Income prospects for 2023

Another year of high production costs expected.

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Each year, economists from the Teagasc Agricultural Economics and Farm Surveys department, with specialists from the Pig Development Unit and the Forestry Development department, publish a summary of the economic performance of the agriculture sector and a forecast or outlook for the year ahead.

In December 2022, our farm income forecasts for 2023 and estimates for farm incomes in 2022 were published. In this article, we summarise this outlook for the dairy, beef, sheep and tillage sectors.

Full details of our income forecast for these and other sectors of Irish agriculture are available from the Teagasc website www.teagasc.ie/publications/2022/outlook-2023---economic-prospects-for-agriculture.php.

In 2022, farmers faced considerable uncertainty relating to input and output prices. This influenced production decisions. The uncertainty was largely driven by Russia's invasion of Ukraine, which had immediate consequences for energy, fertiliser and feed prices. Subsequently, farm output prices were impacted.

Weather conditions in 2022 were unusual, with exceptionally dry conditions over the summer having a negative impact on grass growth. Cereal production generally benefitted from the dry weather.

For farm incomes, the outcome in 2022 was mixed. Dairy farms achieved dramatically higher incomes, as did tillage farms, compared with 2021. Incomes on cattle farms and sheep farms were lower in 2022 than in 2021.

On dairy farms, a significant increase in income in 2022 is estimated to have occurred, with the average Irish dairy farm income likely to be up by 50% on the 2021 level. This increase takes the average dairy farm income figure to €148,000.

Irish dairy farmers benefitted from a 44% increase in milk prices due to the lack of growth in global milk supplies in 2022.

On average, milk production costs were about 8c/litre (30%) higher in 2022. Irish milk production in 2022 was more or less in line with the 2021 level, despite dry conditions over the summer of 2022 limiting grass availability.

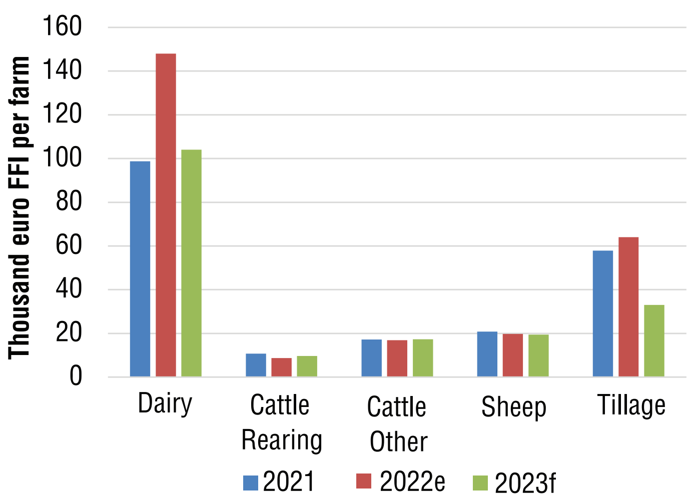
For tillage enterprises, favourable weather led to higher yields and good moisture content for most crops in 2022. However, winter barley yields were lower due to virus impacts.

Tight global grain supplies and uncertainty regarding export potential from Ukraine boosted cereal prices at harvest time in 2022.

Even allowing for a large increase rise in production costs, we estimate that average tillage farm income in 2022 increased by 10% to about €64,000.

The average income on cattle rearing farms is estimated to be down 20% in 2022. Higher production costs more than offset the benefit of higher cattle prices. We estimate that the average cattle rearing farm income will be €8,700 in 2022. This decline is despite the positive influence of

Figure 1: Family farm income 2021, estimated 2022, forecast 2023.



the Fodder Support Scheme on farm incomes.

The combination of higher finished cattle prices and the contribution from the Fodder Support Scheme have offset most of the increase in production costs on 'cattle other' farms. However, the average income for these farms will still be down 2% in 2022 to an estimated €16,900.

Sheep farms benefitted from higher lamb prices in 2022, which remain at record levels, and they also received payments via the Fodder Support Scheme.

They have also had to deal with higher production costs. Payments from participation in the Sheep Welfare Scheme boosted gross output, but was not sufficient to cover the input cost increases in 2022. We estimate the average income on sheep farms will be down 4% in 2022 to about €19,800 per farm.

2023 outlook

Looking ahead to 2023, the uncertainties created by the invasion of Ukraine are likely to persist. Global economic growth rates are set to slow, with some regions moving into recession. This could have a negative impact on food demand.

There are few signs of relief in 2023 from the high production costs that were observed in 2022. Looking at forecasted average input prices in 2023 relative to the average in 2022, fuel prices may fall slightly, but feed prices are likely to be higher.

Very little change is expected for the annual average fertiliser price for the fertiliser marketing year, which starts in October and ends in September.

Farm gate milk prices are forecast to fall by 15%, as global milk production growth resumes and demand growth eases.

The lower average milk price in 2023 should still be sufficient to cover the production cost increases experienced over the last 18 months.

Margins will remain relatively high in 2023 and there should be a return to growth in milk production of perhaps 4%. While dairy farm incomes are forecast to be lower in 2023, the forecast average dairy farm income of €104,000 will still be one of the highest recorded.

Cereal prices at harvest are forecast to be lower in 2023. The high cereal yields achieved in 2022 are unlikely to be repeated and in our forecast, we assumed a return to trend yields.

There is likely to be little relief for tillage farm incomes on the cost side, but additional support under the new CAP will provide some benefit, such as the ACRES programme and additional protein payments. Overall, the average tillage income in 2023 is forecast to fall by 48% to €33,000 per average tillage farm.

In 2023, cattle prices are forecast to increase, particularly during the first quarter of the year. Stable volumes of beef production (domestically and in key export destinations) are likely to constrain rising cattle prices in the second half of 2023.

Our forecast is that average finished cattle prices will be 4% percent higher in 2023 and that young cattle prices will increase by 5%. The availability of additional support under Pillar II of the new CAP will benefit some cattle producers. Average incomes are forecast to improve on cattle farms in 2023, with an increase of 11% in prospect for cattle rearing farms to €9,700, and an increase of 2% for other cattle farms to €17,300.

We expect lamb prices to increase by 2%, on average, in 2023. On many farms specialised in sheep production, incomes will continue to be supported by payments from CAP Pillar II schemes. In 2023, these payments will be from the new Sheep Improvement Scheme.

With a forecast 4% increase in costs in 2023, the average income on sheep farms in 2023 is expected to decline to just under €19,500.

All of these income calculations are in nominal terms, which means that they do not factor in general inflation and the impact that this has on the purchasing power of each euro. With inflation now at its highest level for many years, a farm with a stable nominal income will experience an appreciable decline in real income.