

Outlook 2010 Dairy

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Outlook 2010 - "Economics of Agriculture"
15th January 2010

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Outline

- **Costs**
- **Milk Prices & Production**
- **Margins**

Dairy Input Costs



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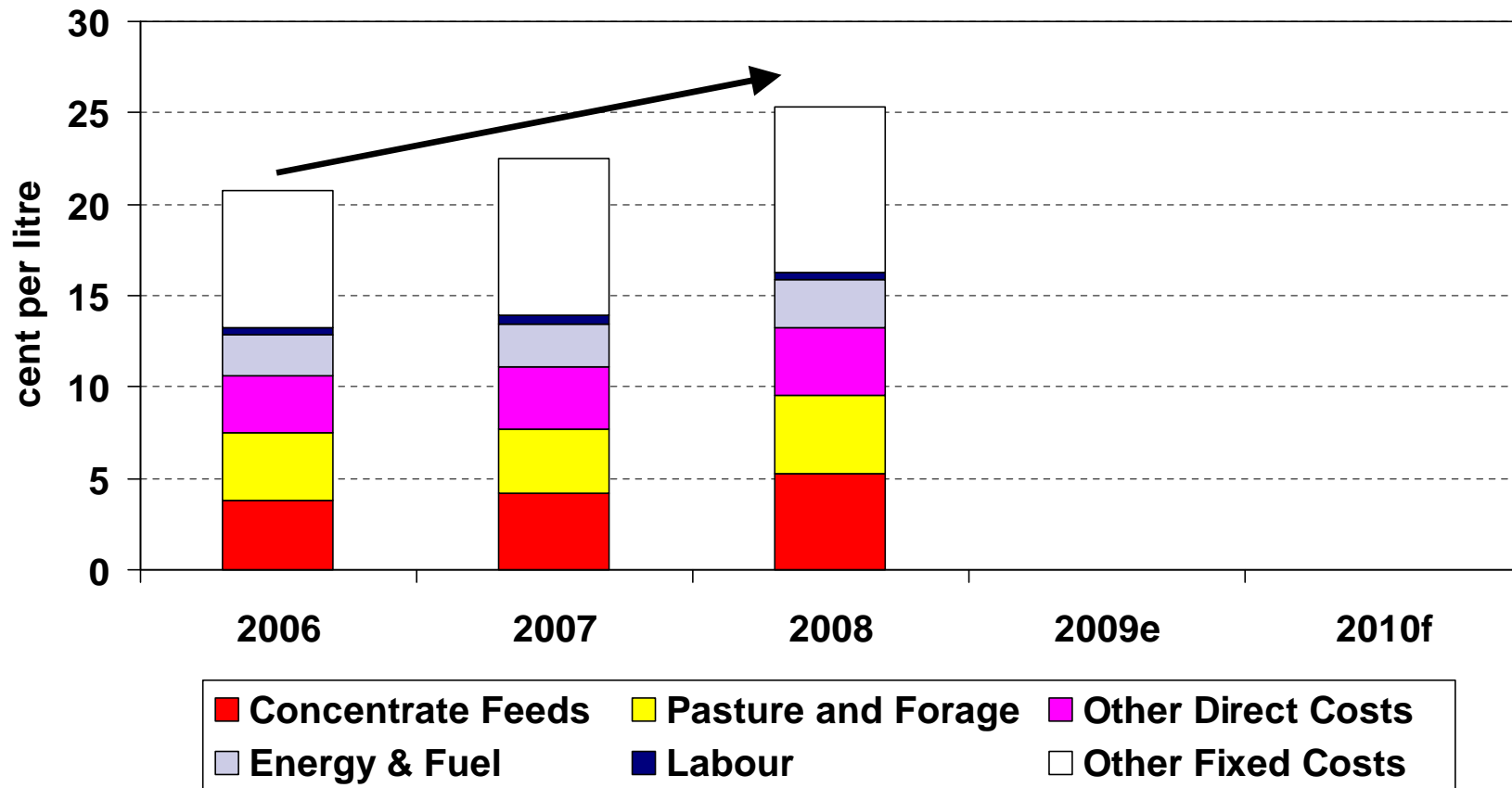
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Dairy Inputs

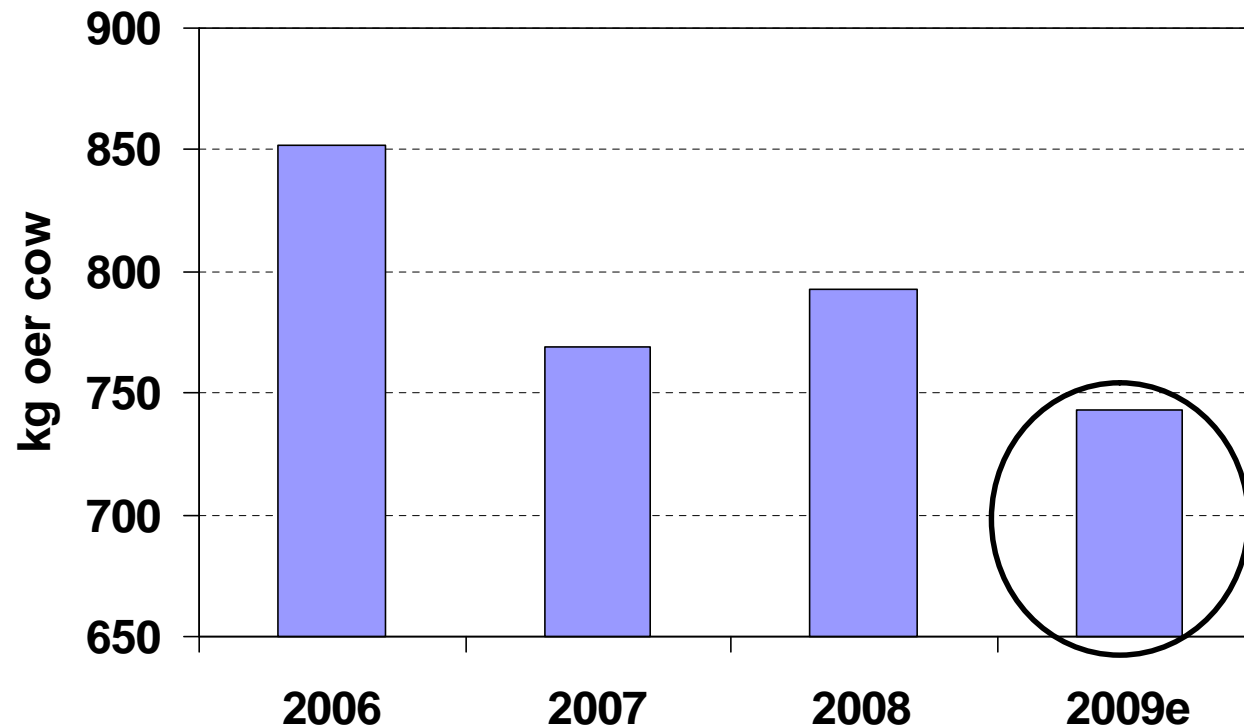
- Big focus on milk prices in last couple of years
- But input costs have also influenced dairy margins
- Upward creep in costs in 2007 & 2008
 - due to strong global economic growth
 - prices rose, particularly for feed & pasture and forage costs
 - energy costs also moved upwards
- Costs moved from 20 to 25 cpl from 2006 to 2008



Costs of Dairy Production



Feed use per dairy cow



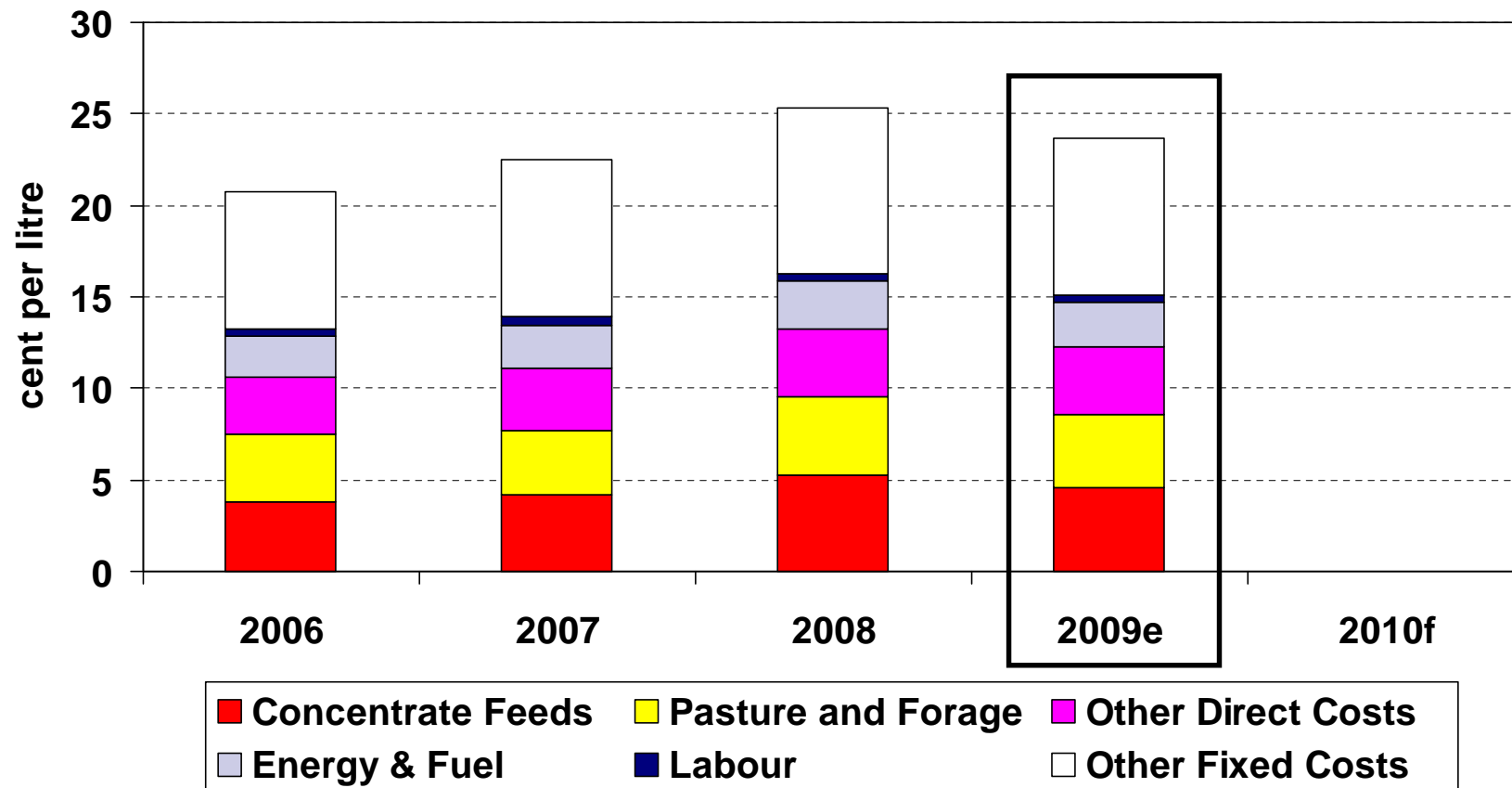
Source: Derived by Authors from CSO and DAFF data

