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News in brief

January 2024

Economic optimism heading into the New Year

As the year winds up, the economic environment seems to be slowly improving, at long last. Agri-food markets in Europe are reported to be more stable than for two years. With the interest rate having just fallen below 4% for the first time since September 2021, from a peak of 11.1% just over a year ago, we head into 2024 with a much more hopeful outlook for the year ahead.

This month's edition provides a roundup of 2023, with expectations across key agricultural and economic sectors for 2024. These include: expectation for increased scope of AECS funding (although a just announced reduced agri-environment budget could see this curtailed) (see Policy brief, pg. 2); a smaller but more efficient national beef herd (see Beef, pg. 4); the marketing Scottish lamb internationally versus expanding Australian production (see Sheep, pg. 5); and ever increasing viability of electric vehicles (see Sector Focus, 6).

It is clear that efficiency, value and the environment are driving trends in current markets, and trends which farmers are well placed to benefit from.

Next month:

- Farm tenancy applications
- Calf management
- Leveraging farm economics for sustainability
- Soil pH

Merry Christmas and a Happy New Year from the Agribusiness News team!

Contents

This month's editor:
Anna Sellars

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Round up of 2023

In March, to protect Scotland's wildlife, the new Hunting with Dogs (Scotland) 2023 Bill introduced a two dog limit for all uses of dogs in the course of hunting and a ban on the practice of trail hunting. However, a licencing scheme will be introduced to allow the use of more than two dogs in certain limited circumstances, with licences being limited to 14 days and will be species specific.

From the 18th May, farmers bringing cattle into Scotland from an area with high Bovine Tuberculosis (TB) require a clear pre-movement test within 30 days prior to movement to Scotland. A new definition for isolation has been introduced, and compensation reduced for cattle not properly isolated.

In June, it was announced that Asulam (Asulox) was no longer an approved herbicide due to the risks it poses to the environments and human health. For AECS 2023 applications, only manual or mechanical control of bracken is permitted. Payments under the Forestry Grant Scheme for bracken control have been increased from £225 to £275 per hectare to account for the change.

In September, as part of the Scottish Government's Preparing for Sustainable Farming (PSF) initiative, the new Animal Health and Welfare Scheme, opened for claims. Under the scheme, each business with a BRN and flock/herd number can apply for a payment of £250 per intervention (max 2) plus an additional £250 with the first claim to cover personal development. Under PSF, funding is also available for carbon audits and soil analysis.

From the 30th September, the Windsor Framework, paved the way for seed potato trading to resume with Northern Ireland, although trading channels with the EU remain firmly blocked.

From the 1st October, under the amended Home Office Control of Poisons and Explosives Precursors Regulations 2023, all purchasers of ammonium nitrate (AN) fertilisers with a nitrogen content of 16% or more need to provide photo ID prior to purchase.

Also from 1st October, operators of all existing short term let accommodation must have applied for a Short-Term Lets Licence from their local council. New hosts need to apply for a licence before they can accept bookings. The maximum fine for operating without a licence is £2,500. You do not need a licence if you rent out part of your house under the 'Rent a Room Scheme'.

New Bills going through Parliament in 2023

- Wildlife Management and Muirburn (Scotland) Bill
- Moveable Transactions (Scotland) Bill
- Agriculture and Rural Communities (Scotland) Bill
- Good Food Nation (Scotland) Act
- Land Reform (Scotland) Bill

Looking into 2024…

The next round of the Agri-Environment Climate Scheme (AECS) will open for applications in January with the targeted support focusing on the agri-environment, slurry and digestate storage and seeking to double the amount of organic land. For the 2024 round, funding for heather cutting, chemical and mechanical treatment of bracken, restoring of drystone or flagstone dykes and pond creation and restoration for wildlife (limited to 2,000m^2 per application) will be reintroduced, as well as increased eligibility for hedgerow creation length.

Up until March 2024, under the Cost of Living (Tenant Protection) Act, in-tenancy private rent increases will continue to be capped at 3% and enforced evictions will continue to be paused for six months, except in specified circumstances. Thereafter, a new Housing Bill will be introduced covering minimum housing standards; long-term rent controls for the private rented sector and it will allow tenants greater flexibility to personalise rented homes and to keep pets.

As part of the Scottish Government's commitment to reducing agricultural emissions by 31% by 2032, the second edition of the Agricultural Reform Route Map sets out the wider land and agricultural change plan for Scotland through to 2032. From a recent Government announcement, it is expected that details of the funding allocation for Tier 1 and 2 farm payments will be published in February. Further details will be announced during Quarter 1 with regards the Whole Farm Plan, conditionality for BPS and Voluntary Coupled Support in the context of the beef support scheme plus what 'Elective' support will be available in 2025. This will be followed in the second quarter of 2024 with publication of the Payment Strategy for 2025-27 and guidance for BPS, VCS, and other schemes available in 2025.

