

Farm inputs overview

July 2021

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Key figures: Jun 21



Red diesel:

64.17 ppl (Jun 21)

Source: Defra, DECC

Annual change (%)

+38%



UK Feed wheat (ex-farm)

£195/tonne

Annual change (%)

+21%

UK Feed barley (ex-farm)

£180/tonne

+25%



Ammonium Nitrate (UK produced)

£284/ tonne (May 21)

Source: AHDB

+26%



Soyameal (Brazilian, 48%)

£372/tonne

Source: AHDB

+20%

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Summary

- The latest data shows that farm input costs have continued to rise in recent months, with increases seen in all farm inputs, except pesticides.
- Crude oil prices are on an upward trajectory, following a significant drop back in 2020. Fuel prices are forecast to continue to rise, averaging \$60/barrel in 2022 according to the World Bank.
- Fertiliser prices are elevated on year-earlier levels. Looking forward, reports from the wider industry forecast prices to drop back in 2022, as demand stabilises and production increases.
- Straw prices have remained strong in recent months, with a tight supply supporting the high prices seen. Conversely, Hay prices have dropped back in recent months, due in part to improved weather conditions.
- Both feed wheat and feed barley prices are up on the previous year, with feed wheat continuing to hold a premium to feed barley. Wheat prices will likely remain firm until yield confirmation is seen.
- Oilseed markets have been elevated in 2020/21, although the supply and demand outlook is anticipated to ease somewhat in 2021/22.

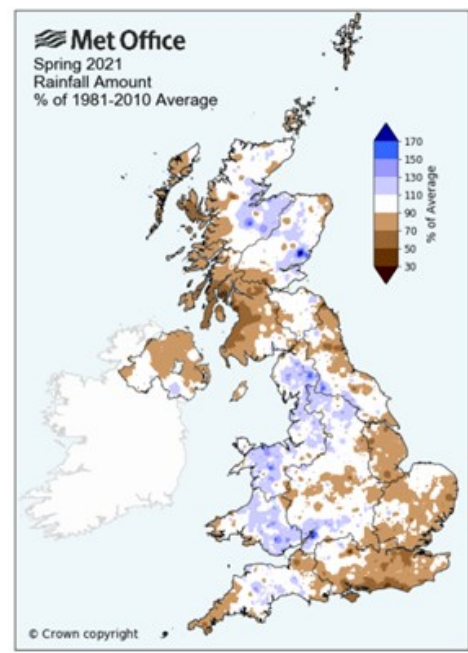
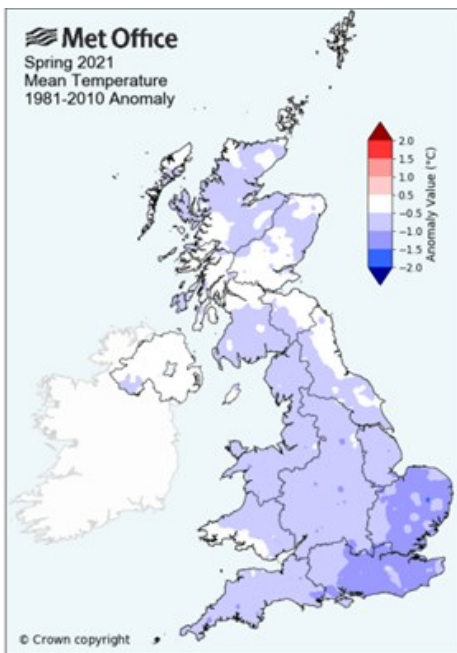
Weather overview and outlook

Spring saw a mix of conditions, with temperatures cooler than average overall. Many areas saw regular frosts, with a few warm spells in March and at the end of May. April was particularly sunny, but May followed with unsettled and cold weather.

During March, mean temperatures were 0.9°C above average, despite a cold start, with temperatures lifting towards the end of the month. Rainfall was below average for most areas, despite wet conditions through the second and third week. North-western areas experienced duller conditions, with other areas near or just above average.

