labour shortages. Following a slump last year, a slight recovery in global dairy trade is expected, despite likely import contractions in some leading importing countries. EU milk production is expected to decline slightly (-0.2%) on account of reduced cow numbers, high feed costs and extreme weather events in 2023. Increasing yields and dairy cow numbers could lift milk output (+1%)in North America this year. New Zealand milk output is stronger than anticipated as a result of favourable pasture growing conditions entering the year and strong milk production during the first four months of 2023. It could be up 2% from a relatively low base in 2022.

**Irish milk production declines in first six months:**
Milk production in Ireland was down marginally (-0.7%) between January and May 2023 when compared with the same period in 2022 due to dry weather and weak grass growth resulting in poorer milk yields. It is expected that there will be no growth in full year milk volumes in 2023.

**Milk prices stabilise following rapid declines:**
Irish milk prices have fallen by 35% (22c/L) since the start of the year to c.40c/L (base price). The outlook for 2023 is that base milk prices will average €0.40/L-€0.45/l for the full year- a decrease of €0.10/L-€0.15/L on 2022, yet still remain above 2021 levels. Despite tight supplies from leading global exporters, global dairy markets have declined over the past year primarily as a result of lacklustre demand, especially from China- the world's largest dairy importer. Market uncertainties, weaker country currencies against the dollar and bleak economic growth prospects compounded the price declines. It is expected that markets will stabilise at these lower levels over the remainder of the year.

**Tighter farm margins as costs remain high:**
Production costs increased significantly to an average of €0.35c/L in 2022 and are expected to remain similar in 2023 as two of the largest costs (feed and fertiliser) remained high in the first half of the year. And while record milk prices buffered the impact of high costs in 2022, the lag between lower milk prices and lower input prices will see margins tighten in 2023 to levels seen in 2020/2021.

**Environmental compliance driving higher costs:**

Increasing environmental and animal welfare legislation and compliance is driving up costs on dairy farms. From 2024 onwards, dairy farmers will be banned from slaughtering calves at less than eight weeks of age. New measures introduced in the Nitrates Action Plan see the requirement for additional slurry and waste water storage along with reduced stocking rates due to banding rules. Furthermore an anticipated cut to the derogation will impact over 3,000 dairy farmers who are estimated to be currently stocked greater than 220kg Org N/ha. This will see farmers seeking additional lands (rented or purchased), animal numbers reducing on farm, outsourcing of replacement stock, or exportation of slurry. It is estimated that dairy farmers needed 28,000ha to deal with nitrates banding rules to avoid having to cull 50,000 dairy cows.

**Demand for land set to rise:**
With the introduction of banding in 2023 and the likelihood of a reduction in the upper limit from 250kg Org N/ha to 220kg Org N/ha from the end of 2023, the demand for land is set to increase. In a thin land market, dairy farmers will have limited opportunities to avail of such leases and the new regulatory measures are likely to heighten the willingness to pay for land in order to secure access to the additional leased land for the medium and longer term.

