Bank of Ireland Sectors Team Agriculture Insights 2023 / Outlook 2024

February 2024

Bank of Ireland

Classification: Green

2023 Review

Summary:
2023 was very much a year of two halves – the first half saw significant falls in farm output prices driven by subdued global agri commodity markets coupled with sustained high prices for key inputs such as fertiliser and feed. It wasn't until the second half of the year that input costs for feed, fertiliser and fuel started to come off the record highs seen last year. For many farmers, the lag between farm gate price reductions and cost deflation impacted margins. Furthermore poor weather throughout the year, which saw limited rainfall in Spring and significant rainfall amounts in the second half of the year impacted grass growth and crop yields. Despite, these challenges, the sector performed strongly and delivered profit levels similar to 2020 and 2021 on most farms, across the key sectors.

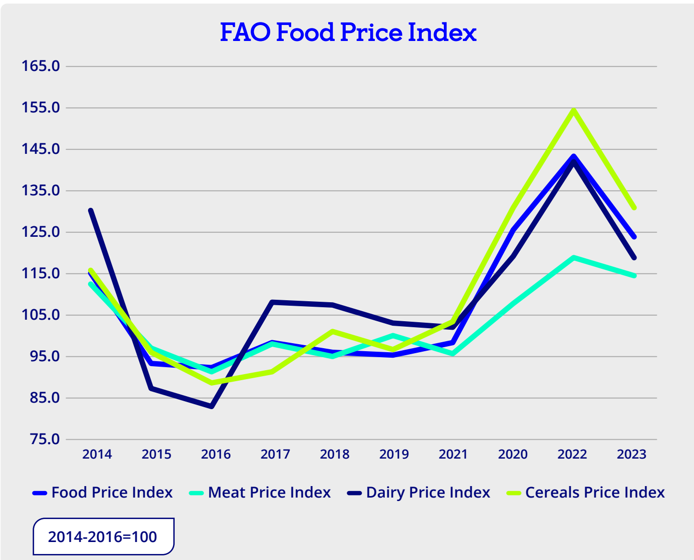
Key Sector Trends in 2023

Agri commodities fall off record highs

The FAO Food Price Index (FFPI), which tracks international prices of globally traded agri-food commodities, fell 14% for 2023 as a whole compared to 2022. The main food indices (cereals, meat and dairy) had reached record highs in 2022. The Cereal Price Index decreased 15% in 2023 compared to 2022, reflecting well supplied global markets. (FAO, January 2024)

In 2023, the Dairy Price Index fell 17% below the average for 2022 underpinned by lacklustre import demand, especially for spot supplies, amid ample stocks in importing countries, reflecting price declines across all dairy products. (FAO, January 2024)

In 2023 as a whole, the Meat Price Index fell 3.5% from 2022, due to increased export availabilities from leading exporting regions amid subdued import demand by key meat-importing countries reflecting declines in annual average values for beef, poultry and sheep meats, partially compensated by an increase in average pig meat prices. (FAO, January 2024)



Source: UN FAO Food Price Index, January 2024

Weaker prices drive drop in farm output

While there was a 3% fall in the volume of farm output in 2023 compared to 2022, weaker prices, accounted for a 9% drop in the value of Agricultural Output. Combined, almost €1.6bn was wiped off the value of farm output in 2023 compared to 2022. 86% of the fall in the value of agricultural output last year was driven mainly by a fall in the price of milk. (CSO, January 2024)

The main drops in volume came from a 26% fall in cereal output driven by poorer weather, along with a 3% drop in milk output volume and a 9% drop in pig output volumes in 2023 compared to 2022. The combined drop in price and volume saw a 48% drop in the value of cereal output and a 27% fall in the value of milk output in 2023 compared to 2022. (CSO, January 2024)

