

# **Situation and Outlook for Irish Agriculture**

## **Mid Year Update for 2010**

**J. Breen, D. Clancy, T. Donnellan,  
K. Hanrahan, T. Hennessy, A. Kinsella**

**Rural Economy Research Centre  
Teagasc  
Athenry, Co. Galway**

**July 2010**

## **Executive Summary**

### **Macroeconomic Situation**

- Economies in the developed world are emerging from recession in 2010, while the economies of developing countries have returned to normal growth rates. In general, projections from macroeconomic forecasters are more favourable than 12 months ago, however some continue to caution against the risk of a protracted recession.
- In the Eurozone uncertainty associated with the capacity of some euro member states to manage their debt obligations has increased in 2010. This has led to a weakening of the euro against both the US dollar and sterling, which has in turn improved the competitiveness of Irish exports to the UK and to third country markets. Overall, the rate of food consumption growth remains weak in the EU but stronger elsewhere.
- International trade in agricultural commodities was adversely affected during the recession. However, stronger international demand is leading to an increase in global agricultural commodity prices in 2010.
- From the perspective of Irish agriculture, economic recovery is occurring more quickly than in other Irish economic sectors. This is largely due to the export orientation of the sector and the high exposure to the UK and third country markets.

### **General Picture for Irish Agriculture**

- Dairy and cereal prices were particularly low in 2009. A strong recovery in demand for butter and milk powder has boosted international prices for these commodities in 2010. Cereal prices are also set to increase in 2010 as projected global production is likely to be lower than anticipated. Price prospects for the sheep sector are also positive, largely due to the continuing decline in production in continental Europe. Despite favourable exchange rate movements, beef prices in 2010 are unlikely to be higher than in 2009 as beef consumption remains depressed in the EU.
- Significant reductions in input expenditure on cereal farms can be expected in 2010, with moderate cost reductions on drystock farms. Little change in costs is anticipated on dairy farms as higher concentrate usage and increased fuel expenditure offset cost reductions in other areas. As a consequence of these changes in output values and input costs, dairy, cereal and sheep margins will improve in Ireland in 2010, with relatively minor changes in margins across the various beef production systems.
- Overall, the changes in output prices and output volume should deliver an increase in the total value of agricultural output in Ireland of over € 300 million in 2010 relative to 2009. With overall input expenditure expected to be relatively unchanged, this should mean that the increase in aggregate agricultural sector income should be of a similar magnitude.

## **Cereals**

- On account farm gate cereal prices will increase in 2010 from the extremely low prices in 2009. Considerable uncertainty remains but a harvest price for wheat in excess of €130 per tonne is forecast.
- Direct input costs for cereal farmers are likely to decrease by 10 percent. The substantial savings in fertiliser and seed expenditure is expected to outweigh cost increases in fuel and other input items.
- With direct costs down 10 percent for both winter wheat and spring barley, gross margins in 2010 are estimated to be approximately €645 per hectare for winter wheat and €278 per hectare for spring barley, subject to favourable harvest conditions. Therefore the margins on these crops are greater than those achieved during the last two years.

## **Dairy**

- With higher international dairy product prices, the average Irish producer milk price will increase by more than 25 percent in 2010 with a forecast annual average milk price of 29 cent per litre.
- Calendar year milk production was approximately 8 percent under the quota equivalent in 2009. Although production in the first 5 months of 2010 remained depressed, due to the increase in milk prices it is expected that production in 2010 will end the year 6 percent up on the 2009 level.
- Dairy input expenditure will be relatively unchanged. Lower fertiliser expenditure will be offset by increased concentrate feed usage and higher agri-diesel prices.
- Average gross margins per litre of milk produced in 2010 are forecast to be 18 cent, a rise of over 60 percent on the 2009 level. The increase in margins per hectare in 2010 will be over 70 percent on the 2009 level when the forecast increase in both milk production and milk prices are factored in.

## **Beef**

- Despite the recent depreciation of the euro against sterling, all cattle prices are likely to be lower in 2010 relative to the 2009, reflecting the depressed beef demand in the EU market as a result of the recession.
- Relative to 2009, calf and finished cattle prices look like they will decrease by about 3 percent with a slightly larger decrease of 5 percent in the prices of weanling and store animals.
- Beef input expenditure will decrease slightly relative to 2009. Higher agri-diesel prices will be partially offset by lower fertiliser and feed expenditure.
- Gross margins on the weanling to store/finish and store to finish fattening systems are forecast to increase by 3 percent and 9 percent respectively relative to 2009.
- A small decline in the gross margin earned on the single suckling and dairy beef enterprises is forecast, reflecting the lower prices for calves and weanlings sold in 2010 compared with 2009 and increased milk and milk substitute costs.