Given that Preparing for Sustainable Farming grant uptake for Soil Analysis, Animal Health & Welfare and Carbon Audits has been low during 2023, with Government budgets under pressure; it is important to think along the lines of 'use it or lose it!'.

RPS online maintenance and SSBSS deadline

In a late announcement, access to the RPS will be removed from Thursday 21st Dec to Thursday 4th January for essential maintenance. As a result, the deadline for SSBSS 2023 submission has been extended to Sunday 14th January.

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Cereals and Oilseeds

2023: Year in review

We move out of 2023 with commodity markets quietening down from the more volatile price movements that have characterized the past two years. Prices for most grains and oilseeds are 15-20% below early 2022 levels, having fallen back as global production prospects look more favourable than they did in late summer. Despite a slowing global economy, demand for agricultural products remains strong and is expected to hit record levels in the 2023/24 marketing season. Lower prices however mean significantly reduced profitability for grain and oilseed farmers in 2023, only marginally mitigated by lower costs for fuel and fertilizer.

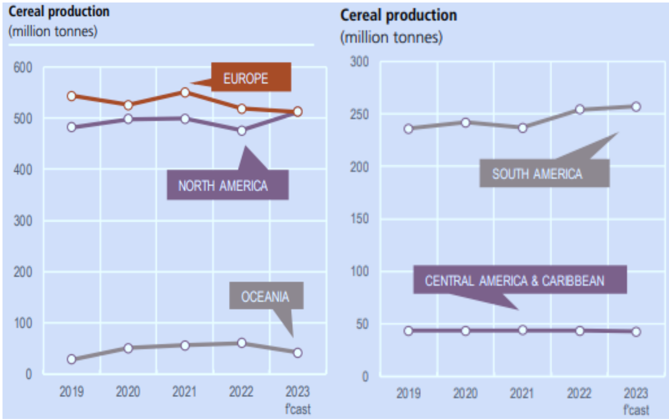
At 2,823 Mt, global cereal production for 2023 is up 0.9% (25.9 Mt) year-on-year and 10.4 Mt above the previous record high reached in 2021. The expectation for global wheat production in 2023 is 787 Mt, down 2.1% (17.1 Mt) from 2022.

Global coarse grain production is pegged at 1,511Mt in 2023, 3.6% above the outturn in 2022. A significant upward revision was made recently to the maize forecast for the United States of America based on higher yields, offsetting cuts to production forecasts for the European Union.

World cereal total utilization in 2023/24 is forecast at 2,813 Mt, 1.1% higher than in 2022/23. Global wheat utilization in 2023/24 is expected to reach 791.4 Mt, surpassing the estimated 2022/23 level by 1.8%

The forecast for world cereal stocks by the close of seasons in 2024 is 886.5Mt, up 2.7% above the opening level and marking a new record high. Based on the latest forecast, the global cereal stock-to-use ratio would be 30.8% in 2023/24, nearly unchanged from 30.7% in 2022/23 and indicating a comfortable supply level.

In the USA, cereal production in 2023 is forecast to exceed the 5 year average by 4.3%, driven by a large maize outturn (382.9Mt) owing to a strong upturn in plantings. In Canada, cereal production in 2023 is expected to decline 7% against the 5 year average, as the main spring wheat crop suffered from drought conditions and, as a result, yields are forecast at low levels. Cereal production in the European Union in 2023 is forecast to increase marginally (up 1.2%) compared to the previous year, attributed to a larger coarse grains output.



Source: FAO

Total cereal production in the South and Central Americas is forecast at an all-time high of 300.2Mt in 2023. This large output principally reflects a record maize outturn in Brazil, underpinned by a substantial increase in maize plantings, as well as high yields. The bumper Brazilian output more than compensated for below-average harvests elsewhere in South America due to prolonged dry spells, especially in Argentina where drought conditions are expected to result in a 15% decrease in cereal production compared to the 5 year average.

Looking ahead to 2024

UK wheat production is estimated at 14.05 Mt for the 2023 harvest, a 10% reduction on the 15.54 Mt produced in 2022. This deficit in output outweighs the heavier carry-in stocks (up 9%), increased imports (up 6%) and domestic consumption (up 3%) to leave the year end surplus reduced by 54% compared to 2022. Reduced availability applies to UK barley too (down 4% year on year) following a 5% decline in production (6.98Mt harvest 2023) with poor spring barley yields outweighing a rise in total planted area.

Demand from brewing is lacklustre but demand from distilling continues to rise as capacity increases. Maize imports are expected to rise in 2024 for increased usage in animal feed production. The 2024 early bird planting survey for Scotland indicates a switch away from wheat and oilseed rape (down 7% and 19% respectively) due in part to the wet autumn while correspondingly winter barley and spring barley are anticipated to increase in area (19% and 6% respectively).

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B e e f

Summary of 2023 markets

Beef prices in 2023 have like the weather, been volatile. At the start of the year processors increased prices (week ending January 21st, Scottish R4L steers were sitting at 465p/kg/dwt) on the back of the strong retail demand for beef, with prices continuing to trend upwards throughout spring as demand continued to outstrip supply.