Input inflation remains stubbornly high

Despite the value of farm output falling 12% overall in 2023 compared to 2022, the price of key inputs (feed, fertiliser, energy) remained relatively high across 2023. The cost of farm inputs while slightly back (-5%) on 2022 levels remains 23% higher than 2021 levels. The value of fertilisers fell by 32% in 2023 compared to 2022 driven by a 16% drop in volumes along with a 16% drop in volumes. The value of feed remained relatively stable (up 2%) despite a 4% drop in feed volumes. Energy costs (diesel and electricity) were down 3% in 2023 compared to 2022. Plant protection products rose 9% in 2023 compared to 2022. (CSO, January 2024)

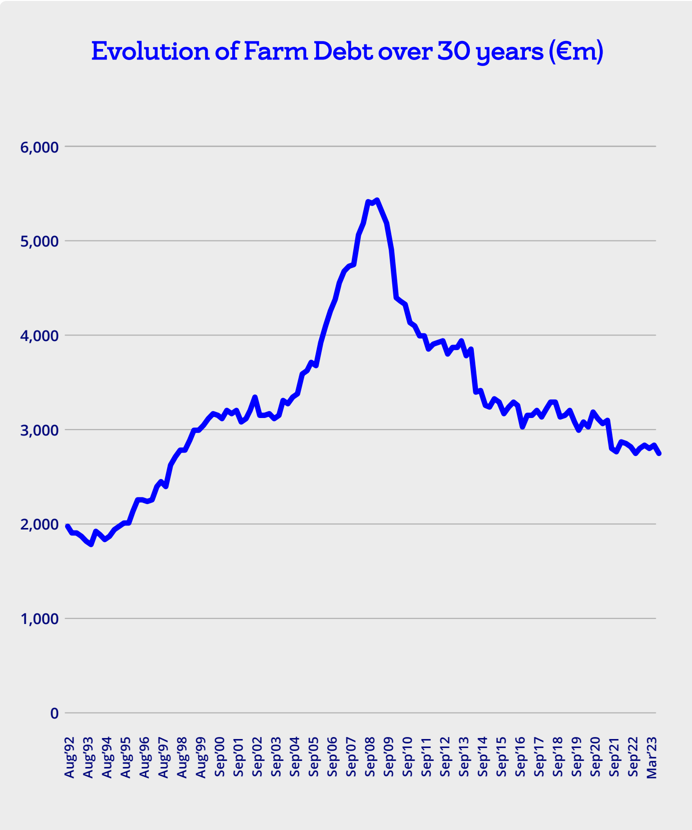
Farm incomes hit by €1.5bn in 2023

Farm incomes as measured by the operating surplus fell by €1.5bn or 33% to reach €3.2bn in 2023 compared to 2022. This drop was driven by a significant fall in farm output prices, some drops in output volumes coupled to continued high input costs. Farm incomes for 2023 are also 13% lower than 2021. (CSO, January 2024)

In 2023, average farm incomes fell 44% compared to 2022 (Teagasc, November 2023). Average dairy farm incomes for 2023 were €59,000, average tillage incomes €30,000, average cattle rearing incomes €10,000, average cattle finishing incomes €19,000 and average sheep incomes €17,000. (Teagasc, Novemeber 2023)

Farm Debt at lowest level in 25 years

The sector continues to deleverage as farmers pay down existing debt at a faster rate than taking out new debt. At the end of September 2023, the total debt on Irish farms was €2.75bn - the lowest level in 25 years and 2% lower than the end of September 2022. In the first 9 months of 2023, farmers took out €464m of new loans: 3% (€15m) more than the same period in 2022. (Central Bank, December 2023)



Source: Central Bank of Ireland, December 2023

Strong performance by Bank of Ireland in 2023

Bank of Ireland continues to grow its lending to farmers in Ireland. In 2023, Bank of Ireland captured 55% of all new lending to farmers, demonstrating our commitment and appetite to support farmers in their business ambitions. Underlining Bank of Ireland's ongoing support of Irish farmers, the Bank has recorded Agri-lending growth of 20% since 2020. This contrasts with an overall market decline of 10% in new Agri-lending during the same period. (Central Bank, December 2023)

Farmers enter 2024 in relatively strong position

In 2023, while agricultural deposits with Bank of Ireland reduced marginally (down 4%), at the end of December 2023 they remain 75% higher than in 2020 as a result of 3 years of strong average profits and cashflows across farms. Overdraft utilisation rates, another key indicator of financial health on farms continues to remain low at c.14% utilised balance at year end.