## Sheep

- Lamb prices have, despite the recession, increased in recent years. The increase in prices has been driven by contracting lamb production rather than any growth in the level of lamb consumption within the EU. Over the course of 2010, average prices are forecast to be about 11 percent higher than in 2009
- The production costs on lowland sheep farms in 2010 will be down slightly on the 2009 level. A decline of 7 percent in direct costs on mid-season lowland lamb systems is forecast due to lower feed and fertiliser prices
- For lowland mid-season lamb enterprises the combined effect of rising output prices and lower costs will lead to a 28 percent increase in gross margin per ha in 2010 relative to the 2009.

## Situation and Outlook for Crops

### Mid-year update for 2010

*A significant increase in cereal prices is forecast at harvest 2010 relative to the extremely low prices paid at harvest 2009. Furthermore, indications to date for 2010 are that direct input costs on crop farms have declined by approximately 10 percent. Hence, it is estimated that the 2010 harvest year will result in improved margins for crops with gross margins increasing on the majority of tillage farms from the historically low levels of 2009.*

*This paper considers the situation on crop farms in the year to date and looks at the outlook for 2010 as a whole.*

Fertiliser costs typically comprise about 30 percent of direct costs on tillage farms. While CAN prices have been increasing in the first half of 2010, the price of P and K based compound fertilisers have remained on a downward trajectory. Furthermore, given the seasonality of fertiliser purchases on crop farms, any increase in fertiliser prices that may arise after May are less relevant to margin calculations for 2010. Hence, it is estimated that fertiliser expenditure will be approximately 25 percent lower than 2009 levels. This decrease is much greater than on livestock farms where the majority of reductions in fertiliser expenditure were experienced during 2009.

Purchased seed on crop farms is a less significant cost than fertiliser, comprising between 11 and 22 percent of direct costs for cereal production and just over 14 per cent on average on all tillage farms. Cereal farmers experienced a significant decrease in seed costs in 2010 relative to previous years due to the downward movement in the cereal markets in 2009. The improved harvesting conditions in 2009 coupled with the increasing amount of home saved seed being used on Irish cereal farms has led to a reduced requirement to import seed, leading to a further reduction in seed costs. The combination of all these factors has resulted in a decrease in the price of seed of approximately 15 percent for the 2010 harvest year relative to 2009.

The expenditure on crop protection by tillage farms in recent years has accounted for approximately 20 percent of direct costs. In contrast to the decrease of other significant costs on tillage farms, there may be a slight increase in expenditure on crop protection during 2010, with an estimated increase in expenditure on crop protection products of just over 1 percent. Increases in the cost of crop protection have been limited in the recent past, due in part to the effect that generic products have had on reducing the price of branded products, and this trend of very moderate price increases has continued in 2010. However, the volume of crop protection used on tillage farms in 2010 may have decreased by between 5 and 10 percent, and therefore it is estimated that crop protection expenditure is down by approximately 5 percent.

Fuel is an important input in crop production. Given that a number of direct costs are directly influenced by energy and fuel prices the trend in energy prices is of significant importance for the average tillage farmer. In this analysis it is assumed that hired machinery and transport costs are influenced by energy inflation. These cost items represent approximately 25 per cent of direct costs on tillage farms.

At almost US \$78 per barrel in July 2010, crude oil prices have been trending upwards in recent months and were higher in the first half of 2010 than in 2009 when the average price for the year was US \$61. The CSO fuel price index has been moving upwards thus far in 2010, due to the higher crude oil price, the depreciation of the euro against the US dollar,

and the introduction of the carbon tax on fossil fuels in Ireland. If oil futures prices are accurate, an average crude oil price of US \$ 77 for the year 2010 as a whole is likely and this would represent a 25 percent increase in US\$ crude oil prices relative to 2009 and or an increase of 36 percent in euro terms at prevailing euro dollar exchange rates. Overall, it is estimated that fuel cost will increase by 20 percent during 2010 relative to 2009.