Inputs Costs in 2009

- **Expenditure change relative to 2008**
 - Feed ↓ 13%
 - Feed use and feed price down
 - Pasture and forage up ↓ 8%
 - Lower contracting costs
 - Other Direct Costs ↑ 2%
 - Energy and fuel ↓ 9%
 - Lower fuel prices but electricity up
 - Labour ↓ 5%
 - Other Overhead Costs ↓ 5%
- **Total dairy costs down ↓ 6% (25.3 to 23.7 cpl)**

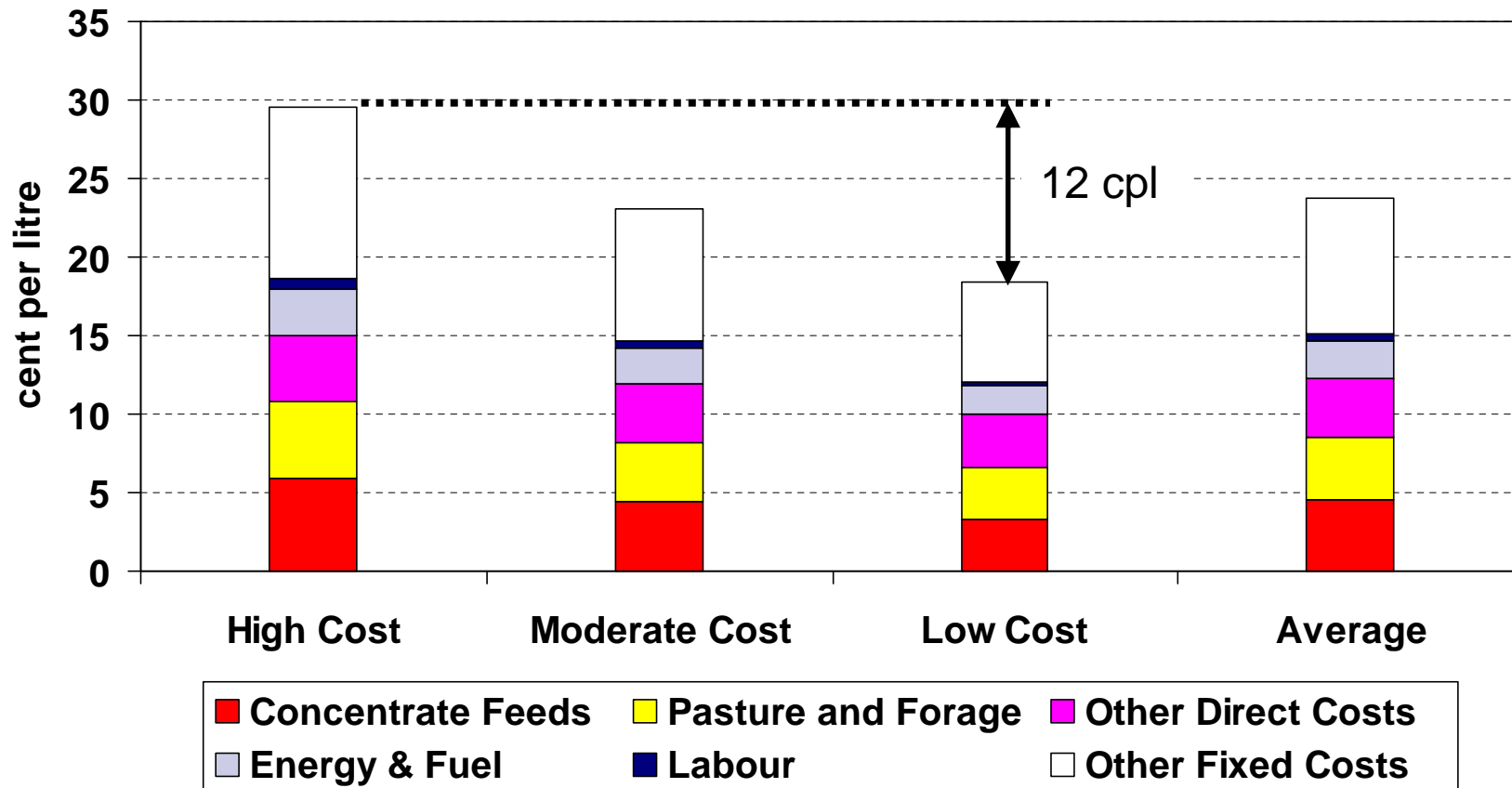


Costs of Dairy Production



Source: NFS (Various Years) & Authors' estimates

Cost Variation in Dairy Production 2009



Source: Authors' estimates

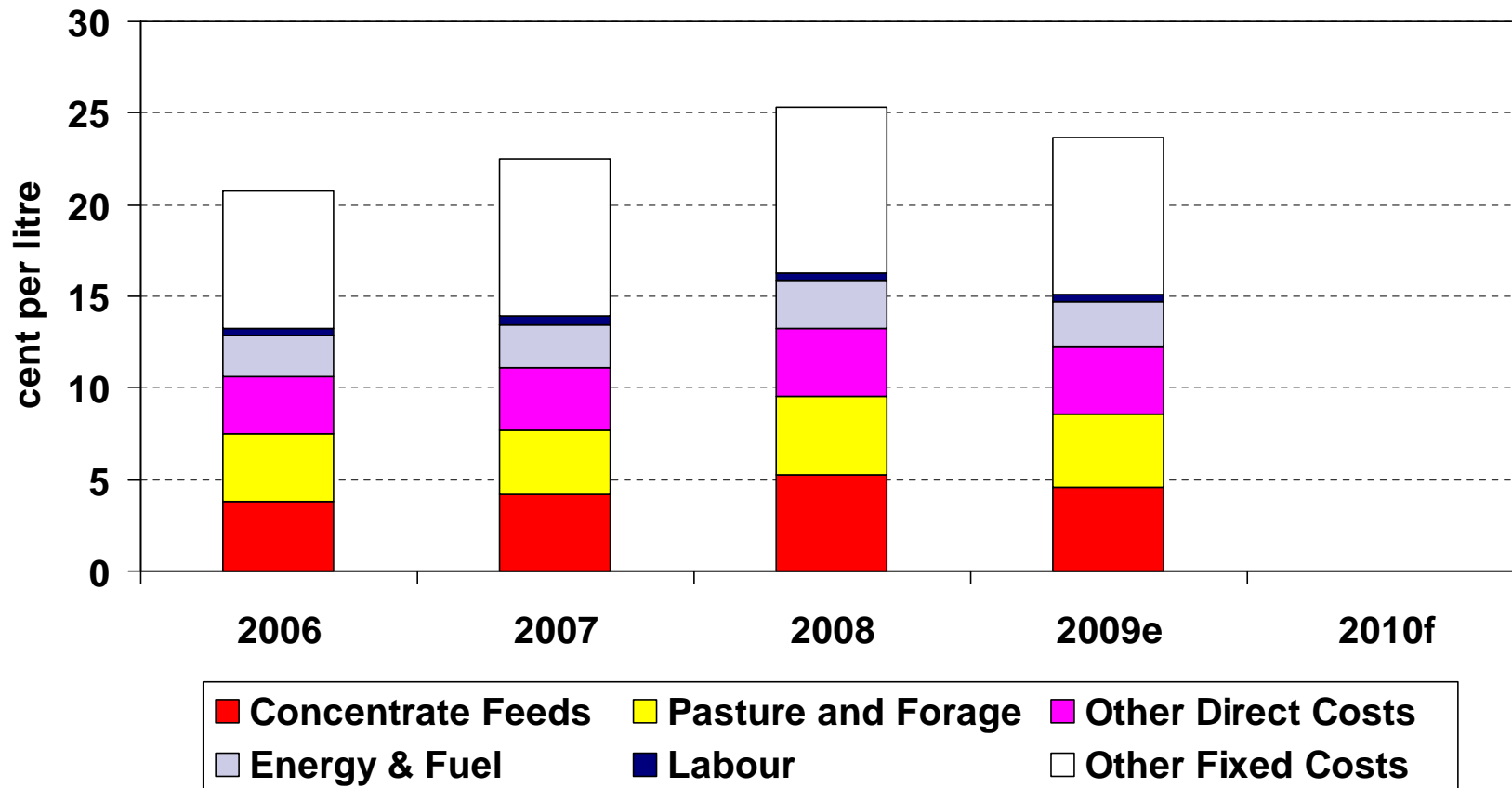


Input Costs in 2010

- Expenditure in dairy relative to 2009
 - Feed ↓ 10%
 - includes a 5% increase in volume
 - Pasture and Forage Costs ↓ 8%
 - fertiliser cheaper but contractor costs up
 - Other Direct costs ↑ 2%
 - Energy & Fuel ↑ 10%
 - higher fuel and electricity prices
 - Labour (no cost change) ↔ 0%
 - Other Overhead Costs (no cost change) ↔ 0%
- Total dairy costs ↓ 2% (23.7 to 23.2 cpl)