Cool weather was seen throughout April, especially at night, where several air frosts were seen. The monthly mean temperature was 1.7°C below average, making it the coldest April since 1989. Dry conditions were seen throughout the month, with only 28% of average rainfall. This makes it the driest April since 1980. Plenty of sun was seen throughout the month, giving 152% of average sunshine.

Cold conditions continued into May, with monthly mean temperatures 1.3°C below average. This is the coldest average temperature since 1996. In contrast to April, heavy showers and plenty of rainfall saw 171% of average fall during the month, with those in Wales and the south-west particularly wet.



Looking ahead

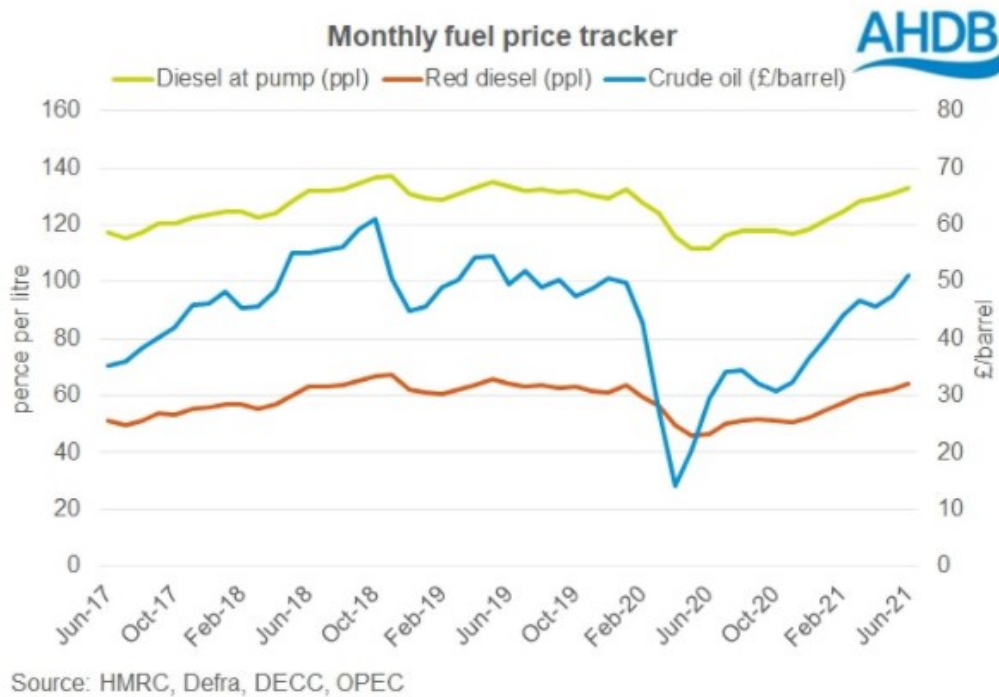
Looking further ahead, the Met Office expects unsettled conditions as we move into August, with most places to experience mixed conditions and heavy showers, with perhaps some more prolonged rain at times. Tentative signals suggest high pressure may occur in mid-August, bringing more settled, drier and warmer conditions for many. Some risk of showers and thunderstorms remains. Although it should be noted there is lower confidence in longer-term forecasts.

Input costs

The Defra Agricultural Price Index strengthened during the spring, with increases in both inputs and outputs in recent months. The latest data available for May 2021 shows farm input costs continued to rise throughout spring, with recent increases in feed, fertiliser and red diesel costs driving this lift. Higher prices for all farm input categories, except pesticides, has seen the price index of total costs lift considerably year-on-year (+9.2 points).