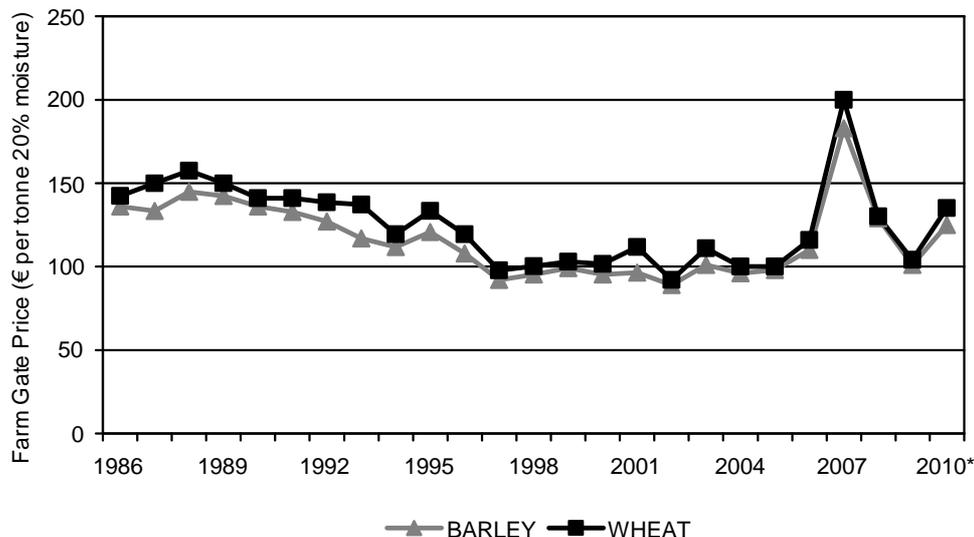
Contracting costs may increase by 5 to 10 percent to reflect increasing fuel costs and the impact that the carbon tax will have on contractor's fuel costs. Demand for these input items tends to be relatively inelastic with respect to price and therefore it is assumed that usage in 2010 will be on a par with the 2009 level.

Given the high unemployment rate, labour costs in 2010 are likely to be unchanged on the 2009 level. CSO estimates indicate that agricultural 'other costs' will be down approximately 2 percent in 2010 on the 2009 level.

The significant decrease in farm gate cereal prices during 2008 resulted in a consequent decrease in 2009 land rental prices. Given the further decrease in cereal prices experienced in 2009, it is estimated that land rental prices in 2010 will have decreased further still. However, regional differences may exist which influence land rental prices with, for example, greater competition for land maintaining or even pushing up prices in some areas.

Taken together all of the aforementioned direct cost changes would deliver around a 10 percent decrease in direct costs per hectare.

**Figure 1: Farm Gate Irish Cereal Prices € per tonne (1986-2010\*)**



Source: Authors' Own Estimates (\* Provisional - Based on early harvest on-account prices)

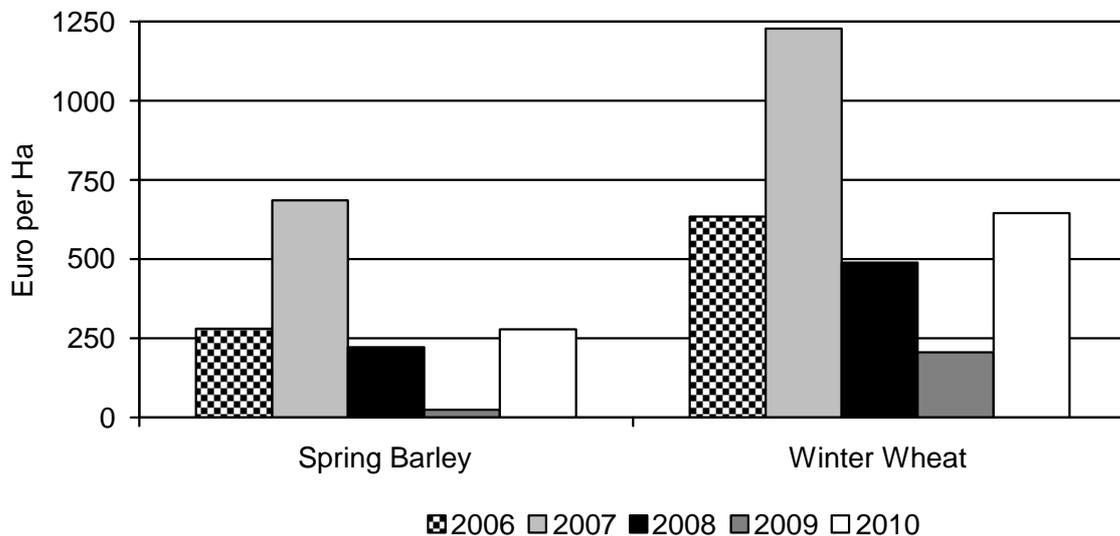
Although there have been renewed fears over supply of late as a result of unfavourable weather conditions in major grain producing regions, world stock is still forecast to be high. Greater speculation in grain markets has led to an increase in volatility in recent years, with futures prices rising and falling quickly. However, the general price trend in LIFFE futures prices in 2010 is upwards. As of late July, indications are that on account prices are likely to be in the region of €125 per tonne for barley and €135 per tonne for wheat. The low prices for Irish cereals experienced in 2009 had not been seen for over 20 years, and so there is a quite a large price differential per tonne between 2009 and 2010 on-account prices of 30 percent for wheat and 28 percent for barley. It should be noted that at this point in the year,