Enviroflex – Sustainability linked loans to farmers (BOX)

As the leading lender to Ireland's agriculture industry with over 82,000 farm customers on its books, the Group is supporting the sector's transition to lowering its environmental footprint by providing discounted flexible finance for farmers.

In November 2023, Bank of Ireland, in partnership with Kerry Dairy Ireland, launched its Enviroflex* sustainability linked loans to provide an additional funding option for farmers implementing sustainable farming practices. The new product rewards farmers who are on their journey to reducing their farms environmental footprint, increasing forestry and tree planting, improving biodiversity, water quality and animal welfare practises.

The partnership, which is underpinned by Bord Bia's Origin Green Sustainability Programme and the Teagasc Marginal Abatement Cost Curve (MACC), promotes and rewards accelerated sustainable action at farm level.

Enviroflex is initially available to farmer suppliers of Kerry Dairy Ireland who are participants in its Evolve Sustainability Programme. Bank of Ireland will extend Enviroflex to other partnering co-ops and primary processors throughout 2024.

Average Prices 2023 v 2022

Food price index (FAO):
-14%

Harvest Grain Prices (IFJ):
-33% to **€200/t**

Av. Base Milk prices (CSO):
-25% to **€0.40/L**

Av. Beef Price (DG Agri):
+1% to **€4.75/KG**

Av. Pig Price (Teagasc):
+23% to **€2.24/kg**

Av. CAN Fertiliser price (CSO):
-38% to **€528/t**

Av. Dairy Nut Feed prices (CSO):
+1% to **c.€352/t**

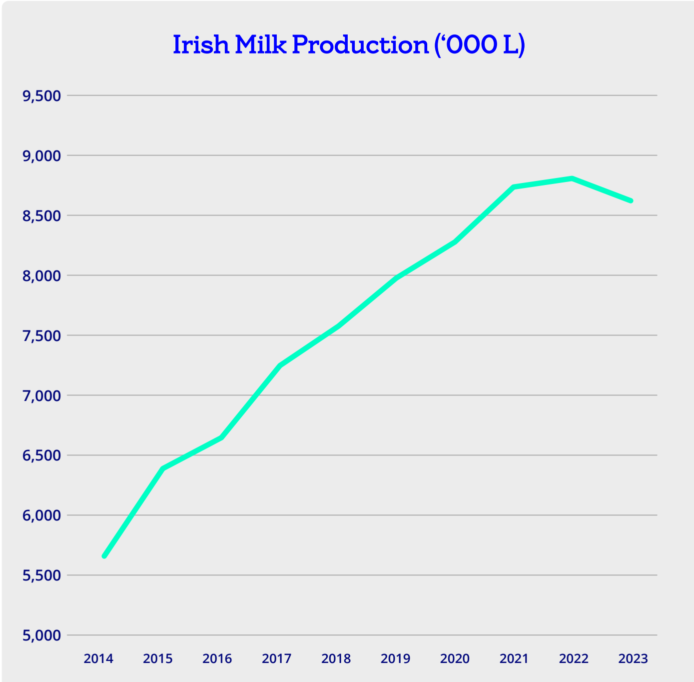
Sector Performance 2023

Dairy

After more than a decade of growth, on farm milk production declined c.3% in 2023 (CSO, January 2024). While dairy cow numbers increased marginally (+1%) to 1.65m head during the year, milk output volumes fell by c 200m litres as a result of poorer weather along with some farmers feeding less and drying off cows early in the Autumn due to weaker milk prices (CSO, January 2024). This follows a marginal increase in milk volumes (+1%) in 2022 compared to 2021 meaning milk volumes for 2023 are lower than 2021(CSO, January 2024).