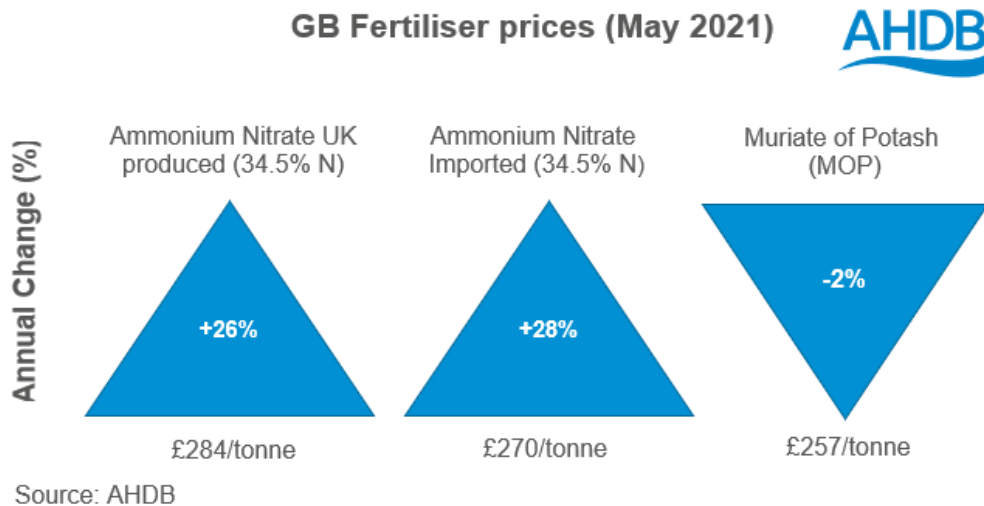
Fuel

Red diesel prices have increased significantly in recent months, climbing 17.73ppl on year-earlier levels to average 64.17ppl in June. This is the highest price achieved since June 2019. Red diesel prices often follow the wider crude oil market, which saw prices decline notably in 2020 due to a sudden drop in demand resulting from the coronavirus pandemic. Crude oil prices have since been recovering, averaging \$71.89/barrel in June 2021. The World Bank forecasts prices to average \$56/barrel in 2021 as the economy continues to recover and demand continues to firm.



Fertiliser

Fertiliser prices are also elevated on year-earlier levels. Prices for both domestic and imported Ammonium Nitrate have continued to hold their strength in recent months, a result of strong input prices, including crude oil and natural gas. High output values are likely to be supporting elevated Ammonium Nitrate prices, with maize futures exceeding year-earlier prices in May.



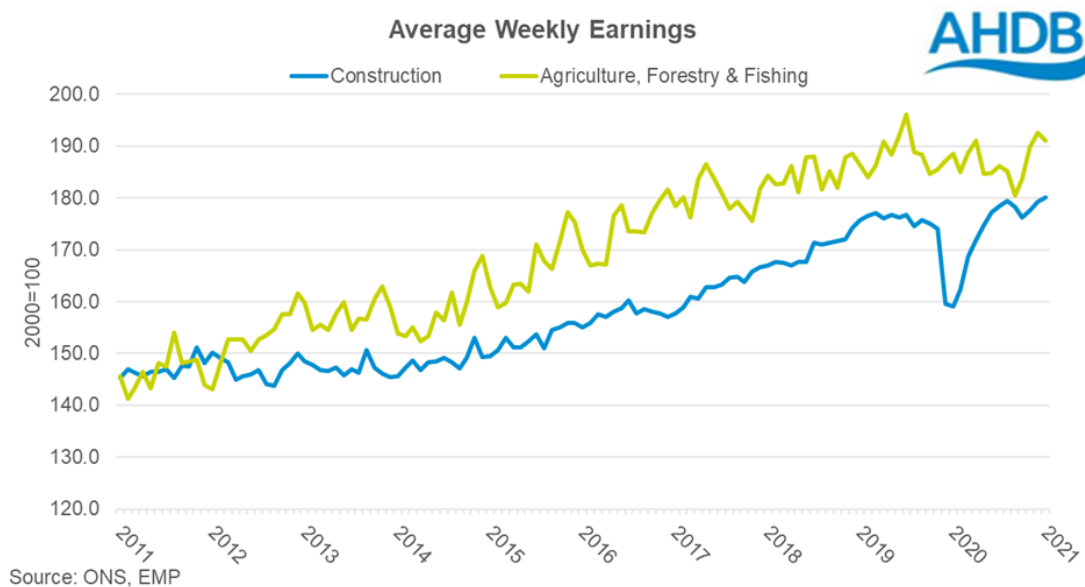
Phosphate prices have shown the largest year-on-year increase for May 2021, hitting their highest point since 2011, with strong demand from key crop growing regions supporting the elevated prices. According to the World Bank Commodities Outlook (Apr-21), average fertiliser prices are forecast to increase by 27% in 2021, but drop back in 2022 as demand stabilises and production increases.