until further information is available on the new crop harvest, close monitoring of volatile market movements is hugely important.

In terms of Irish yields for 2010, given knowledge of grain fill to mid-July and comparisons with average moisture and yield levels from last year, it is estimated that the winter wheat and spring barley yields will be up in 2010 relative to 2009, although it is still too early to predict. Poor weather conditions during the 2009 harvest had a negative impact on 2009 yield levels, and so the 2010 yields will be similarly weather dependent. This expected yield increase would help to offset the impact of a decrease in the area planted with production of these crops estimated to be down 8 percent in 2010 relative to 2009.

Overall, this combination of price and yield increases will result in an increase gross output values for the winter wheat and spring barley of approximately 38 percent and 33 percent respectively in 2010 relative to 2009. With direct costs down 10 percent for both winter wheat and spring barley, gross margins are estimated to be approximately €645 per hectare for winter wheat and €278 per hectare for spring barley.

**Figure 2: Gross Margin for Irish Spring Barley and Winter Wheat in 2006, 2007, 2008, 2009 and 2010**



Source: National Farm Survey Data (2008 - 2009). Authors' own estimates (2010).

## **Situation and Outlook for Dairying**

### **Mid-year update for 2010**

*A sharp rise in international butter and powder prices, coupled with favourable exchange rate movements has seen a strong recovery in Irish milk prices in the peak milk production season. With overall production costs largely unchanged, this means that 2010 will see a significant improvement in dairy farm margins relative to 2009.*

*This paper considers the situation on dairy farms in the year to date and looks at the outlook for 2010 as a whole.*

As of July 2010 indications are that costs on dairy farms are set to decrease slightly relative to 2009. Feed and fertiliser prices have moderated in 2010 and have now returned to levels that prevailed in advance of the commodity price boom in 2007/08.

Purchased feed (concentrates) typically accounts for about 20 percent of total input expenditure on dairy farms, although this varies by farm and by year. Dairy meal prices fell throughout 2009 and at the beginning of 2010 were at their lowest level since 2006. This reflects the low cereal harvest price in Ireland and the moderation in international grain prices in 2009. There has been some upward movement in feed prices in the first half of 2010. However, it appears that the average feed prices for 2010 will be down about 5 percent on the 2009 level.

Despite the unfavourable weather during 2009, dairy feed use in Ireland was down 10 percent due to the low milk price and the contraction in Irish milk production. Data for the first 3 months of 2010 provided by DAFF indicates that aggregate dairy feed purchases were in line with the first quarter of 2009. However, in the second quarter of 2010 milk prices have been rising and the pattern of Irish milk production is closer to milk quota levels, which suggests that feed use could increase on the 2009 level. Weather conditions have been variable in 2010 and while favouring grass growth in some regions, a shortage of rain slowed grass growth elsewhere. Weather conditions remain an uncertain factor in determining the level of feed use for the year but it is estimated that feed use should increase by about 10 percent. In 2010 expenditure on feed is forecast to be up 5 percent, with the decrease in price more than offset by the increase in volume relative to the 2009 level

Pasture and forage costs are largely accounted for by fertiliser and contracting costs. Nitrogen based fertiliser prices followed a downward path through 2009 due to an excess of production over consumption globally, which led to rising stock levels. Fertiliser price movements in the first half of 2010 have been generally downward, although the rise in CAN prices has been an exception. For 2010 as a whole, fertiliser expenditure could be down by 10 percent on the 2009 level. Contracting costs may increase by 5 percent to reflect increasing fuel costs and the impact which the carbon tax will have on contractors' own fuel costs. Overall, on grassland farms a reduction in pasture and forage expenditures of 3 percent is anticipated for 2010 relative to 2009.