Carcase weights fell in the first quarter of the year, a reflection on the dry weather and inflated feed and fertiliser costs. This position then reversed, supporting volumes however recent reports suggest carcase weights are lighter, likely a reflection of wet weather and variable silage quality. The increasing influence of dairy beef bred animals will contribute to lower weights and cattle killing out lighter.

Record breaking prices with store cattle surging past £3/kg and an all-time high beef price of over £5/kg in May led to much needed positively among beef farmers, when many were questioning the profitability of suckler cows. Positivity filtered through to the store ring, with store cattle prices reaching record levels. After a subdued demand in 2022 due to increased feed costs, suckled calves this backend have met a buoyant trade, with many markets reporting sale averages to be well above last year's levels.

By mid-May prices began on a downwards trajectory, with a 3-month period seeing a price drop of an average of 60p/kg. Prices have since improved and for the last 6 weeks have remained fairly stable sitting around 499pk/kg/dwt for R4L grading steers.

Beef producers, although welcoming the strong beef price this year, have been challenged with increases in input costs and staggering variances in finished beef prices, which for many are unsustainable.

Phenomenal cull cow trade

Cull cow slaughter started in 2023 ahead of 2022 levels, with an increase in demand for mince and a global shortage of manufacturing beef, the cull cow trade reached unprecedented levels. Many markets reported cull cow trade exceeding £2,500/head, at the time making prime cattle look cheap. Cow prices have returned to more normal levels relative to prime cattle prices.

The decline in the Scottish suckler herd remains a concern for the industry. Scotland's annual census recorded a 3.5% decline year on year in beef cow numbers – with total number of cows sitting at 394,700.

2024 Beef Outlook

Cattle availability looks to remain tight as we go into 2024. ScotEID calf registrations highlight the impact of herd contraction, reporting a significant decline of 2.7% in the first nine months of this year compared to 2022. Looking forward a reduced calf crop in 2023 will put pressure on availability in 2024. However, demand will dictate how much that will impact the beef price.

The much talked about 'cost of living crisis' will continue to impact shoppers finances and consumer spending. It is likely in the New Year that demand will be for mince and cheaper cuts, not for prime beef.

Many suckler farmers have taken advantage of the high cull cow prices, culling underperforming cows to improve herd efficiency. An improvement in herd efficiency provides an opportunity to increase rearing percentages, which would in turn help with the reduction in prime cattle availability.

Margins look to remain tight for producers in 2024, with animal protein prices up. Farmers continue to feel the pressure of trying to improve business and herd efficiency along with the challenges of farming in a nature friendly way.

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Scotland prime cattle prices (p/kg dwt) (Source: drawn from AHDB and IAAS data)

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bulls -U3L		Cull cows	
		Change on week	Diff over North Eng.		Change on week	Diff over North Eng.		Diff over North Eng.	R4L	-O3L
25-Nov-23	**500.3**	0.1	7.0	**500.3**	-1.7	2.6	493.7	13.4	359.3	323.8
02-Dec-23	**499.3**	-1.0	3.5	**501.7**	1.4	5.7	485.1	-1.1	357.7	320.9
09-Dec-23	**499.7**	0.4	4.7	**501.6**	-0.1	8.1	487.8	9.0	360.4	326.1

Summary of 2023

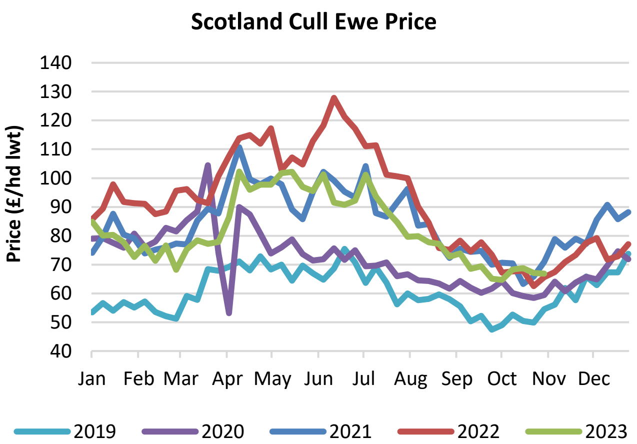
The last year has seen a vast amount of change in the global sheep sector, including:

- The free trade agreement between Australia and the UK commencing at the end of May;
- The European flock declining and in turn the European price increasing (supply:demand);
- The Australian flock growing and the price falling substantially.

Within the UK we have seen our exports to other countries increase throughout the year. We have also seen lamb sales in the backend ahead of the previous years. Lambs have been exposed to a high worm challenge in 2023, due to the wet and warm summer and autumn months, we have seen high feed costs, flocks' productivity recovering from the drought in 2022, and finally we have seen the worlds loneliest sheep being rescued!