Labour costs

Average weekly earnings for Agriculture, Forestry and Fishing have fluctuated in the first half of 2021. In May, provisional average weekly earnings totalled £413, down £7 (-2%) on the same month last year, and down £7 on the previous month.

Conversely, the construction industry, the sector with the most comparable pool of labour to agriculture, has seen a lift in average weekly earnings. According to the Office of National Statistics, average weekly earnings in construction climbed £81 (+14%) year-on-year, reaching £654 in May. This widens the gap between the two sectors to £241 per week.

Sourcing labour has been a particular concern for the agricultural industry in recent years, with fewer seasonal workers entering the UK. This has been further complicated by the pandemic.



While average weekly earnings for agriculture may be lower than other sectors, it should be noted that some agricultural workers also receive other benefits, such as accommodation.

Value for May 2021 was 191.1 – agriculture and forestry index: non-seasonally adjusted regular pay including arrears. Starting with 2000=100.

Straw

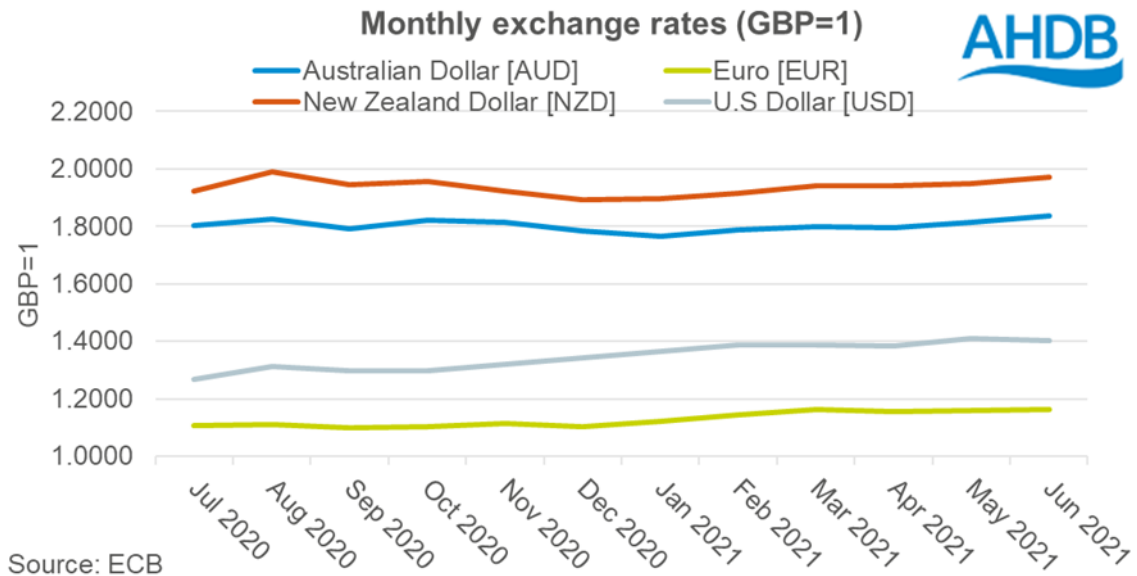
Straw prices have continued to hold their strength in recent months, having steadily increased since the start of the year. In June, big baled barley straw averaged £107/tonne, while big baled wheat straw prices averaged £104/tonne. This is being driven by the restricted straw supply from the 2020 harvest, with less availability of straw around the UK supporting the elevated prices seen.

Hay prices had also been on an upward trajectory, with wet weather seen through April and May driving these increases. Although, big baled hay prices have since dropped notably back in recent weeks, a result of better weather significantly reducing demand, and subsequently prices. Early warm and dry periods, followed by periods of rain has aided silage and hay production so far in 2021. Overall hay supplies will depend on sufficient days of rain free weather going forward.

Exchange rates

The Pound continued to hold its strength against the US dollar over the last twelve months, with a fairly low level of volatility. This has led to imported goods from the US to appear marginally cheaper compared to July 2020. Conversely, UK exported goods will be potentially less price competitive.