Electricity typically comprises about 30 percent of the total expenditure on energy and fuel with fuel accounting for the remaining 70 percent. At almost US \$78 per barrel in July 2010, crude oil prices have been trending upwards in recent months and were higher in the first half of 2010 than in 2009 when the average price for the year was US \$61. The CSO fuel price index has been moving upwards thus far in 2010, due to the higher crude oil price, the depreciation of the euro against the US dollar, and the introduction of the carbon tax on fossil fuels in Ireland. If oil futures prices are accurate, an average crude oil price of US \$ 77 for

the year 2010 as a whole is likely and this would represent a 25 percent percent increase in US\$ crude oil prices relative to 2009 and or an increase of 36 percent in euro terms at prevailing euro dollar exchange rates. This could mean that dairy farmers are facing an increase of at least 20 percent in fuel prices in 2010 relative to 2009. Electricity prices were reduced in May and October of 2009 and have remained at the October 2009 thus far in 2010. Barring an increase in electricity prices in the second half of 2010, it is likely that average electricity prices for 2010 will be down about 5 percent on the 2009 level. On balance energy expenditure is likely on rise in 2010 on dairy farms by about 13 percent.

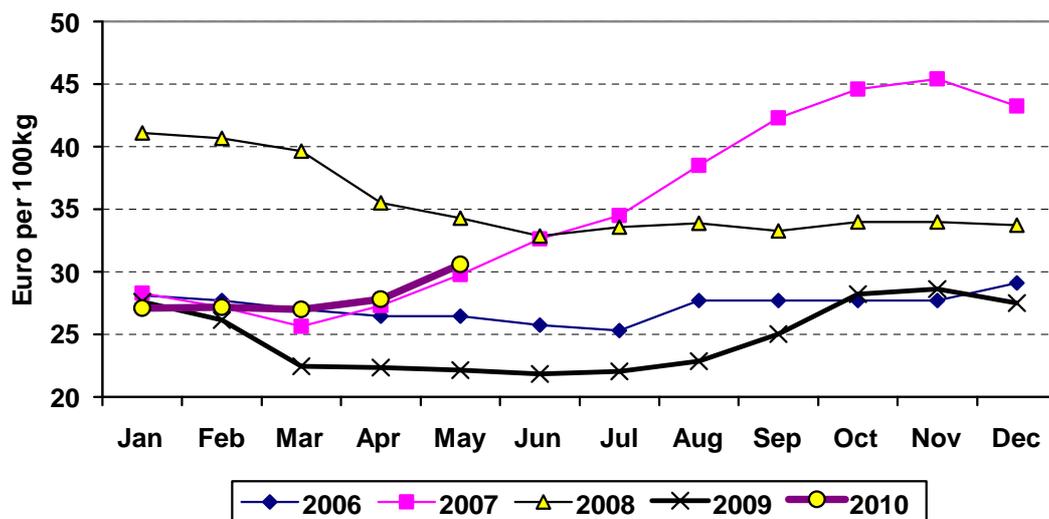
Given the continuing high unemployment rate, labour costs in 2010 are likely to be unchanged on the 2009 level. Other miscellaneous costs look like they will decline by 2 percent in 2010 relative to the 2009 level.

Taken together all of these input expenditure changes would deliver a slight increase in direct costs on Irish dairy farms of about 1 percent in 2010 compared with the 2009 level.

Producer milk prices in Ireland opened 2010 at about 27 cent per litre and have risen gradually in the year, reaching 30 cent per litre by June 2010. The increase in milk prices reflects a shortage of basic commodities on the international market as economic growth rates in developing economies promote food consumption. The European Commission suspended dairy export subsidies towards the end of 2009 as markets improved. Tighter supplies and stronger consumption have pushed butter and power prices upwards in 2010. As was the case in 2007, this has meant that Irish milk prices have increased to a greater extent than elsewhere in the EU due to the Irish dairy sector's greater presence in third country markets.