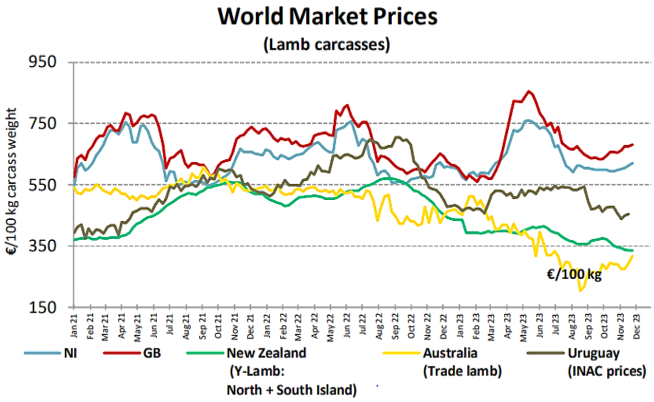
Prime deadweight sales have shown favourable, starting the year slowly at an SQQ of 534.90/kg (~£112/lamb) and rising up to the top for the year at 742.9p/kg (~£156/lamb) for the week ending 20th May. Since this point the trade reduced to a low similar to the start of the year at 553.1p/kg at the end of September. However, from this point it has gradually improved week on week.

Cull sales have shown very similar to those recorded in 2021. We have seen typical peaks in trade around religious festivals e.g., Ramadan.



Source: AHDB

The Australian flock has expanded, and with this increased supply their price point has reduced substantially over the last year, starting 2023 at around €4.50/kg and falling to €2.80/kg in September.



What will 2024 bring?

Global demand for protein and sheep meat is expected to increase into 2024, with a rising population and a recovering economy. As African Swine Fever continues to sweep through the global herd, demand for proteins such as lamb in China and Asia is set to grow.

The Middle East is on their journey to recovery from COVID, tourism coupled with population growth and protein consumption is all rising. Woodhead Brothers, Turriff now has accreditation to supply this market, which will offer great opportunities as we progress in to 2024. Currently this is targeted at the premium, food service market. Allowing little competition for the cheaper Australian sheep meat.

Demand from the US is set to be reduced, due to decreasing disposable income and a poor economic outlook in the country. The concern here is, with a decrease in the US market, more Australian lamb could make its way to the UK and Europe, affecting our markets significantly. As a reminder, the free trade agreement commenced in May 2023, within 10 years, tariffs on all sheep meat and agricultural goods will be eliminated.

With the European sheep flock set to decline further in 2024, we have a strong export outlook. However, there are great changes coming into the future for UK sheep farming. One of the largest challenges, will be changing land use, as the market for carbon capture and offsetting grows. We may see the national flock further reduce as more productive sheep land is used for these non-agricultural land uses.

The drive for greater efficiency and reduced carbon systems, will also grow as we progress into the new year, with shoppers set to make more environmental choices on their weekly shop. For the sheep industry this could be a huge opportunity for both sheep meat and wool!

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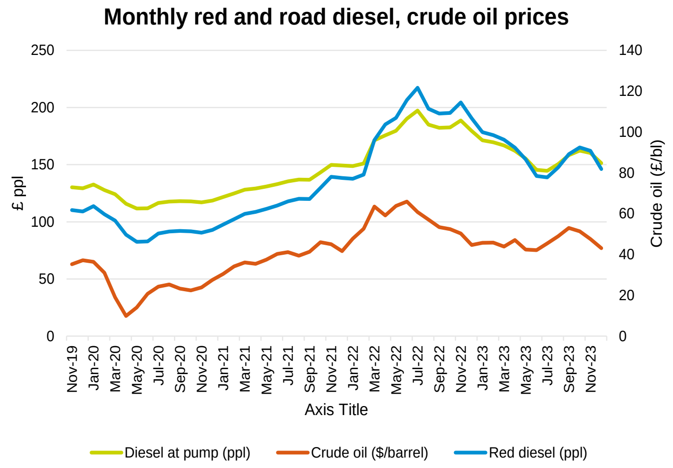
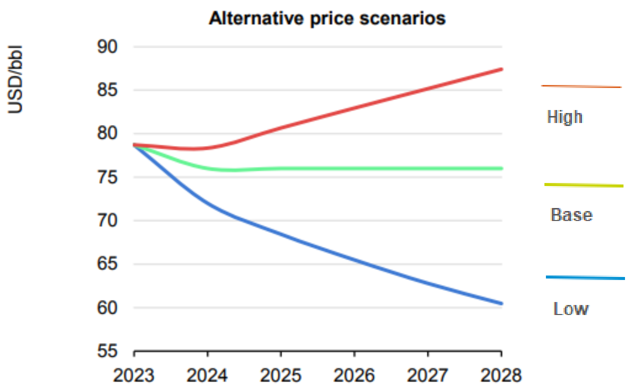
Oil

Oil is the most tradable energy commodity due to its energy density and portability. The crude oil price drives the cost of diesel on farm and other fuels (such as LPG) as well influencing the cost of transport on and off farm. The oil price also influences the price of grains and oilseeds through biofuel production and use. Oil is currently trading at $77/barrel, red diesel at 0.82/l and derv at £1.52/l down from recent highs.



