

The Andersons Centre – Latest News Update

02 June 2009

Arable Profitability in 2009 and 2010

In preparation for the upcoming Cereals Event (to be held at Vine Farm, Wendy, Nr Royston, Cambridgeshire on Wednesday 10th and Thursday 11th June), Andersons have updated their Loam Farm Model. We think that this highlights some interesting trends in the profitability of cereals production.

To recap, 'Loam Farm' is a notional 600 hectare (1,480 acre) combinable crop farm in the eastern counties. It runs a fairly simple rotation of milling wheat, OSR, feed wheat, and spring beans. Of the cropped area, 240 Ha are owned and 360 Ha rented on FBTs. There is a working proprietor plus one full-time man and harvest casual. A summary of results and budgets for three harvests is set out in the table below.

£ per Hectare	Harvest 2008 (Result)	Harvest 2009 (Budget)	Harvest 2010 (Budget)
Gross Margin	685	471	598
Overheads	366	333	335
Rent and Finance	128	139	154
Drawings	100	110	110
Margin from Production	91	(111)	(1)
Single Payment and ELS	255	267	265
Business Surplus	346	156	264

It can be seen that gross margin has dropped sharply between 2008 and 2009. Output is actually only slightly down year on year, it is the increase in costs, especially fertiliser, for the 2009 harvest that is really eating into margins. Overheads are forecast to be lower this year than last. This is mainly due to lower fuel costs. It also reflects lower fuel usage, with a more 'normal' harvest assumed with less drying costs. The drawings on the business rise, as the proprietors take more money out of the farm on the back of the better 2007 and 2008 returns. Similarly, rent increases on agreements negotiated in autumn 2008 come through in the 2009 figures. A loss from production results in 2009. It takes the Single Payment (which thanks to currency movements is forecast higher in 2008) to bring the business back into surplus.

Things are slightly better for the 2010 crop – fertiliser costs look set to decline, and prices should be firmer. However, production still barely breaks even. The cost of producing a tonne of feed wheat on this notional farm for 2010 is £113 per tonne (down from £121 in 2009). *It should be stressed that this is a model farm only – and every business will be different. However, it does demonstrate the major turnaround in profitability on many arable units in the past year. There is some optimism for the future, but this has to be cautious at present.*

Please come and talk to us at the Cereals Event – stand number 520.

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