Due to the seasonality of production, the rise in milk prices in the second quarter of 2010 will greatly benefit the annual average milk prices for the year. Irish milk prices at or above 30 cent per litre should be sustainable for the peak milk delivery period. However, prices are likely to moderate later in the year. EU intervention stocks remain an issue and their disposal may place downward pressure on prices in the second half of 2010. At present the annual average milk price in Ireland looks like being about 29 cent per litre in 2010. This would represent an increase in price of over 25 percent compared with 2009.

**Figure 3: Monthly Irish Producer Milk Prices 2006 to 2010**

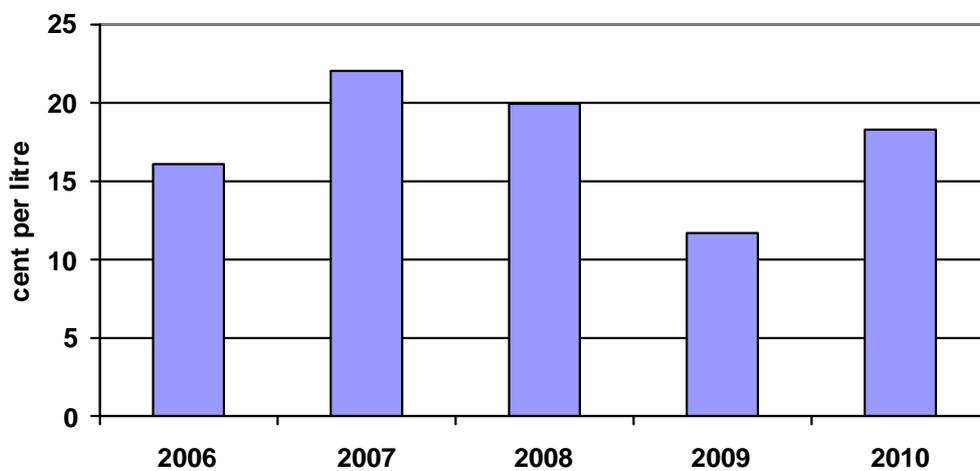


Source: Eurostat

Reflecting the higher producer milk price, Irish milk production in the 2010/11 milk quota year is set to recover from the depressed levels of 2008/09 and 2009/10. Although milk production in the early months of the 2010/11 quota year was only on a par with the corresponding months of 2009/10, June 2010 milk deliveries were up almost 11 percent on the June 2009 level. If July and August 2010 production also exceed the 2009 level, it seems likely that production in 2010 as a whole will be up by at least 6 percent on the 2009 calendar year. If late season production runs ahead of normal then this will take production closer to the milk quota level.

Overall, gross output values on Irish dairy farms will be up by at least 25 percent per litre in 2010 relative to 2009. With a moderate reduction in input costs, gross margins are likely to be about 18 cent per litre on average.

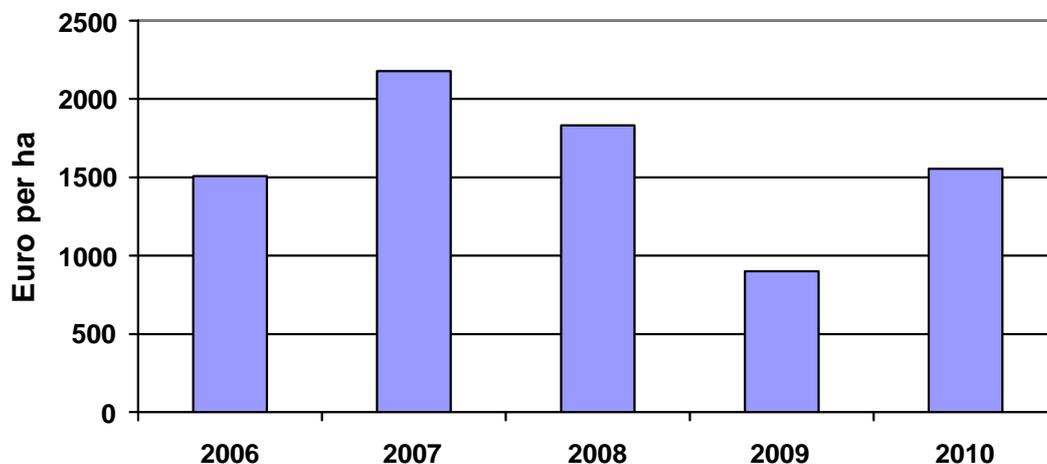
**Figure 4: Gross margin per litre for Irish Creamery Milk Producers 2006 to 2010**