## Tillage:

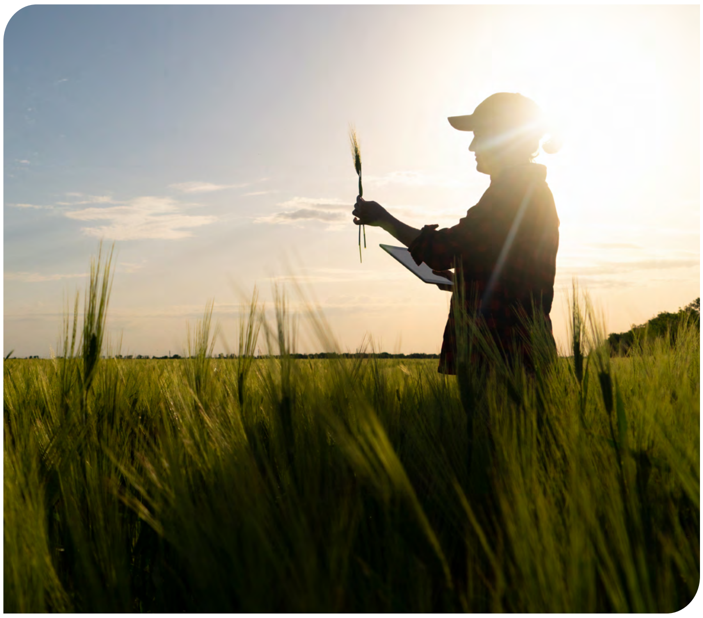

### Summary:

Grain markets have been in an expected downward spiral since the start of the year and grain farmers will see a tightening of margins in Crop 2023 due to lower yields, lower grain prices coupled with inflated fertiliser prices. While it will still be margin positive, margins are more likely to revert to 2020/2021 levels. In general, there is additional cash reserves on farms from a very strong 2022 therefore pressure on working capital is low. 2024 looks to be a more positive year at present, given that grain prices look firm currently and fertiliser prices look set to be lower for the next growing season.


**Cereal production likely to decline 20%:**
Despite a national ambition to increase the tillage area in Ireland by 50,000ha by 2030, cereal production in Ireland looks set to decline by almost 20% or c.400,000T in 2023 with the area sown to cereals expected to fall by 18,000ha. Poor weather conditions in the Autumn and winter crop growth, as well as a delayed spring sowing campaign have all contributed to the lower expected output. For example, winter barley area is estimated to have dropped by over 21,000ha. Other factors that have not helped the areas sown include the loss of land to dairy. Yields are expected to be lower than last year due to dry weather conditions earlier in the growing season.

**Harvest grain prices set to fall by 33%:**
International grain prices have been generally coming down since surging to a near-record level in May 2022, following the disruptions to Ukraine's exports created by the war. The FAO Cereal Price Index in May was 25% below its record-high set in May 2022. Since the start of 2023, ample supplies, together with fewer trade disruptions and robust competition among exporters, has lowered  global grain markets. While harvest prices remain unset, indications are that they will be down €100/T to c.€200/T for harvest 2023 in line with falls in global grain markets.

**Black Sea Grain corridor to dominate markets:**
The implementation of the Black Sea Grain Initiative in July 2022, which allows Ukraine to export grain from its Black Sea ports, helped to reduce uncertainty and improve supply prospects in global markets. But as Russia and Ukraine are integral to grain commodity trade accounting for 30% of global grain supply, it is likely that any noise around the Russian grain corridor will dominate global grain markets for some time to come.



**Inflated input prices tightening margins for 2023:**
Direct costs for cereal production increased significantly in 2022, due to increases in the price of fuel, fertiliser and seed. However, for 2023 crop inputs were mainly purchased and applied before any reductions in prices came in the Spring. While the additional costs were more than absorbed by the increased grain prices for 2022 crop, it is expected that margins will tighten significantly for 2023 crop based on current grain price outlook. With fertiliser prices continuing to come back and futures grain prices firming, the medium to longer term outlook for tillage looks firm.

## Beef:


### Summary:

Irish cattle kill forecasts for 2023 indicated tighter cattle supplies in the first half of the year and this has been reflected in the weekly kill figures to date. Cattle supplies are expected to improve into the second half of the year however some cattle may take longer to finish than anticipated. Despite tighter cattle supplies and lighter carcase weights, (which should bolster prices) difficult market conditions are putting pressure on price currently. However Irish cattle prices are expected to rise 4% in 2023 compared to 2022.


**Tight beef supplies bode well for prices:**
Global beef production is forecast to fall marginally on lower cattle stocks, high feed costs, fodder shortages and lower carcass weight in key producing regions such as the US. Between January and May 2023, Cattle slaughtering decreased by 3.9% (31,000 head) when compared with the same period in 2022. This should support prices in the medium term.

**Global prices seeing signs of stabilisation:**
However since reaching an all-time high in June 2022, international meat prices have trended downward in the second half of last year, reflecting increased exportable availabilities in some leading exporting countries amid lower import demand. Beef prices are also boosted by higher prices for other proteins. The FAO Meat Price Index has rebounded from February 2023, mainly driven by pig and beef prices amid supply limitations. Teagasc forecast that average finished cattle prices in Ireland will rise 4% year-on-year in 2023. Cattle prices (Bord Bia) for R3 Steers are currently averaging €5.23/kg on average year to date. This is 11% up (€0.53/kg) higher than the same period in 2022. Irish beef prices (R3 Steers) are currently quoting c. €4.85/kg-€5.00/kg. European beef prices have remained stable since the start of the year at between €5.00-€5.25/kg. This is significantly higher than 3 year averages of €4.00/kg to €4.30/kg.