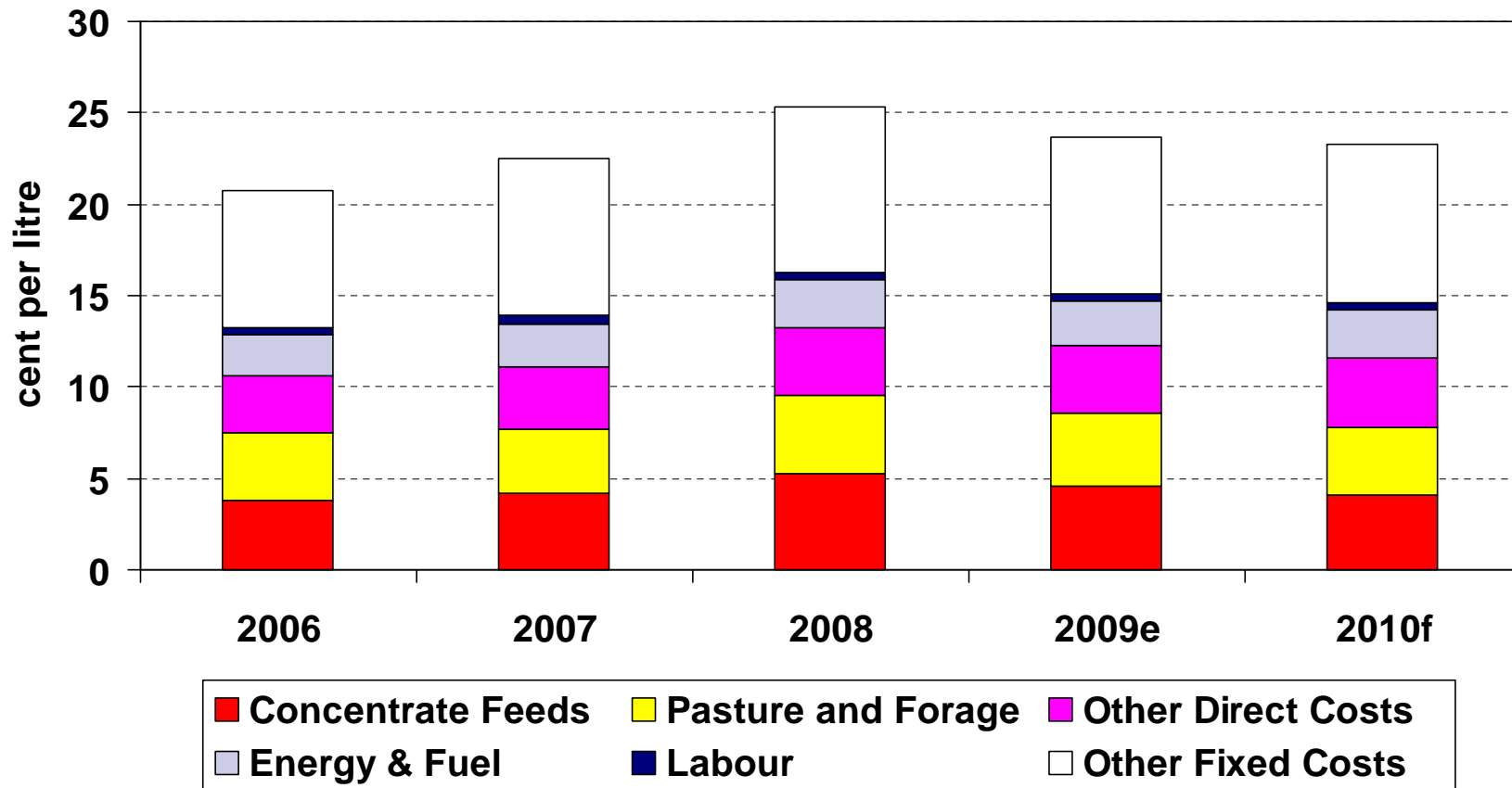
Costs of Dairy Production



Source: NFS (Various Years) & Authors' estimates



Costs of Dairy Production



Source: NFS (Various Years) & Authors' estimates

Milk Production and Prices



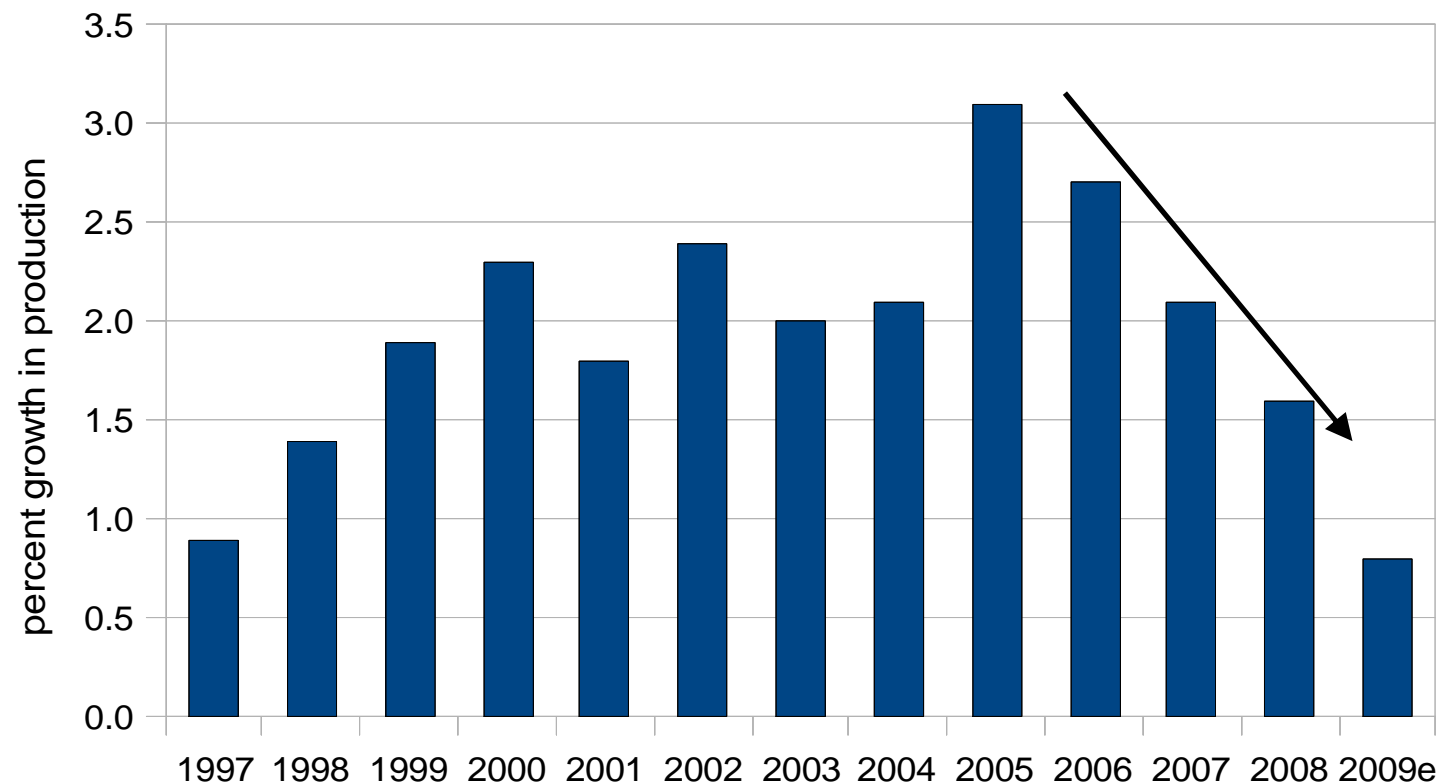
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How did we get to where we are ?

- Low stock levels & adverse weather conditions
 - destabilisation of global dairy commodity markets in 2007
 - dramatic rise in world dairy prices followed
- Strong increase in global milk production in 2008
 - higher dairy prices impacted negatively on demand
- Financial crisis further depressed dairy consumption levels
 - pushed world dairy prices well below pre-spike levels.
- EU & US govts. intervened to support dairy markets in 2009
 - through extended intervention measures, and the
 - re-introduction of both dairy export subsidies and the Dairy Export Incentive Program.
- Prevented domestic dairy prices from falling to even lower levels

Recent Slowdown in Global Dairy Production Growth



Source: ZMB, IDF, FAOStat

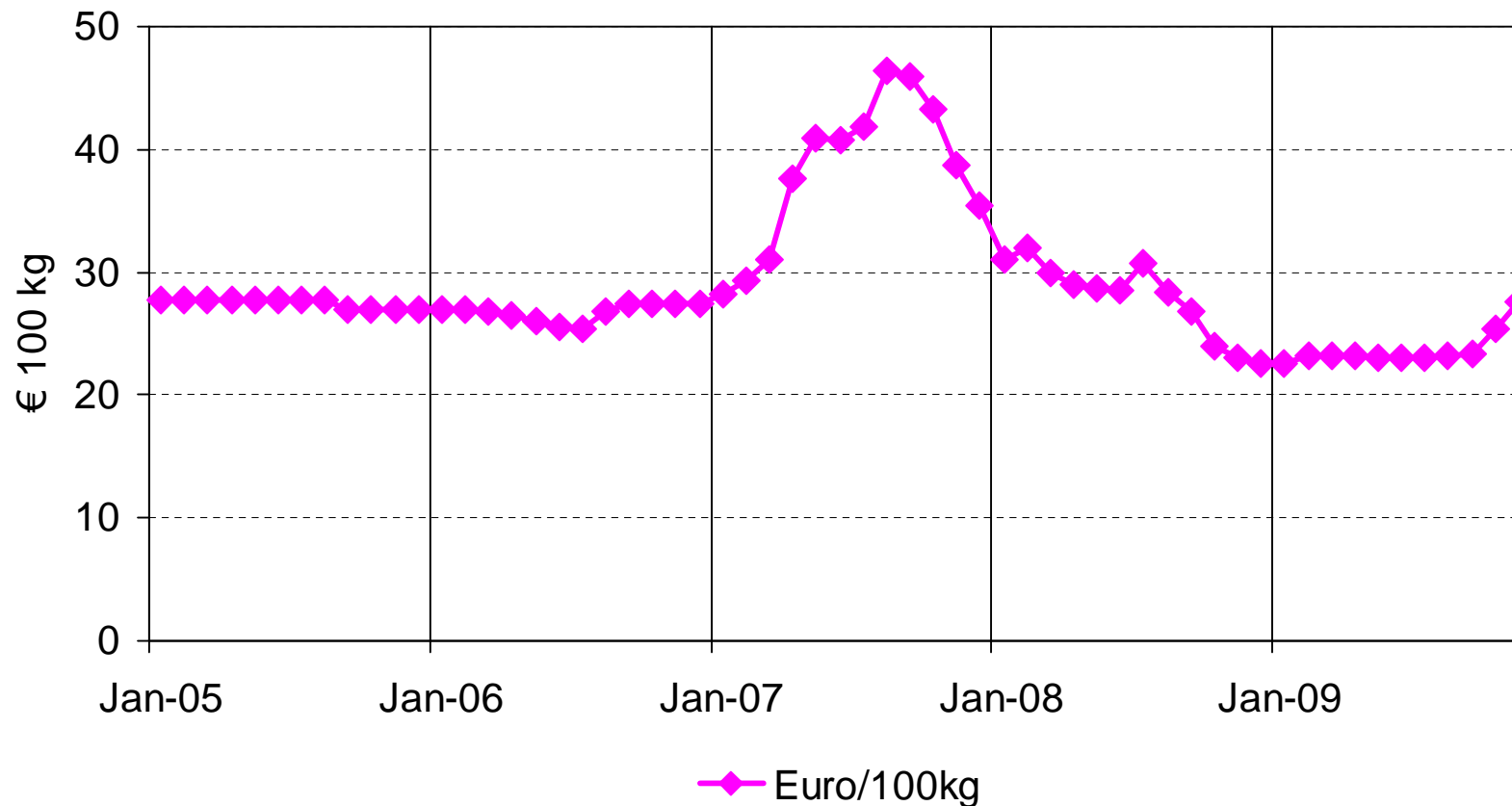
Global Milk Supply and Use Balance

Mt tonnes	2001	2002	2003	2004	2005	2006	2007	2008	2009
Milk Production	590	604	616	628	648	665	679	690	701
Stock Change	0.5	3.6	0	-1.7	-2.7	-2	0	4	n.a.
Consumption	589	600	616	630	651	667	679	686	n.a.