Source: Derived from National Farm Survey and Authors' Estimates

Given the anticipated increase in both milk price and in milk output per hectare, the increase in gross margin per hectare is forecast to be over 70 percent in 2010 relative to 2009.

**Figure 5: Gross margin per hectare for Irish Creamery Milk Producers 2006 to 2010**



Source: Derived from National Farm Survey and Authors' Estimates

## Situation and Outlook for Cattle

### Mid-year update for 2010

*This paper considers the economic situation on four Irish cattle enterprises in 2010. The four enterprises examined are single suckling, weanling to store, store to finish and cattle rearing on dairy farms.*

*At the mid point of 2010 indications are that direct costs of production are set to decrease in 2010. With gross output on most enterprises likely to decline due to lower cattle prices, gross margins are unlikely to change dramatically when compared with 2009.*

On *weanling to store* and *store to finish* enterprises, concentrates typically account for over 40 percent of direct costs. Expenditure on concentrate feed costs as a proportion of total direct costs are generally lower, circa 30 percent, on *single suckling* enterprises. Cattle meal prices fell dramatically over the second half of 2009, and despite increases in feed prices during the first half of 2010, the price of concentrate feeds in 2010 is forecast to be 10 percent lower than the average price level in 2009.

Data for the first quarter of 2010 provided by DAFF indicate that aggregate cattle feed purchases are up about 8 percent on the levels in the first quarter of 2009. This increase may reflect the higher volumes of feed that can be purchased at lower prices by farmers who operate on a fixed feed budget, but is more likely due to the shortage of fodder following the very wet autumn of 2009 and the impact of the very cold 2009/2010 winter which saw cattle kept in sheds for longer than usual. During the remainder of 2010 feed purchases will continue to be affected by weather. Barring a significant deterioration in weather, we expect the annual volume of feed purchased to be 5 percent higher than in 2009. Taking account of the lower feed price and higher usage level, expenditure on concentrate feeds by cattle farmers is expected to decline by almost 5 percent in 2010.

The share of pasture and forage costs in direct costs on Irish cattle enterprises varies from over 50 percent of direct costs on *single suckling* enterprises to around 35 percent on *weanling to store* and *store to finish* enterprises. Fertiliser spreading costs, the costs of silage making (contractor and own) and other energy intensive farming activities look set to increase in 2010 relative to 2009 due to increases in the price of agri-diesel and the introduction of the carbon tax. Despite a moderate increase in the price of CAN over the course of the first half of 2010, average fertiliser prices in 2010 will be significantly below those paid in 2009. For the year as a whole, fertiliser prices are forecast to be 10 percent lower than the average price level in 2009, due to increased energy costs overall pasture and forage expenditures are forecast to decline by 3 percent in 2010.

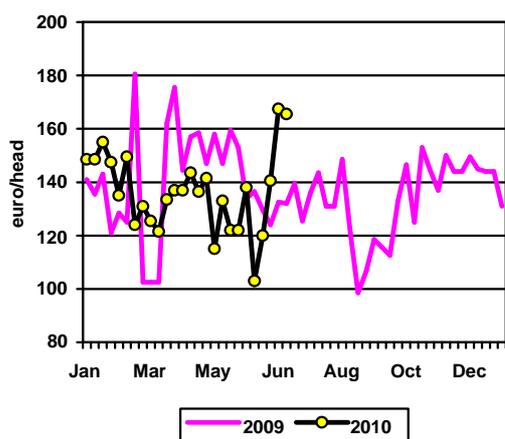
Cost items such as energy and fuel, electricity and labour, account for relatively small shares of the total costs of production on cattle farms. In 2010 these costs, with the exception of energy and fuel, are expected to decline relative to 2009. The imposition of the carbon tax as well as higher international energy prices are expected to lead to energy expenditure increasing by 10 percent over 2009. Given the ongoing weakness in the Irish labour market, labour costs are not expected to increase relative to 2009 levels.