The Pound to Euro relation has followed a similar trend to the dollar, where the Pound has strengthened against the Euro over the past year. Whilst the Pound remains weaker to the Euro than it has done historically, this change could see imported EU products, like fertiliser, appear slightly cheaper at market. While exports to the EU could see minor potential loss of competitiveness.



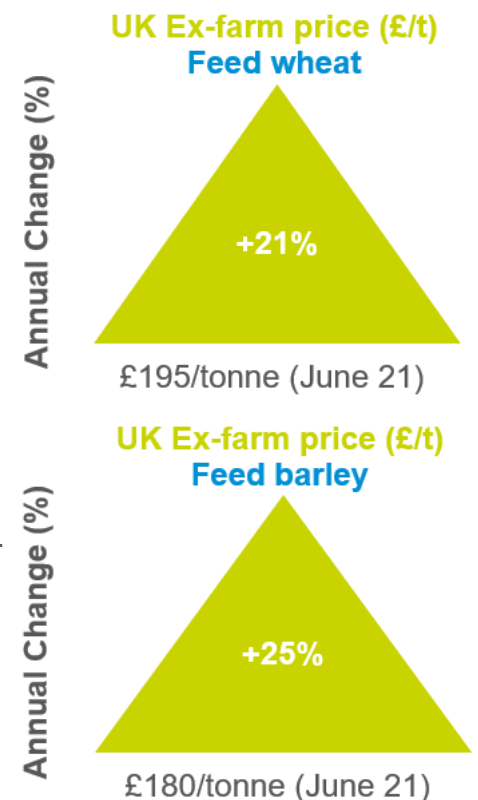
Feed market overview and outlook

Feed wheat

Feed wheat prices have been firm since the beginning of 2021. Prices have reacted to global trends and the tight 2020/21 UK crop. UK production is expected to be stronger in 2021/22, however reducing global production forecasts and adverse weather have supported prices so far. Prices will likely remain firm until yield confirmation is seen.

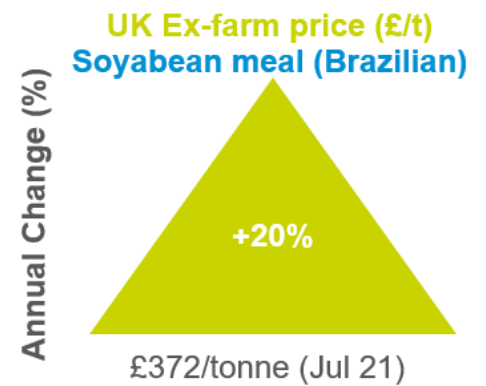
Feed barley

Feed barley prices were firm towards the end of the 2020/21 season. Strong demand and tight supplies for old crop barley has kept the market firm into the transition to new crop. With increased wheat availability barley demand is likely to be reduced, subject to diet composition, in 2021/22, which will drive an increased discount to wheat.



Soyabeans

Much of the direction of soyabean prices going forward will depend on the demand picture from China. In 2021/22 China is expected to account for almost 60% of global soyabean imports. Prices have been elevated in 2020/21 but the supply and demand outlook is expected to ease somewhat in 2021/22.



Maize

Strong Chinese demand and tight supplies kept maize prices strong through 2020/21. Maize supply demand is forecast to improve in 2021/22, which will keep maize prices down from 2020/21 levels. With harvests of maize later in the year, much is still to be determined.

Forage overview

GB grass growth rates had been tracking below the long-term average (2010-20) from March 2020 to May 2021, with cold and dry conditions seen in April contributing to this decline. Growth rates recovered in May, likely boosted by increased rainfall, rising above the long-term average for the first time in 2021. While growth rates have since dropped below the long-term average, total grass production to date (March - July) stands above last year (+0.2 tonnes) at 7.1 tonnes/dry matter/ hectare.

Lower than average crude protein levels had raised concern over grass and silage quality earlier in the grazing season. This is because a lower quality silage cut could amplify the impact of rising feed costs later in the year. Crude protein levels have since improved, with month to date figures for July standing at 22.7%, 1.8% above the five-year average.