Source: ZMB, FAOStat

n.a. not available

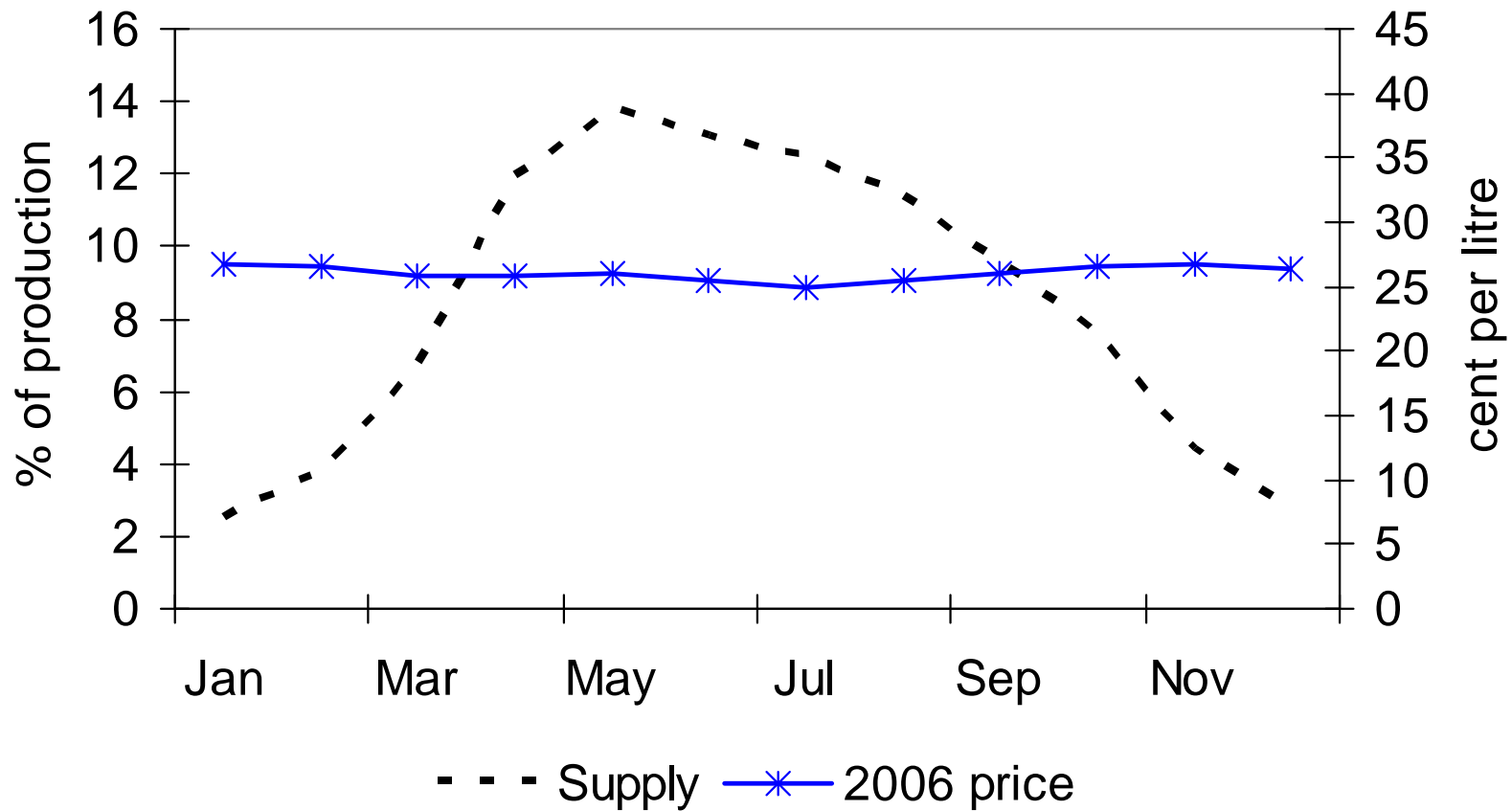
Irish Dairy Board Butter/SMP equivalent price 2005 to 2009



Source: IDB



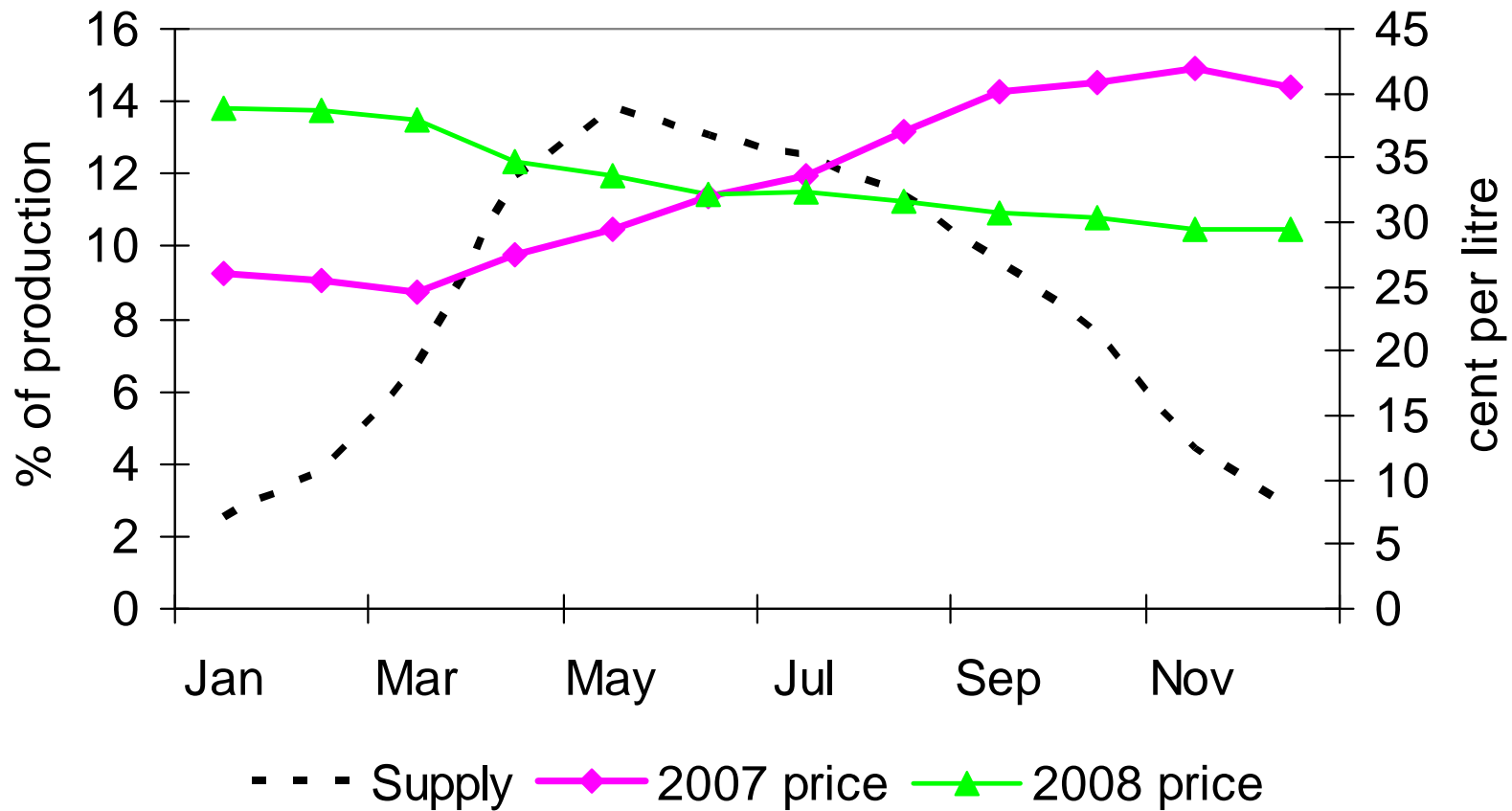
Monthly Irish Milk Prices (vat incl.)