Crude oil and the energy transition

Any forecast of future oil prices is extremely contingent on a range of external geopolitical and technological factors. The largest new driver is likely to be the energy transition away from fossil fuels towards renewable energy, EVs (electric vehicles) and battery storage. These changes are already underway with the rise in EV's expected to reduce oil demand by up to 7.8M barrels per day (bpd) by 2028. The International Energy Agency (IEA) estimate a range of price scenarios to 2028 with the high forecast following historic 2.5% annual price increases. The low scenario indicates the impact of a more rapid energy transition.



Source: IEA, Oil 2023

Factors that could weaken oil prices

- Supply growth in the years ahead to be dominated by more open market-based US and South American suppliers – not cartel-based OPEC or Russia.
- Oil demand growth is slowing this year due to a weakening global economy.
- Oil demand could peak as early as 2025, due to fuel efficiency gains in vehicles and the growth of Electric Vehicle use.

Factors to support oil prices

Oil prices are not expected to return to historically low levels due to;

- Global demand particularly for travel is still rebounding from the COVID period.
- OPEC + including Russia have planned production cuts (but implementation is poor).
- The need to maintain investment in new production and counter the long-term trend of less efficient oil extraction (due to deeper wells, further offshore, shale extraction) means that low prices for too long will quickly impact production outlook, boosting prices.
- Oil remains extremely vulnerable to geopolitical events. A key benefit of a successful energy transition is that greater efficiency of oil use, move to EVs and diversification of supply away from OPEC+ producers could greatly reduce longer term vulnerability – but that point is 5-10 years off.

Agricultural impacts

A business-as-usual approach to the future is likely to mean that oil will become more expensive over time whether due to resource scarcity, decreasing energy return on energy invested or concentration in the hands of autocratic regimes.

A successful energy transition would mean that oil will become less relevant as alternative technologies (e.g. EVs) and greater efficiency of use reduces its impact.

Just like the wider economy, farm businesses stand to gain from the energy transition through long term improvement in energy efficiency and self-generation. Cost and market pressures will also support the adoption of fuel efficiency measures and more resource-efficient techniques. These include reduced tillage, rotational grazing, and improved health and productivity of crops and livestock. Taking steps to pilot and implement energy saving methods now will pay off into the future as wean ourselves off expensive and unpredictable fossil fuels.

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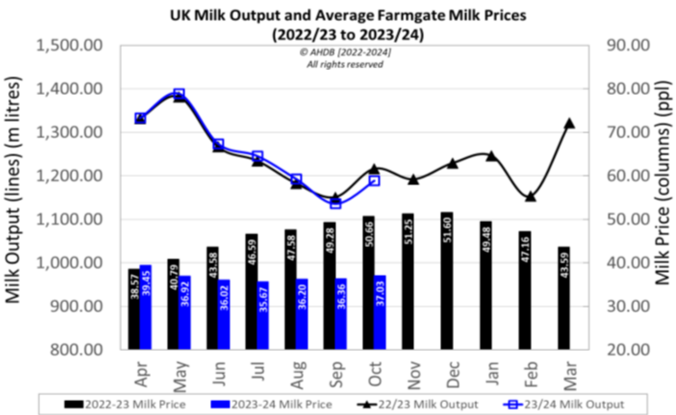
2023 Review: The milk price crash and falling milk volumes

- *Milk volumes tanked in the second half of 2023.*
- *Falling prices of butter, cream, SMP and cheddar drove down milk prices for much of 2023 and have only recently started to recover.*
- *Milk price has been below the cost of production for much of the year.*
- *Industry analysts suggest milk prices have reached the bottom and should start to improve in Q1 and 2 of 2024.*

January 2023 started on a high for dairy farmers, with the Defra average farm-gate milk price being 49.48ppl. However, in the first half of the year, the milk price dropped like a stone, falling to 36.02ppl by June. As we approach the end of 2023, milk prices are about 15ppl less than 12 months ago.

The fall in milk price was largely attributed to continued market pressures, with a reduction in consumer demand and milk supply above forecasted levels. Retail price inflation reduced customer spending on dairy products and more consumers moved away from branded products to cheaper supermarket own-label products.

As the spring flush approached, buyers were holding off, awaiting lower prices, and sellers were unwilling to discount price much further due to current high manufacturing costs. A wet summer curtailed milk production in some areas and given the relatively high cost of inputs in relation to the milk price, farmers were not incentivised to push for production. As a result, since September, GB milk volumes have been well below last year, with September and October volumes 1.3% and 2.7% less respectively.



UK wholesale prices for butter, cream and SMP have been improving since August and and commodity prices in the EU have also continued to rise since the autumn, especially in butter and whey. Unfortunately there is usually around a three month lag in effect on the milk price and farmers are just now starting to see some stability, with no price drops announced for December from the main Scottish milk buyers. For retailer aligned contracts, small price reductions have been seen between 0.05ppl and 0.75ppl. The first sign of a milk price improvement came from Arla announcing a one eurocent increase for December 2023 on the back of greater retail demand, a recovery in the commodity markets and global milk production continuing to ease in the main milk producing regions.