While fertiliser prices did fall during the year (-38% on average) the reductions weren't seen until after April when the majority of fertiliser had been purchased and used. Similarly for feed, while there have been reductions in the second half of the year (c.€50-80/T) the total feed cost for the year rose 1% on average. (CSO, January 2024). As a result total production costs did not decrease during the year and are estimated to be c. 37c/L (Teagasc, January 2024).

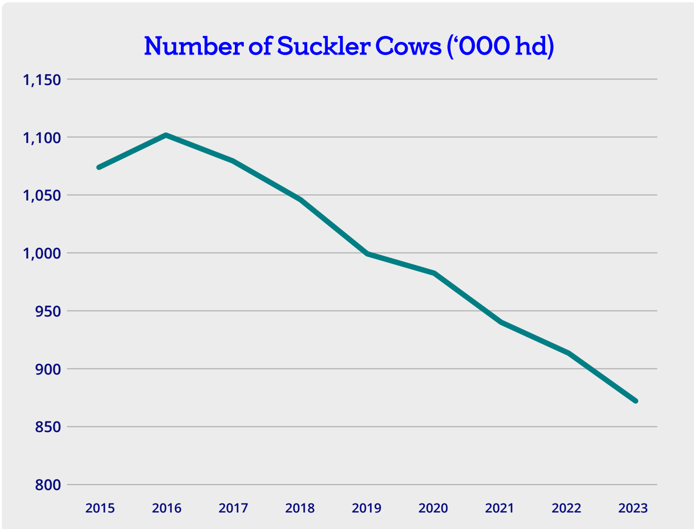
Overall, average base milk price (weighted) for the year decreased by 28% to €0.39/L including VAT (CSO, January 2024). This is in line with 5 year past average prices and 4c/L ahead of 10 year past average prices. (CSO, January 2024). Average dairy farm incomes are estimated to be down c. 60% to €59,000 for 2023 (Teagasc, November 2023).



Source: CSO, January 2024

Beef

Cattle slaughterings decreased by c. 40,000 head (-2%) to c.1.8m head in 2023 - the second highest level in 23 years (CSO, January 2024). In 2023, average prices for prime finished cattle were 3.5% higher than the average levels in 2022 and almost 20% higher than 2021 (CSO, January 2024). The decreases in fertiliser particularly during the summer months contributed towards lower input costs. Many farmers also used less due to the high price. As a result, average margins on cattle finishing farms remained stable in 2023 compared to 2022 while average margins on suckler farms increased 15% in 2023 (Teagasc, November 2023). The number of suckler cows continues to decline and is down 5% or 41,000hd in June 2023 compared to June 2022 (CSO, September 2023). Since 2015 suckler cows have declined 19% or 200,000hd mainly as a result of farmers switching to dairy (CSO, September 2023). Average cattle rearing incomes were €11,500 in 2023, while average cattle finishing incomes were €20,000 in 2023 (Teagasc, November 2023).



Source: CSO, December 2023

*= Lending criteria and terms and conditions apply

Warning: If you do not meet the repayments on your credit facility agreement, your account will go into arrears. This may affect your credit rating which may limit your ability to access credit in the future.

Warning: The cost of your repayments may increase.

Tillage

Total cereal area decreased 16,000ha (-6%) in 2023 compared to 2022 mainly as a result of poor sowing conditions in Autumn 2022 (CSO, December 2023). Poor weather during the growing season saw yields decrease across all cereal crops in 2023. Spring barley yields decreased by 21% on a per hectare basis, while winter wheat yields decreased 14% per hectare, compared to 2022 (Teagasc, December 2023). Furthermore harvest grain prices decreased 33% to €200/T as a result of increased maize production internationally (Farmers Journal, December 2023). Direct costs decreased in 2023 compared to 2022, driven by lower fertiliser (down 15%) and fuel (down 18%) costs. While margins expanded significantly in 2022, margins fell significantly in 2023, as a result of lower yields and grain prices (Teagasc, November 2023).