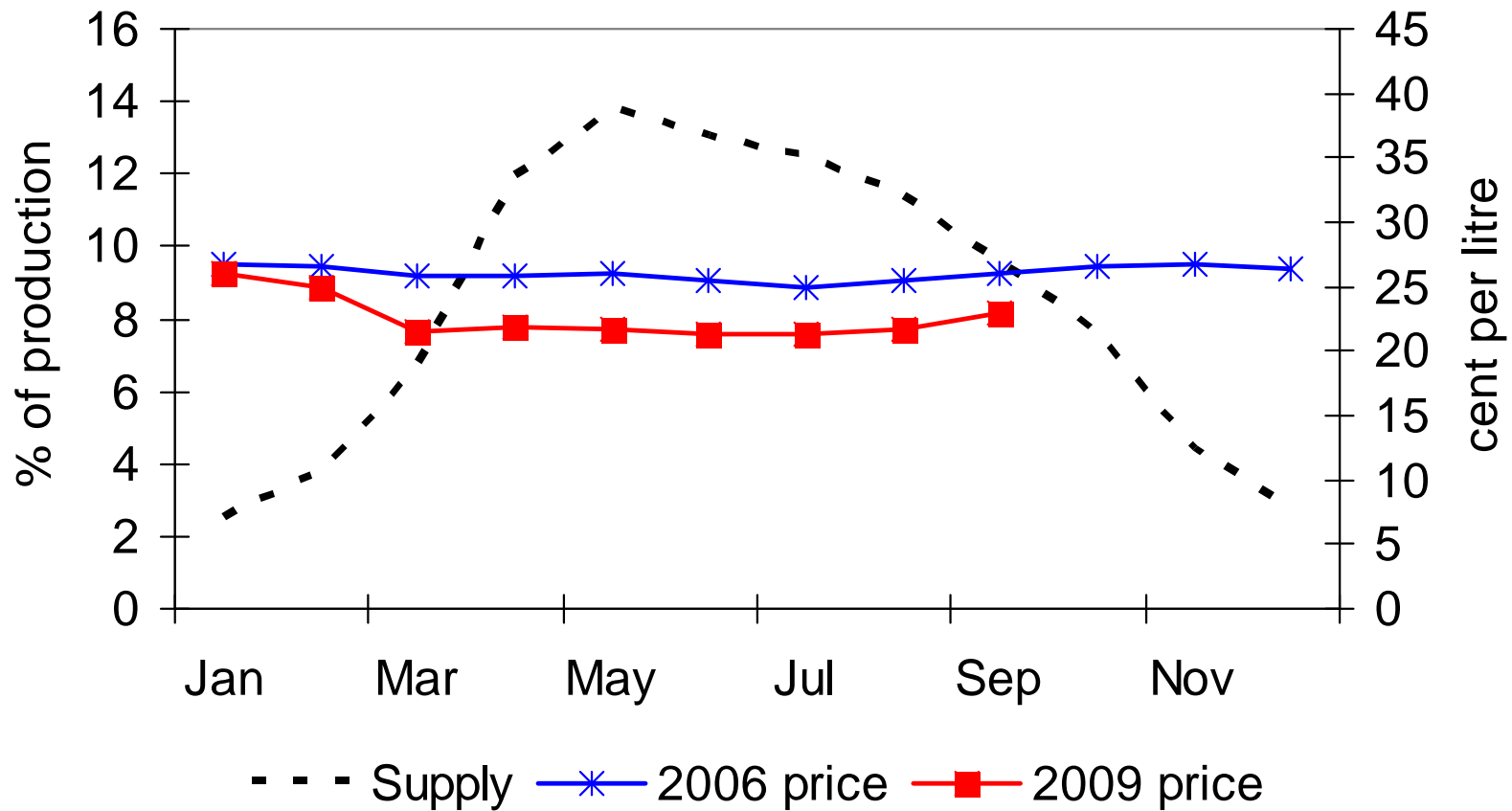
Source: CSO



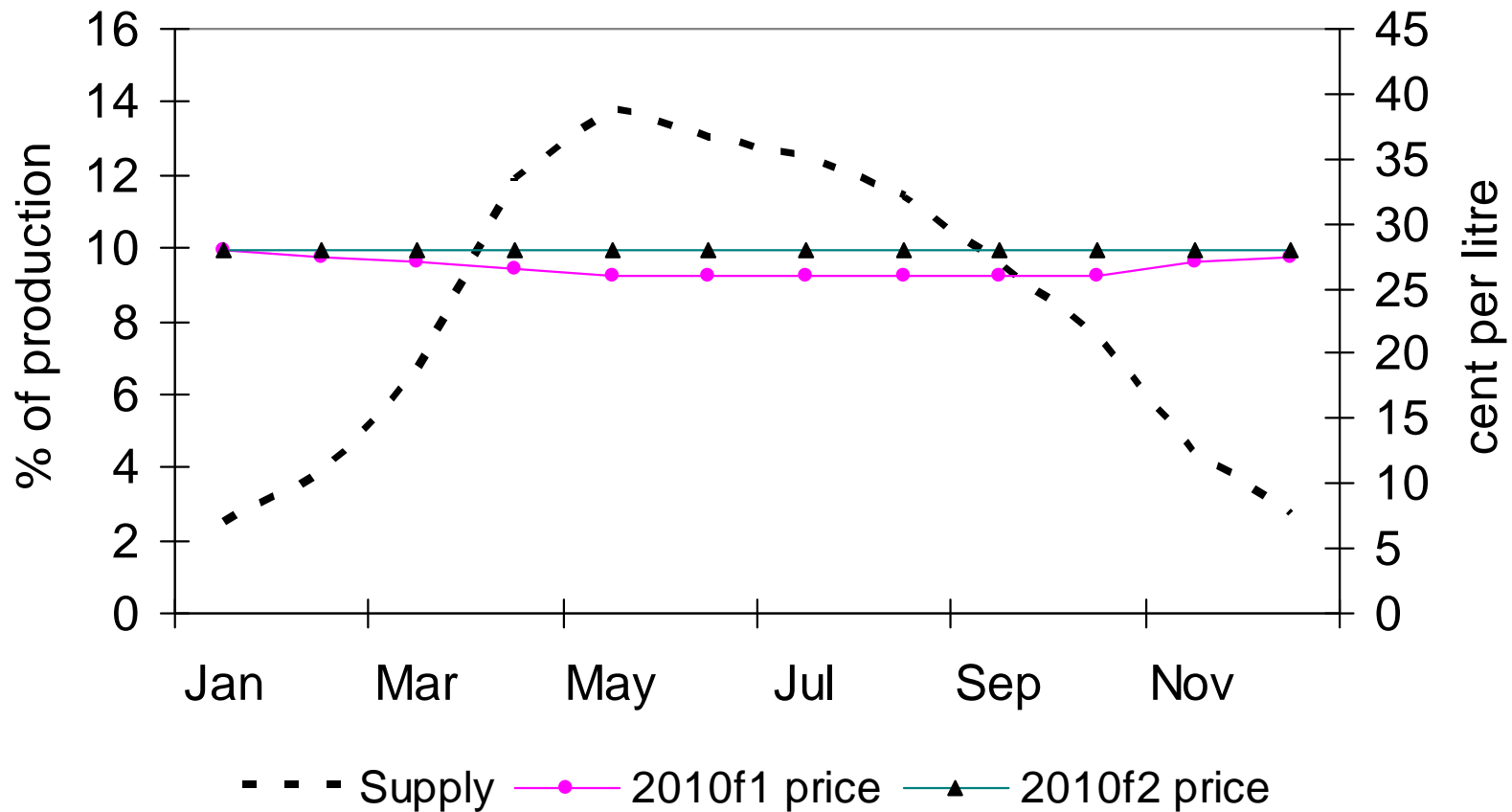
Monthly Irish Milk Prices (vat incl.)



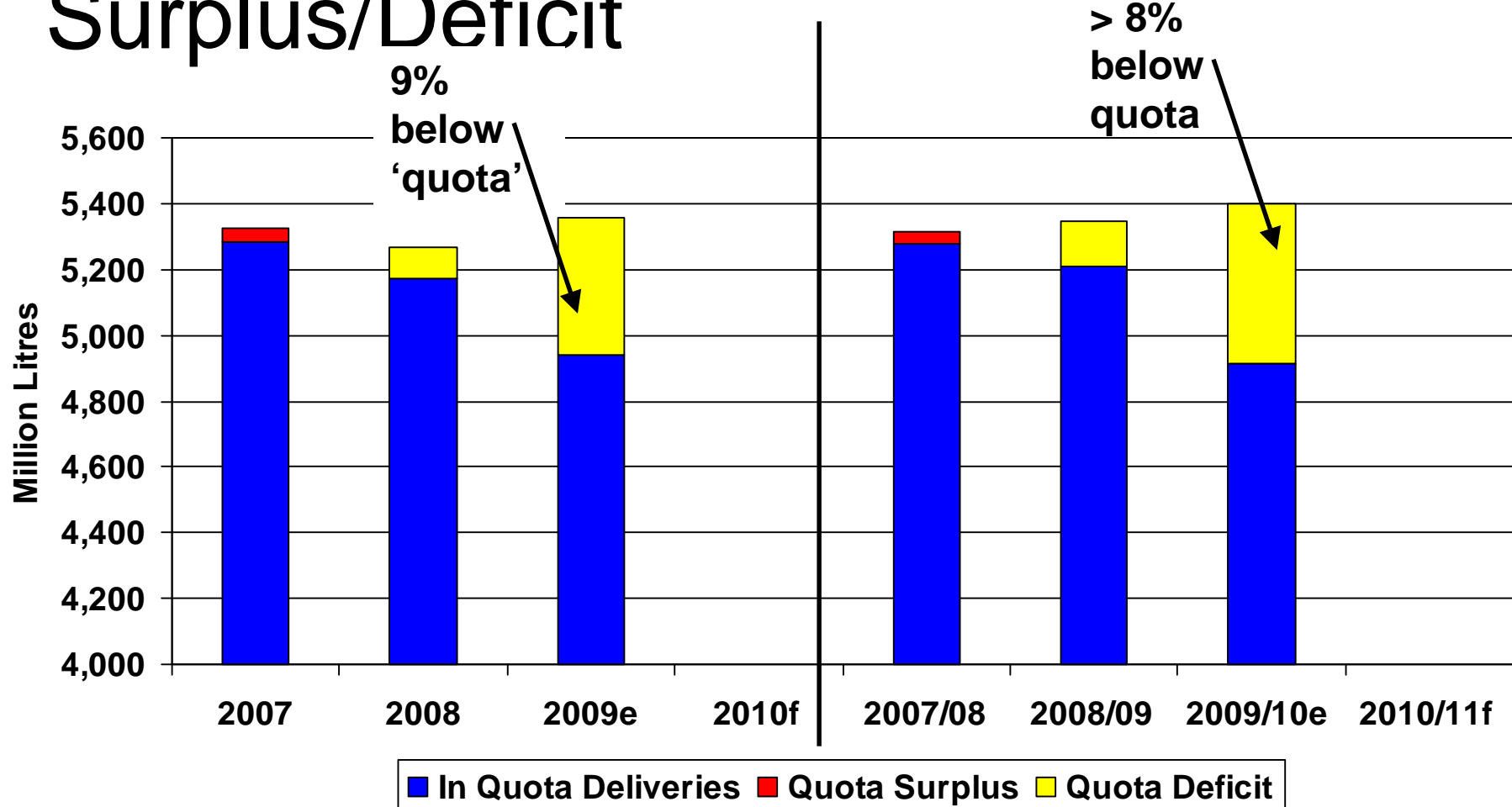
Monthly Irish Milk Prices (vat incl.)



Monthly Irish Milk Prices (vat incl.)



Irish Milk Deliveries & Quota Surplus/Deficit



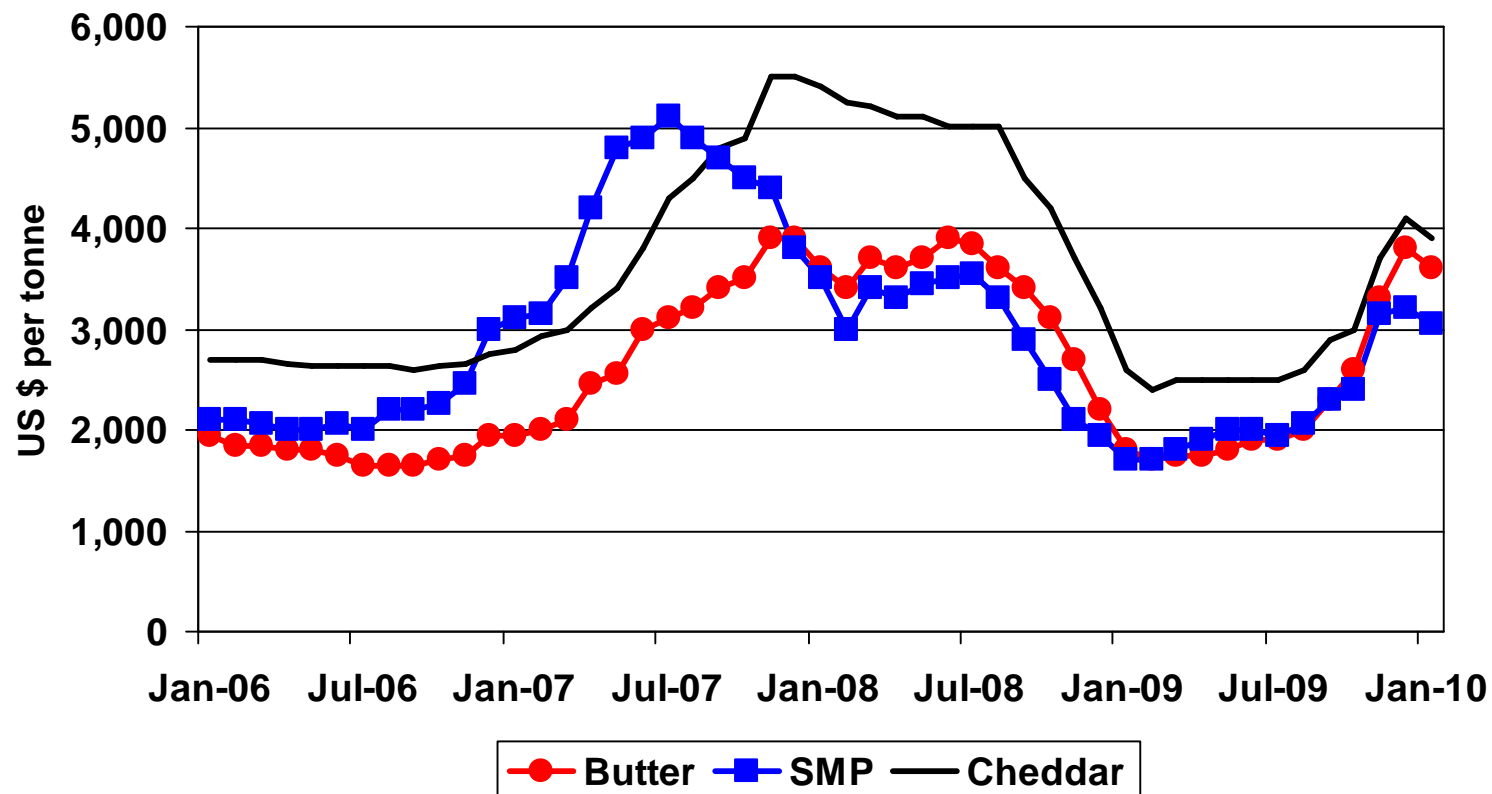
Source: CSO & Authors' Estimates



Milk Price 2009

- Average price for 2009 down 30% on 2008
- Estimated annual average decreased from approx 32 cpl to 23 cpl (vat incl)