Milk Prices for Dec 2023/Jan 2024 Scotland	Standard Ltr ppl	
First Milk Manufacturing *(4.2% BF & 3.4% Protein)*	Jan	36.00
Müller - Müller Direct - Scotland [1, 2]	Jan	36.25
Grahams[1]	Nov	35.00
Arla Farmers Manufacturing (4.2% BF & 3.4% Protein)	Dec	36.10
Lactalis / Fresh Milk Co.[1]	Dec	34.00
Yew Tree Dairy[1,3]	Oct	36.00

1 *Liquid standard litre – annual av. milk price based on supplying 1m litres at 4.0% butterfat, 3.3% protein, bactoscan = 30, SCC = 200 unless stated otherwise.*

2 *Includes 1.00ppl Müller Direct Premium + additional 0.25ppl haulage charge for Scottish suppliers.*

3 *Liquid standard litre price for A volume litres.*

For 2023, the average cost of production was estimated at just over 37ppl, well below the Defra average farm-gate milk price from May to October.

AHDB estimates that GB production for the 2023/24 milk year will be 12.22 billion litres, 1.3% less than the previous year. The reduction is largely attributed to farmers cutting back due to the relatively high cost of production in relation to their milk price. It has been a similar situation globally with production back in the US and EU in the second half of the year.

2024 Dairy Outlook

Milk prices are predicted to pick up in early 2024. Given the recent positive movements in the Milk Market Value indicator (up 2.2ppl for November), farm-gate milk prices are expected to increase by around 1ppl throughout January and February. Müller and First Milk have so far announced a price hold for January. Other processors south of the border are raising their January price, including some cheesemakers who have had a challenging cheddar market over the last year, with mature cheddar in storage which was made when milk was around 50ppl. However, the extent of milk price increases in the early part of 2024 will be highly dependent on global demand.

Rabobank experts predict that dairy product prices will continue to improve next year, with minimal growth (0.3%) predicted in milk supply from the main exporting regions. However, there remains uncertainty around changes in consumer demand and volatility is expected to continue into 2024. Some of the risks to recovery of milk prices above the cost of production are geopolitical instability, unpredictable energy markets and global economic conditions related to high dairy inflation, the on-going cost of living crisis and consumer confidence in dairy.

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The UK agricultural economy has proved its resilience in the face of significant challenges over the past several years. With luck, the worst of these shocks is behind us, and farmers can look forward to 2024 as a road towards more predictable economic conditions. However, aftershocks continue to ripple across the global economy.

Ukraine

Russia's ongoing war in Ukraine drove persistently high food price inflation in 2023 and continues to be a major source of uncertainty in future projections as we approach the two-year mark of active conflict. Russia had been a major supplier of agricultural inputs to Europe, and both Russia and Ukraine are significant breadbaskets. The effects on agricultural commodity markets were mitigated by the Black Sea Grain Initiative, which highlights the need for well-functioning and transparent trading systems. Commercial crop producers in Ukraine have seen a 2.3% decrease in cultivated land (266k ha), as well as destruction of equipment, storage facilities, livestock, perennial crops, stolen inputs and output, and unexploded ordinance in fields. Even after a resolution to the conflict, the destruction of infrastructure, loss of lives and displacement of labour will impact production capacity of the region.

State of global markets

The global economy is expected to grow, on average, 2.6% per annum (PA) over the coming decade (2023-2032), while global food consumption is set to expand by 1.3% PA. This is slower than the preceding decade due to a slowdown in population growth (China in particular, where population decreased for the first time in 2022) and an increase in per capita income. The growing risk of weather variability, animal and plant diseases, changing input prices, macro-economic conditions, and other policy uncertainties may lead to different outcomes than those projected here.

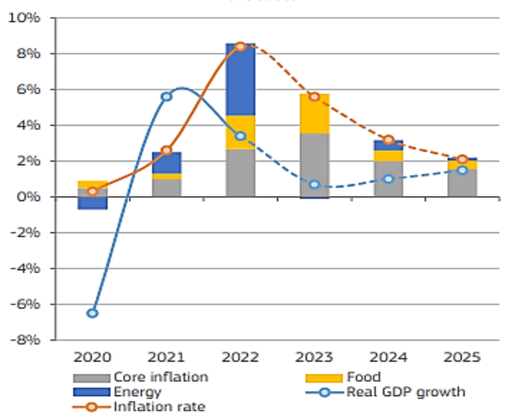

Figure 1: Euro area real GDP growth and inflation forecasts. Source: European Central Bank.

Food price and energy inflation have been the major sources of inflation within the economy as a whole over recent years, however both are expected to decrease in the near term (**Fig. 1**). At time of writing, current inflation rate sits at 4.6% (the target is 2%).