Pigs

The Pig sector fared much better in 2023 than in 2022 as tight supplies across the EU (following herd reductions) supported pig meat prices. The EU and Irish sow herd size reduced 9.3% and 8.8% respectively in 2023 compared to 2022 (CSO, January 2024). The reductions in grain price over the year didn't reflect into lower feed prices until the second half of the year. Average feed cost for 2023 remained stable at €1.55/kg (Teagasc, December 2023) and was 33% higher than 2021 levels. The past five year average feed cost is €1.29/kg (Teagasc, December 2023). The average pig meat price for 2023 was €0.42/kg or 23% higher than 2022 at €2.24/kg (Teagasc, December 2023). The key pig production profitability measure, margin over feed, was 2.7 times higher than 2022, at 69c for 2023. It wasn't until the after Q1 that the average margin over feed moved positive in 2023 (Teagasc, December 2023). Overall most pig producers moved back into profitability in 2023.

Land

While agricultural land prices rose 3% to €12,288 per acre in 2022 (Farmers Journal Land Report, 2023), 2023 saw a continued high demand for land throughout the year with average land prices rising a further 2-3% during the year. High quality land, particularly in areas of strong demand are achieving prices well above the average– and in excess of €20,000 in some cases. The prices continue to be driven by limited supply coupled with very strong demand – particularly from dairy farmers against a backdrop of evolving water quality regulations.

2024 Outlook

Summary:

Overall, 2024 looks set to see improved profit levels on farm compared to 2023 driven by reduced prices for key inputs. Agricultural commodities are in for an uncertain 2024 as extreme weather events become more the norm, not the exception and the potential for increased supply chain disruption as tensions continue across the Middle East and the Black Sea. Overall, despite reductions in fertilizer and feed costs, other cost levels look set to remain high. Against this backdrop of higher interest rates, inflation in input costs, uncertain agri commodity prices and increasing pressure to improve the environmental footprint of farming, farmers will need to double down on improving productivity through efficiencies to preserve profits at the same time as protecting the environment. While margins will remain uncertain and volatile in the short term, over the longer term the outlook for the sector remains positive. Given the increased focus at national and EU level on the environmental footprint of farms, the sector has a significant challenge ahead. Policy clarity, a supportive eco-system, and innovation will deliver on the sector's ambition.

7 key factors to watch in 2024:

1. **Lack of policy clarity reducing farmer confidence and increasing risk** - while the EU Farm to Fork Strategy and the EU Green Deal provide roadmaps at an EU level, there is little clarity as to how these strategies will be translated and implemented at farm level. This high level of uncertainty poses a particular challenge to the livestock sector but is also having indirect impacts on the tillage sector. Farmers are less confident about making investments in their farm business, taking on debt and planning for the future. Planned policies and measures for the sector, such as increased afforestation, water table management on agricultural organic soils and peatland rehabilitation, are projected to change the shape of scale of agriculture in Ireland. Furthermore, changes in air and soil temperature, changes in rainfall patterns, increased drought events and more extreme variability in weather will increase risk for farmers.

2. **EU priorities moving beyond food security:** New EU priorities including defence, enlargement and migration challenge the capacity to deliver greater funding for environmental transition. As discussions around the next Common Agricultural Policy (CAP) begin (2028 onwards), it comes at a time where the CAP is increasingly being asked to do more- beyond protecting family farm incomes and supporting the rural economy, to include the production of high-quality safe food and increasingly protecting rural landscapes and the environment. In essence farmers will increasingly need to do more to get access to CAP funds and this creates a level of uncertainty around farm incomes into the future.