World Dairy Prices



Source: DIN Consultancy



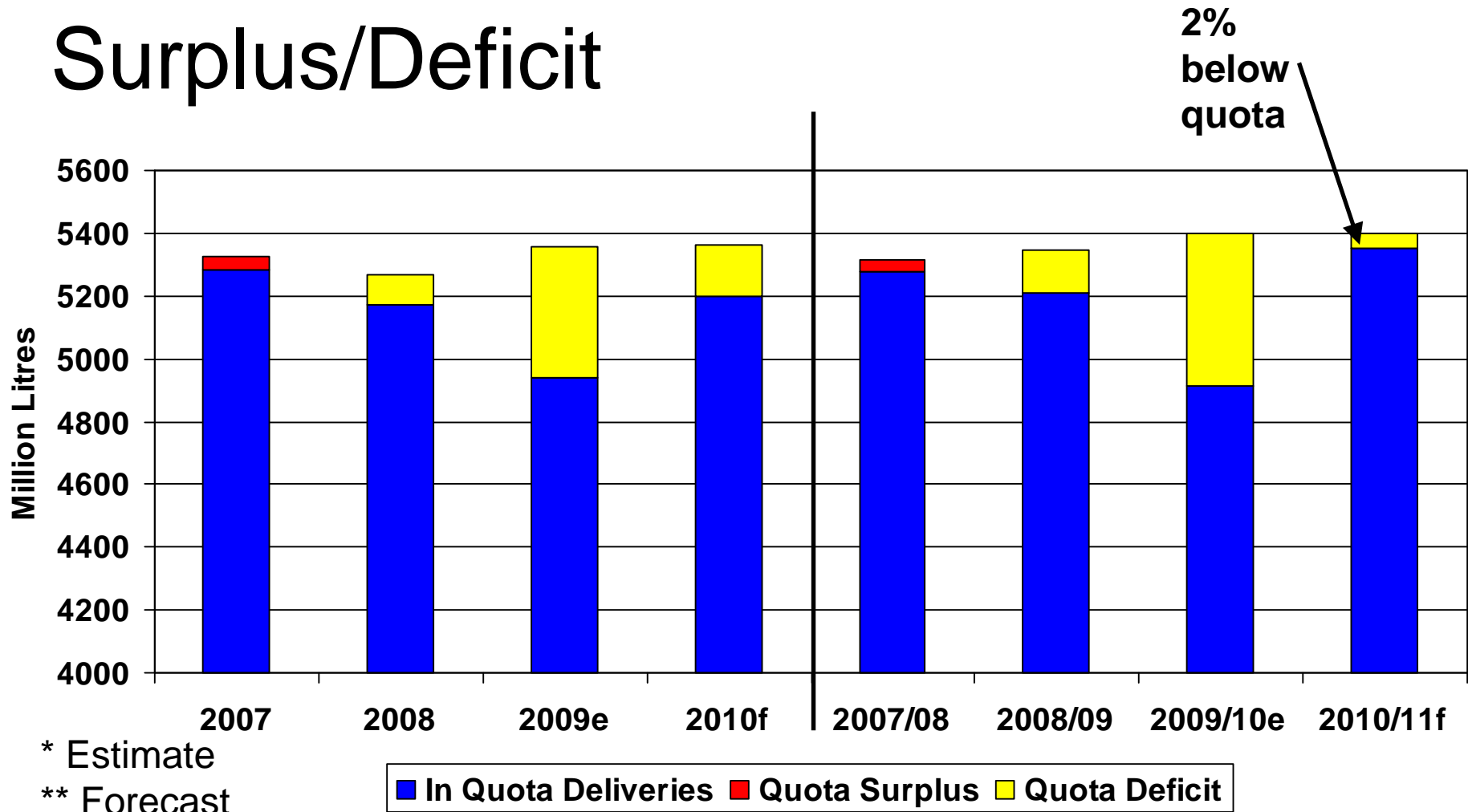
Price Uncertainty for 2010 ?

- Irish milk production seasonality may amplify the impact of global dairy price volatility
- Prices in the high milk production months of 2010 are crucial
 - if above/ below relatively 'normal' levels (26 cpl)
 - significant implications for annual average price
- Short-term outlook is for a continued gradual recovery in Irish farm milk prices

Outlook 2010 – Milk price

- Stocks of SMP in particular remain in US and EU
- Consumption beginning to recover
 - Much of the world beginning to exit recession
- Global production growth has slowed
 - Takes time for supply to react to lower prices due to biological lags
- Substantial increase in world dairy prices in recent weeks
 - But uncertainty about whether it can be sustained into spring/summer
- Annual average Irish milk price up 10% to 20% on average in 2010

Irish Milk Deliveries & Quota Surplus/Deficit



Source: CSO & Authors' Estimates



Margins



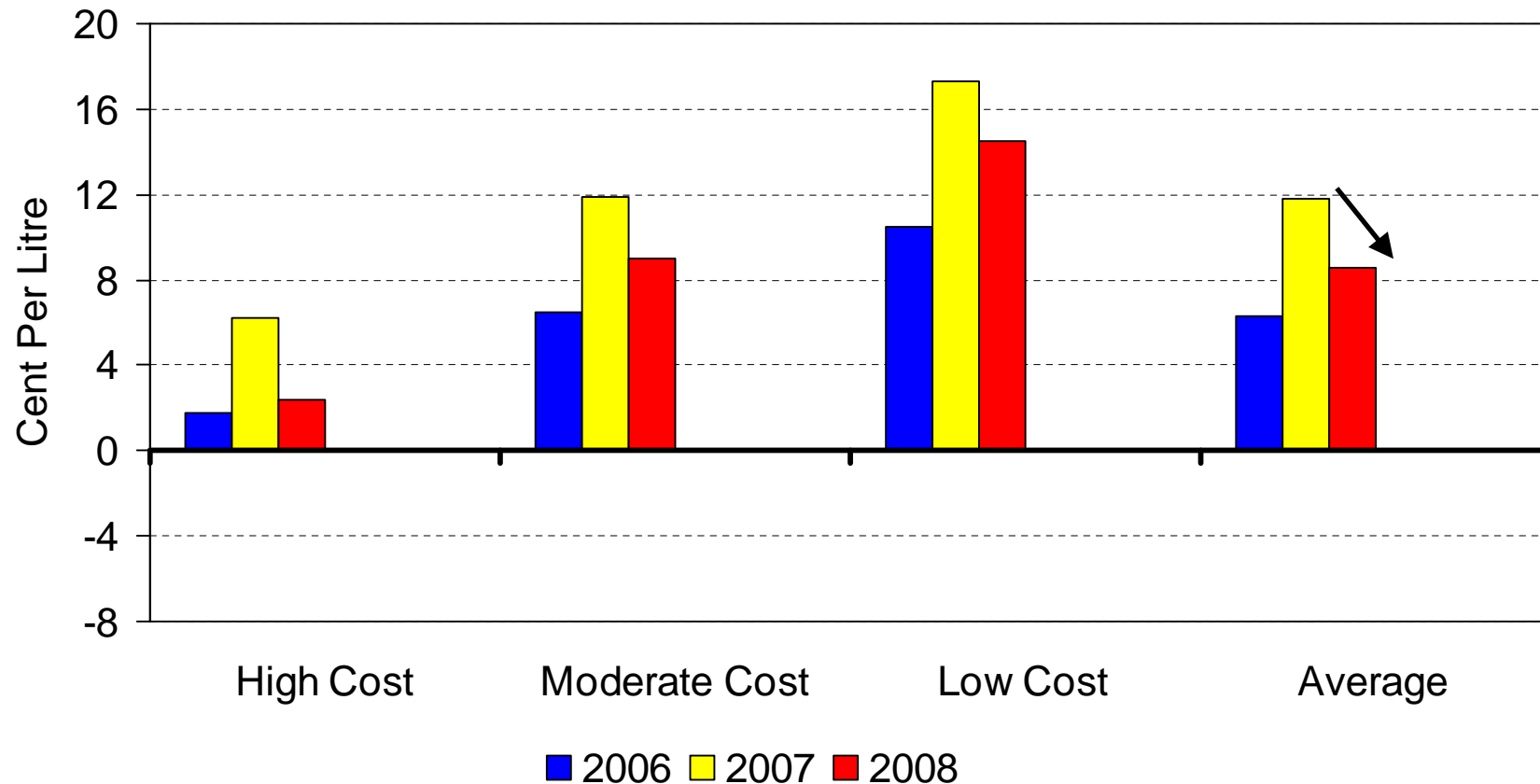
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Margins 2008 (cpl)

- Total input expenditure in 2008 ↑ 12%
 - (22.5 cpl to 25.3 cpl)
- Gross Output ↓ 1%
- Average Gross Margin ↓ 11%
- Average Net Margin 8.6 cpl ↓ 27%

Dairy Net Margins 2006-2008 (cpl)