In Europe, the lasting effects of Covid-19 and ongoing effects of the war in Ukraine include logistical bottlenecks, workforce shortages, and labour mobility challenges. Covid-19 spurred new consumer trends such as increased local sourcing (impacting procurement channels) and greater focus on healthy eating. As a result of food price inflation, consumers are concerned about affordability and are scrutinizing shopping lists.

Input Costs

The surge in input prices experienced over the past two years was felt by farmers and consumers around the world and spurred a wave of concern about global food security. Prices for fuel, electricity, and fertiliser (which are linked, as natural gas is linked to all three) have gradually slackened from the 2022 peak (**Fig. 2**). Those high input prices have driven food price inflation around the world, with the FAO reporting that each 1% increase in fertiliser prices increases the aggregated price of all agricultural commodities by 0.2%, but this varies across agricultural sectors.

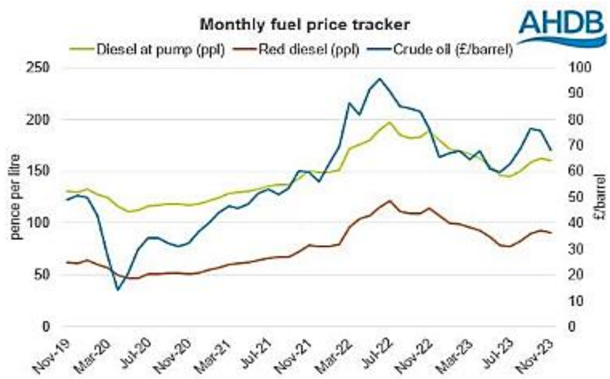

Figure 2: Prices for diesel at pump, red diesel, and crude oil, Nov 2019-Nov 2023. Source: AHDB.

After settling back to pre-squeeze levels, energy prices are expected to begin a slow climb over the coming decade. Similar to recent experience, sudden spikes in input costs raise production costs, which drives food price inflation and food insecurity.

Agricultural Sector Spotlights

2023 saw historic price highs for livestock, dairy and cereals, and the year saw concerns around demand, particularly because there was plenty of supply. What goes up must come down; during uncertain times, farmers and producers are encouraged to future-proof themselves as much as possible by minimising overheads, benchmarking against peers, and remaining nimble, keeping an open mind to change and innovation.

Global Trends

Cereals: The global supply of wheat remains constrained due to the extreme weather of the 2022 growing season, as well as lasting effects of the war in Ukraine (see section above). Global wheat prices peaked in May 2022 and have since relaxed somewhat but remain higher than before the spike. A tight supply of maize on the global level is currently providing a strong price floor for all grain types, therefore demand is the larger driver of prices, along with new-crop weather conditions.

Animal feed demand in the UK was projected to fall in 2023, with the lowest cereal usage since 2016/17, due to challenges across monogastric production systems. Demand from the brewing, malting, and distilling (BMD) sector was meant to be strong, however, with the highest human and industrial usage of barley this century. There is increased BMD capacity in Scotland, however 4.5% of licensed premises closed in 2022.

In the coming decade, the increase in global crop production is expected by increased productivity, rather than expanding land use. Investing in raising yields and improved farm management will be essential to enable this.

Oilseeds: Prices for oilseeds achieved record highs at the end of FY 2021/22 but have been drifting down ever since. Farmers expanded the area planted with oilseeds in response to these high prices, with the Scotland 2023 harvest area 36% greater than that of 2019. This large harvest could depress prices in 2023/24, however demand has been strong, especially for crushing, and low supplies in China may also supplement demand and mitigate against low prices.

Dairy: Great Britain was forecast to produce 12.44 billion litres of milk in 2022/23, a slight increase (0.7%) over the previous year. Around the world, milk production was set to grow for the first time after 12 consecutive months of contraction. The UK milk industry has faced headwinds including decreasing farmgate milk prices and labour shortages on top of the larger scale economic conditions of rising interest rates and cost-of-living.

The squeeze on consumer pockets forecasted demand to be weak in 2023. Low prices may attract importing countries, including China, who are expected to increase their import buying since relaxing their zero-tolerance Covid-19 policy. Domestic demand for cheese, butter and yogurt were expected to fall 3% in 2023, and liquid milk sales have been following a steady trend of -1% PA.

Beef: UK beef production was forecast to fall 1.7% in 2023 and the suckler herd is contracting steeply, a decrease of 2.9% over 2021-22 to 1.4 million head. These decreases follow a continuing trend of shrinking margins and low profitability in the beef sector and are exacerbated by consumers looking to cheaper proteins during the cost-of-living crisis and producer uncertainty around what changes to agricultural policy will mean for their businesses, particularly in extensive systems.

Rapid expansion and intensification are expected in the global production of livestock in low- and middle-income countries. This in turn will drive a fast-growing demand for feed, potentially increasing the price of this input, particularly protein crops. Livestock production systems in high-income countries will be sheltered from price spikes through improved feeding efficiencies.