## Sheep:

### Summary:

Production is expected to reduce across key lamb producing regions in the EU during 2023 as a result of contractions in ewe numbers, high production costs and lower carcase weights. Production in the UK is expected to hold steady in 2023 following an increase in the ewe flock in 2022. Meanwhile the 2023 lamb crop in Ireland is expected to contract in 2023 with higher ewe cullings and reduced concentrate feeding due to high costs. Analysis has indicated an additional 60,000-70,000 hoggets were carried into 2023 for processing when compared to 2022 levels. Lamb prices have faced downward pressure in recent weeks with quotes falling back €0.20kg-€0.30/kg to base prices of between €7.00/kg and €7.40/kg.

## Pigs:

### Summary:

The Pig sector is in much better health compared to one year ago as tight supplies across the EU (following herd reductions) support pig prices. As a result, the pig prices look firm for the rest of 2023. While grain markets have come back significantly since the start of the year, highly priced grains remain in the system and feed costs will only come back towards Q3/Q4. The medium term prospects show a significant shift in dynamics which should see pig producers move into profitability in 2023.

**Production scale-down as pig numbers lowest in 16 years:** Following a very challenging production environment in 2022, pig numbers fell 8% to 1.57m- the lowest level since 2016. The number of breeding pigs in the country (127,500) is now at its lowest level since December 1988. It is a similar story across the EU with production forecast to fall by as much as 5% year-on-year on weaker producer margins, ASF outbreaks and smaller breeding herds. Similarly, a production scale-down is expected in the United Kingdom due to a sharp decline in breeding herds, lower carcass weight and a decline in pig-meat demand. Globally production is expected to contract (0.5%) mainly due to the output declines in Europe.

**Pig Price outlook firm into 2024:**
Pig prices in the EU have risen 27% to €2.43/kg in past 12 months. Irish prices are up 25% (€0.50/kg) to €2.34/kg in the same period on the back of tightening global supplies and increasing demand. It is expected the price will hold in the short term as supply to meat factories is tight. Factory kill is down c. 7,000 pigs per week. The number of Pigs slaughtered fell by 11% between January and May 2023 when compared with the same five months in 2022. The forecast average pig price for full year 2023 is expected to be €2.26/kg (Teagasc). This is €0.44/kg increase on average price received in 2022 of €1.82/kg.

**Return to profitability but feed costs to remain elevated:** As feed prices are only now easing on the back of falling grain markets, the total feed cost forecast for 2023 is expected to be similar to 2022 (€1.52/kg) and €0.42/kg above the five year average. Importantly, the key profitability measure, margin over feed is expected to reach €0.80/kg on average - well above the 10 year average (€0.47/kg). It was €0.26 in 2022 (Teagasc) - the lowest level in almost 40 years.

**Bank of Ireland**

- In Bank of Ireland we recognise that we have a unique opportunity to support our customers and to enable Irish farmers and rural communities to thrive.
- Our proven financial capabilities and appetite, combined with comprehensive agricultural expertise, provide us with a strong platform to meet the funding requirements of Irish farmers and agri-businesses.
- We understand the farming cycle, agri commodity price volatility and the regular need to invest to maintain growth and profitability in this dynamic sector. We have a strong appetite to support progressive, innovative and efficient farmers.

*Sources: Teagasc, CSO, Department of Agriculture (DAFM), Bord Bia, Euromonitor, European Commission, IBEQ, MATIF, LIFFE, IMF, World Bank, FAO.*

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Eoin joined Bank of Ireland in 2020 as Head of Agri, from the Irish Farmers Journal, where he served as Agribusiness Editor upon joining the paper in 2014 and served as Deputy Editor from 2017 until his departure. He also has extensive experience in Irish and international Agri business, including 5 years as Managing Director of Target Fertilisers. Eoin holds a Masters in Agricultural Science from UCD along with MBA from Smurfit School of Business.