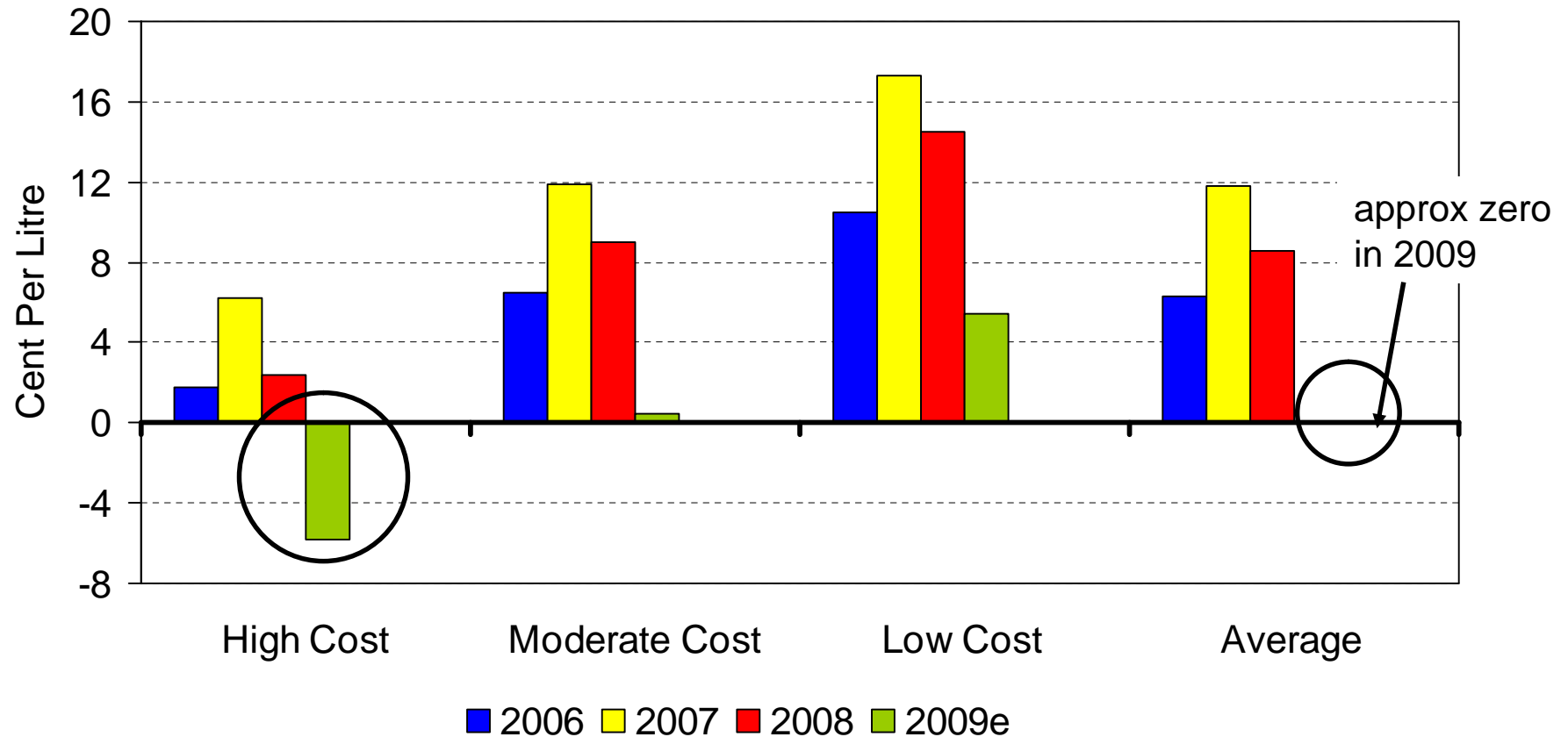


Source: NFS (Various Years) & Authors' estimates

Margins 2009 (cpl)

- Total input expenditure in 2009 ↓ 7%
 - (25.3 cpl to 23.7 cpl)
- Gross Output ↓ 30%
- Average Gross margin ↓ 45%
- Average Net margin 0.06 cpl ↓ 99%
- High cost producers record significant **negative net margins**

Dairy Net Margins 2006-2009 (cpl)



approx zero in 2009

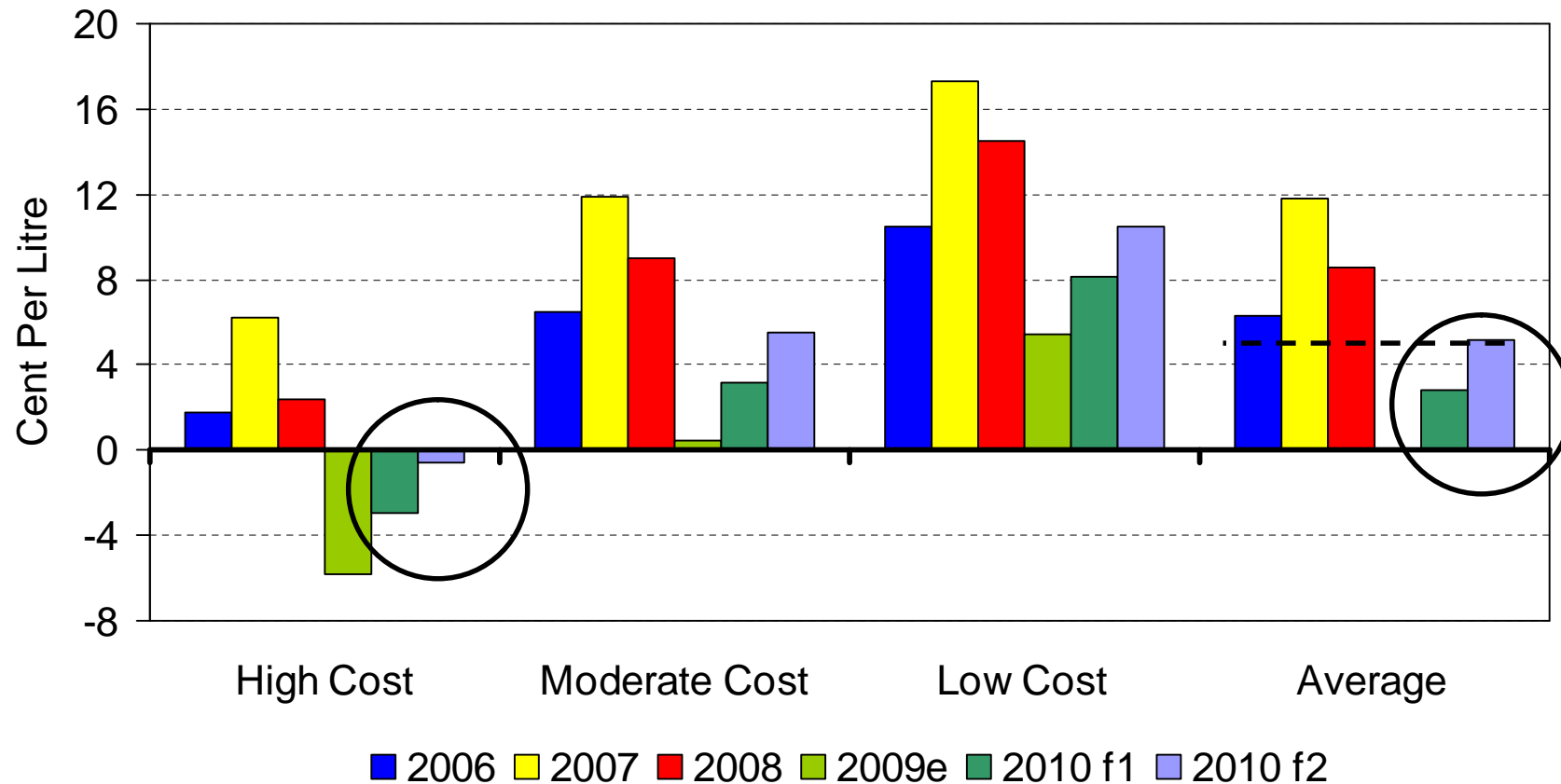


Source: NFS (Various Years) & Authors' estimates

Margins 2010 (cpl)

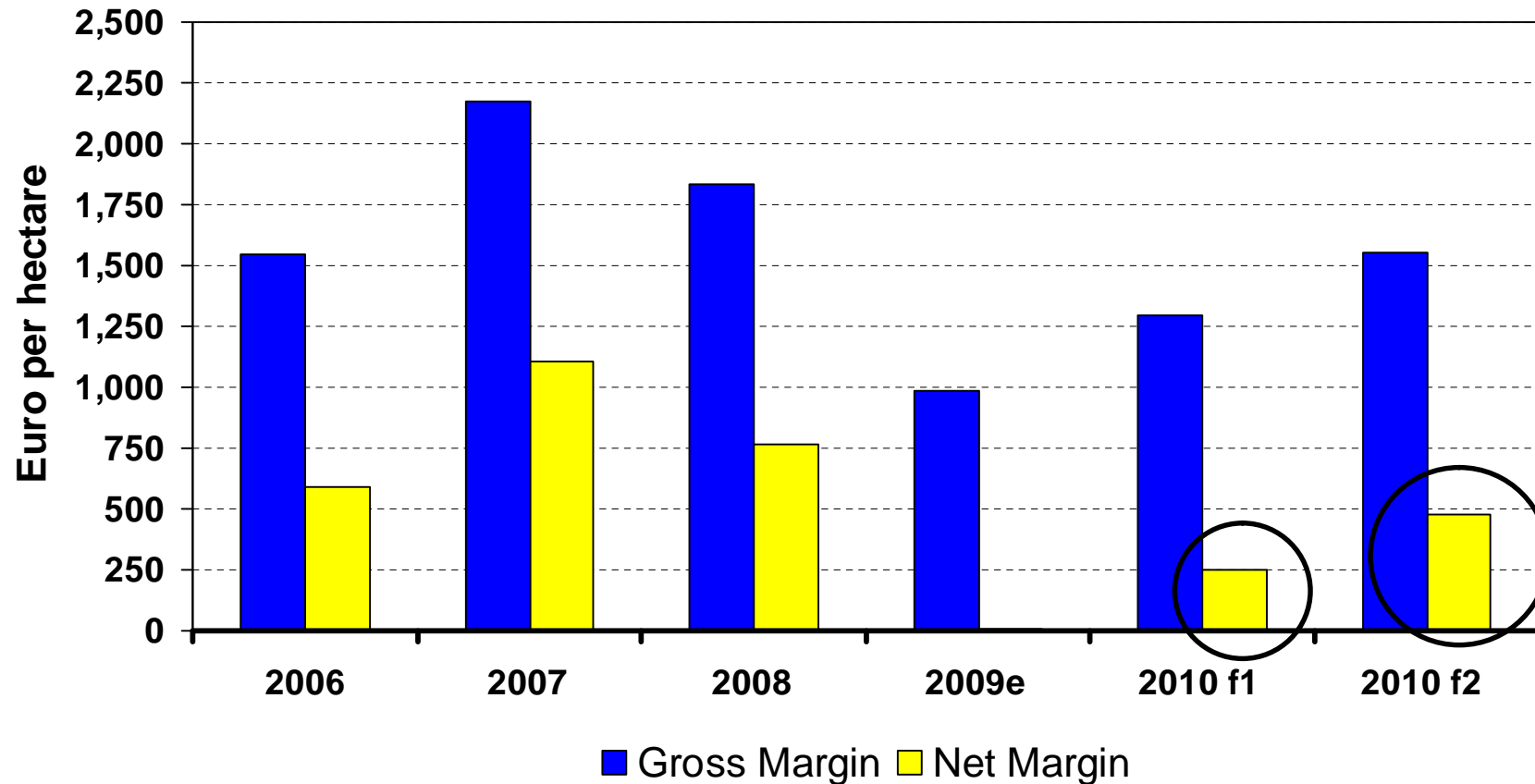
- Total input expenditure in 2010 ↓ 2%
 - (23.7 cpl to 23.2 cpl)
- Gross Output ↑ 10 to 20%
- Average Gross margin ↑ 27%
- Average Net margin 3 to 5 cpl
- High cost producers still record negative net margins

Dairy Net Margins 2006-2010 (cpl)