Sheep: 2023 saw an increase in UK lamb production of around 2%, driven by a higher carry-over and a generally stable lamb crop. Consumption this year is expected to weaken in line with other sectors as a result of recessionary pressures. Decreased domestic demand was forecast to have dramatic effects on imports (-20%) and exports (+15%). The balance of trade has changed with New Zealand and Australia, in particular, who are shifting their focus to Asia as a more attractive market. However, new UK free trade agreements with both nations could have negative effects on the price of lamb, if they shift exports back towards the UK.

Pigs: Pork production is 15% behind where it was in 2022, however a gradual recovery is expected in the breeding herd, with numbers projected to have increased by 7,000 head in 2023. The pig sector faces the same challenges as other sectors as retail sales and out-of-home eating declines, expected to depress demand for pork by 3% in 2023.

Climate & Environment

In the coming decade, global agricultural greenhouse gas (GHG) emissions are set to increase by 7.6%. This increase is less than the previous decade and also less than the 12.8% from total agricultural output, indicating a decrease in carbon intensity of agricultural production. However, the urgency of the climate crisis necessitates that farmers take all available actions to lower emissions as far as possible, taking up pioneering solutions and rapidly adapting. The COP28 UAE declaration on sustainable agriculture, resilient food systems, and climate action, which had 158 signatories, highlighted adaptations such as early warning systems as key to reducing vulnerability of farmers to climate change.

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Financial Matters

Tumultuous financial year

Inflation and interest – two key terms which summarise UK finances for 2023. The economy has experienced a bumpy year however inflation rates have steeply fallen throughout from a peak of 11.1% in October 2022, largely thanks to a drop in fuel and energy.

Costs such as fuel and fertiliser have seen significant decreases in the year, however these are still a far cry from the pre-pandemic levels. The agricultural price index shows that as a whole agricultural input costs have decreased by 10%, however the value of agricultural outputs have also decreased by 5%. The key change to input costs is fertilisers which have dropped by almost 50%. The change in output sales prices is more sector dependent with biggest losers being cereals (↓26%) and milk (↓27%), while increases have been seen elsewhere like meat (↑8%) and potatoes (↑39%).

Impact of fiscal policy

With the pressures of inflation leading to a tightening of the Treasury's belt, little has been announced in UK or Scottish budget statements to assist with Scottish agriculture this year. One of the key changes was making permanent the £1m Annual Investment Allowance. For limited companies an unlimited 100% first year allowance on Plant & Machinery, known as 'full expensing', has been made available which covers expenditure over this amount, but this will not be widespread in the industry. April 2023 also saw the introduction of the 25% Corporation Tax rate. For unincorporated businesses, basis period reform takes impact from the current transitional tax year of 2023/24. This impacts those with a year-end other than 31st March or 5th April as tax will now be assessed on the profits arising within the tax year, regardless of the accounting period end. For the 2023/34 tax year this will result in taxation on the normal accounting period but also the transitional period from year end to 5th April 2024. These transitional profits are subject to certain reliefs and can be spread over 5 years to ease their impact. Many businesses will be considering changing their financial year end to 31st March/5th April to ease the administrative burden going forward.

The Scottish Government 2024/25 budget outlined in December confirmed that the Starter and Basic rate bands will be increased by inflation. In addition, a new Advanced rate of 45% has been introduced for profits between £75,000 and £125,140 while the top rate of tax rises to 48%. Within agriculture, funding levels for BPS, greening and LFASS are to be maintained at current rates. Funding for agri-environment measures will decrease by 17%.

Looking forward

After 14 consecutive rises in interest rates up to August 2023, interest rates have since remained at 5.25%. This puts significant pressure on borrowing. The Bank of England governor Andrew Bailey noted that inflation rates are still too high and ruled out cuts in the short term until inflation is "squeezed" out of the system.

Inflation has now fallen below 4% for the first time since September 2021, but is not expected to reach the 2% target until the first half of 2025. The expectation is that interest rates have now peaked, but that rates are likely to settle around 4% rather than the previously predicted 3% over the coming couple of years, with cuts expected to slowly begin from summer 2024.

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Key Economic Data

General Indicators	
Base interest rate	5.25% (5.0% 22 June 23)
ECB interest rate	4.0% (3.75% Aug 23)
UK (CPI) inflation rate	3.9% (target 2%)
UK GDP growth rate	0.0% (Q3 2023)
FTSE 100	7,703.79 (20 Dec 2023)

Price indices for October 2023 (Defra 2015 = 100)			
Output Prices		**Input Prices**	
Wheat	119.8	Seeds (all)	105.0
Barley	142.2	Energy	164.5
Oats	147.7	Fertiliser	160.4
Potatoes	181.6	Agro chemicals (all)	128.4
Cattle and Calves	131.7	Feedstuffs	134.9
Pigs	137.4	Machinery R&M	121.6
Sheep and Lambs	117.2	Building R&M	137.1
Milk	129.5	Veterinary services	105.7

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