3. **Environmental compliance will drive cost, investment and demand for finance:** Unlike other sectors, climate change and the related impact of weather will require adaptation in how farmers farm. Significant investment will be required to transition the Irish agriculture sector to a lower environmental footprint- whether that is reduced emissions, improved water quality and enhanced nature. Investments such as low emission slurry spreading equipment, additional slurry and waste water storage, along with additional space for calves and enhanced animal welfare, look set to dominate on farms throughout 2024. Many of these investments will not lead to additional profits or increased farm margins and in certain instances, especially where additional land is required, will increase costs.

4. **Demand for land to continue strong:** It is expected that land values will continue to increase in 2024, driven by the usual suspects of limited supply outstripped by increasing demand. While business people (non-farmers) continued to be strong buyers in 2023, particularly for large blocks, the favourable tax policies that have been in place for these buyers are reducing. Amongst farmers, dairy farmers continue to be very active, driven by environmental compliance. The rental/leased land market looks set to continue strong, driven predominantly by dairy farmers.

5. **Farm profits set to rise in 2024:** Assuming a return to more normalised weather patterns, Bank of Ireland is forecasting an increase in overall farm profits in 2024 compared to 2023. This increase is mainly driven by a reduction in fertiliser costs and a slight reduction in feed costs. While uncertainty, driven by geopolitical tensions remains a dominant feature across the world, it is expected that on average farm profits will increase by €0.5bn and return to levels seen in 2021.

6. **Higher interest rate environment to continue:** As the interest rate environment has changed, the past year has seen the cost of borrowing go up. Given that the overall debt levels are low and the industry is well capitalised, the sector as a whole is resilient to withstand the interest rate increases seen so far. It is unclear how rates will move over 2024 at this stage but it would appear that the era of low interest rates is over given the macro-economic environment. The drivers that caused interest rates to increase in the first place (including labour and energy prices) are still pushing hard.

7. **Pressure on Cashflows:** While farmers continue to pay down debt at a faster rate than taking out new debt, there are signals of short term cashflow pressure on some farms. It is particularly evident on farms that have invested heavily from cashflow in capital items such as farm buildings or machinery in recent years. When combined with weaker farm gate prices in 2023 coupled to high input costs and high tax bills from 2022, some farms may need to examine their debt structure and cashflow needs with their financial advisor. In October 2023, Bank of Ireland launched a Tax Loan* that enables farmers to spread the cost of their tax bill and associated other expenses over a term of up to 11 months with more manageable monthly payments.

**= Lending criteria and terms and conditions apply*

Bank of Ireland ready to support environmental ambition:

Bank of Ireland continues to be the leading lender to Irish farmers and the agri-food sector in Ireland with over €4bn invested across the Irish agrifood supply chain with over €1.2bn of this at farm level.

Banking over 80,000 family farms, many for generations, Bank of Ireland has grown its market share by 20% over the past 3 years. At a time when the market for agri lending has reduced by 10%. It is no surprise that agriculture is key to Bank of Ireland.

Bank of Ireland is confident about the future of the sector and is committed to supporting farmer's transition to a greener footprint. Banks have a unique role in helping to bridge the gap between finance and sustainability. We expect there will be a requirement for continued investment in infrastructure that improves the overall environmental sustainability of farms, and we will continue to work with farmers and stakeholders to support their future business requirements. Offering certainty with clear guidance to farm families over the next decade must be a key priority for stakeholders in the sector.

Bank of Ireland is confident that farmers will embrace the environmental challenge and is ready to support farmers to embrace policy changes in the knowledge that much of what is being asked of them will, in the first instance, enhance the environmental sustainability of farms but can also contribute to improving overall farm profitability.

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 who continue to farm in an environmentally sustainable way.

Sources: Teagasc, Central Statistics Office (CSO), Department of Agriculture (DAFM), The Farmers Journal, Bord Bia, Euromonitor, European Commission, Irish Business and Employers' Confederation (IBEQ), Marché à Terme International de France (MATIF), Intercontinental Exchange (ICE) Futures Europe, International Monetary Fund, World Bank, Food and Agriculture Organization (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.