Source: NFS (Various Years) & Authors' estimates

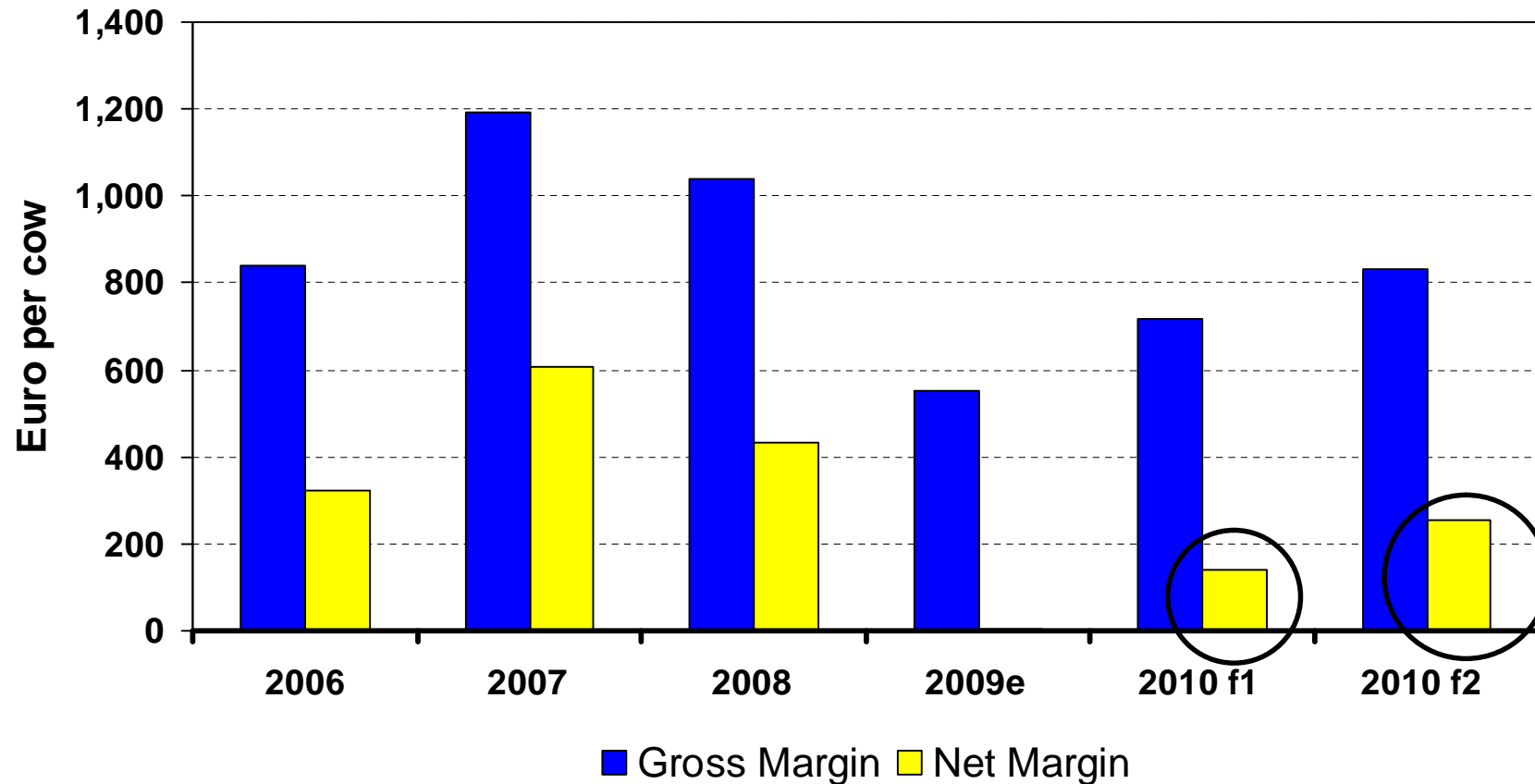
Dairy Net Margins (per Ha)



Source: NFS (Various Years) & Authors' estimates



Dairy Net Margins (per Cow)



Take Home Message

- **Dairy Margins collapsed in 2009**

- Input cost reductions occurred in 2009
- But average annual milk price declined sharply to 23 cpl
- Net Margins close to zero on average

- **Dairy margins should begin to recover in 2010**

- Some further input costs reductions will occur
- Outlook for dairy markets in 2010 is more positive
- Price forecast to recover - in the territory to 25-27 cent per litre
- Net Margin forecast to recover to close to 3 to 5 cpl on average

- **Full recovery unlikely to feed through until 2011 calendar year**



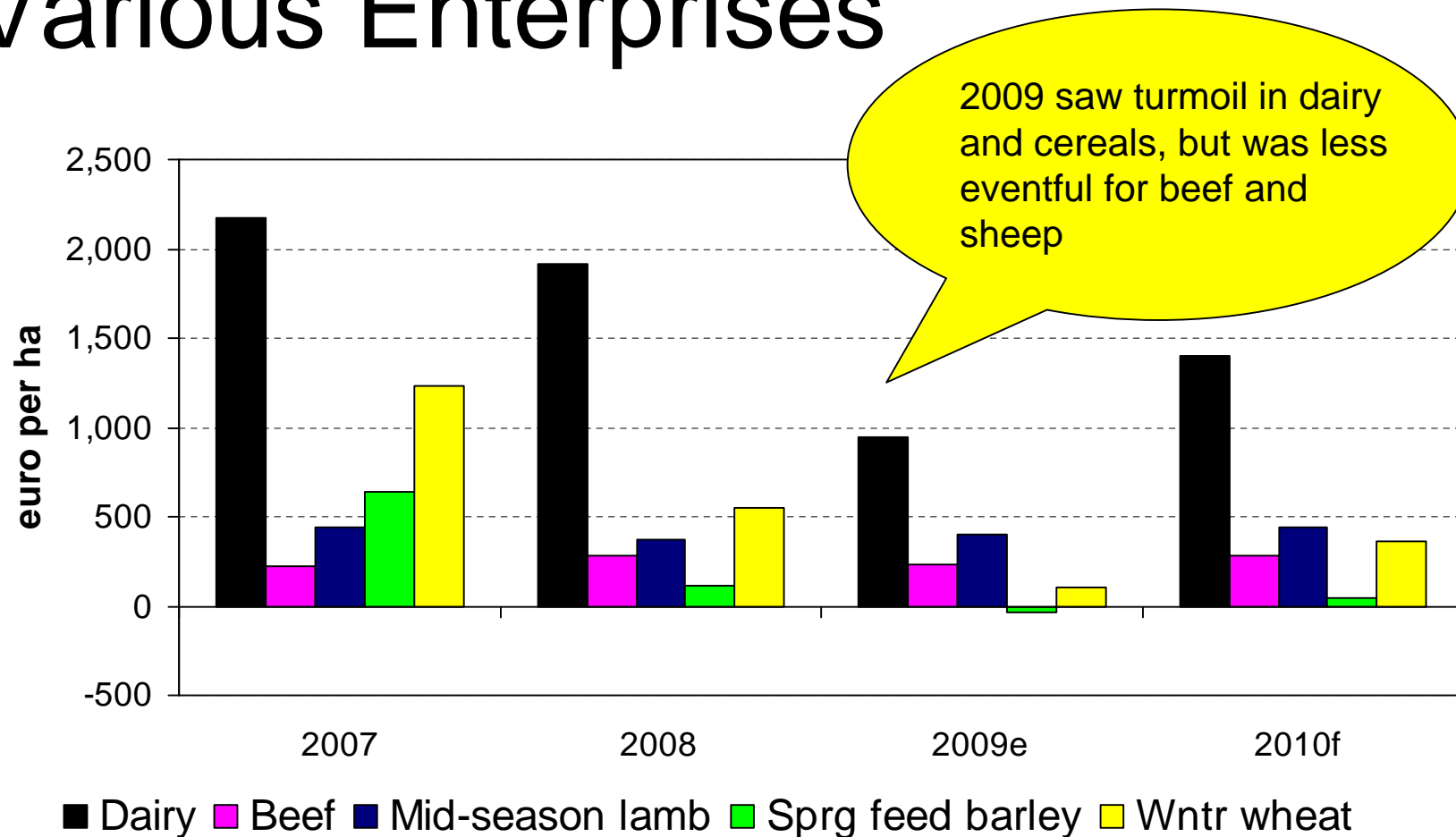
Enterprise Gross Margin Comparisons



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Gross Margin per Hectare Various Enterprises



Source: NFS (Various Years) & Authors' estimates



Thank – You

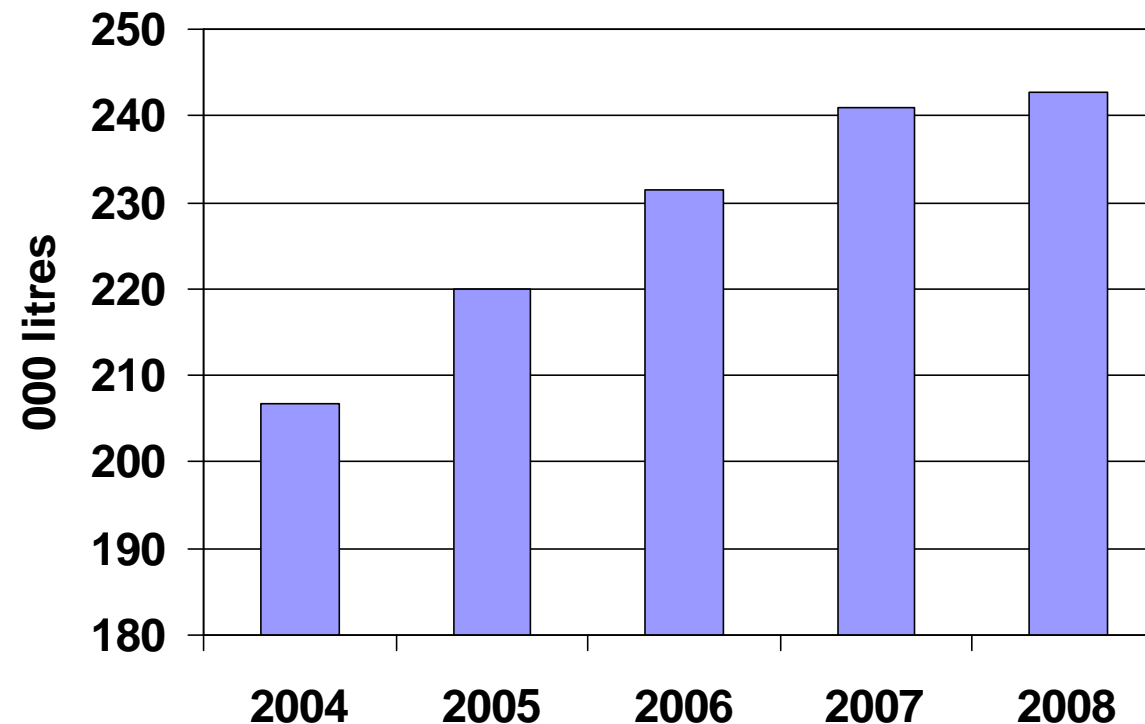
Papers available from
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Average Irish Milk Production per farm



Source: NFS