Relative to 2009, the forecast decline in 2010 of total direct costs per hectare range from 4 percent for the *weanling to store* and *store to finish* enterprises to 2 percent for the *dairy beef* enterprise. The smaller decline in direct costs on the *dairy beef* enterprise reflects the different mix of inputs in this enterprise (particularly the greater importance of milk and milk substitutes) when compared with the other cattle enterprises.

Cattle prices on Irish and EU cattle markets have been lower in 2010 than 2009. Despite the contraction of overall EU beef supplies, weak demand over the first half of 2010 due to the ongoing recession and a small increase in EU imports of beef have combined to leave European and Irish cattle prices down on levels observed in 2009.

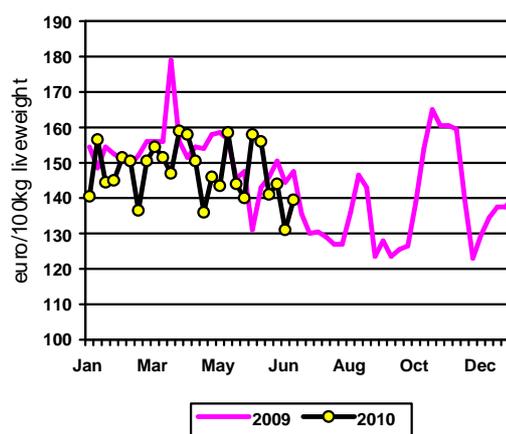
As of July 2010, finished cattle prices (R3 steer) are 3 percent lower than in 2009. The prices of weanlings and store animals in the first half of 2010 are between 3 and 5 percent lower than over the same period in 2009, while calf prices in the first half of 2010 were 3 percent lower than price in the same period in 2009.

**Figure 6: Irish Calf prices**



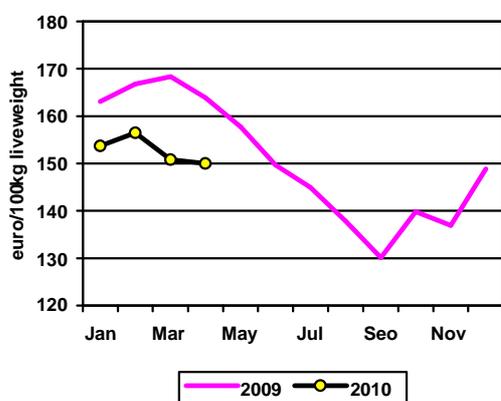
Source: DG Agri

**Figure 7: Irish Weanling prices**



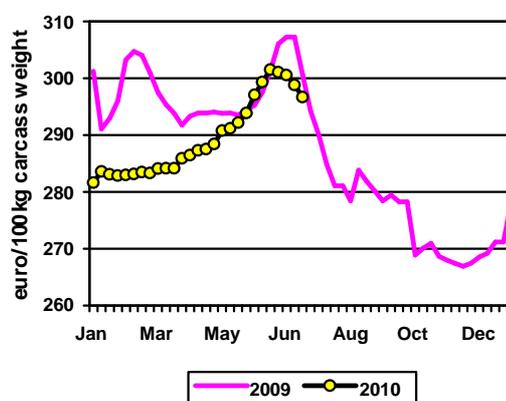
Source: DG Agri

**Figure 8: Irish Store cattle prices**



Source: CSO

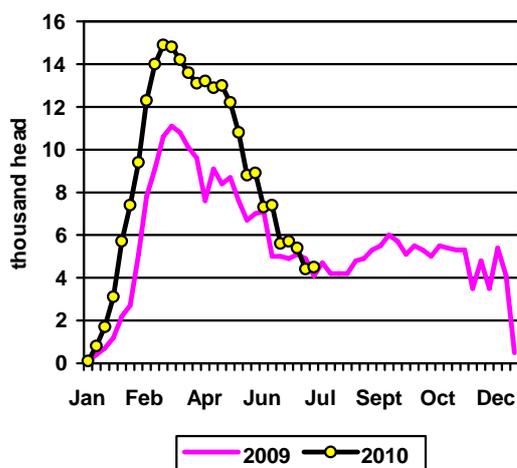
**Figure 9: Irish Finished cattle prices**



Source: DG Agri

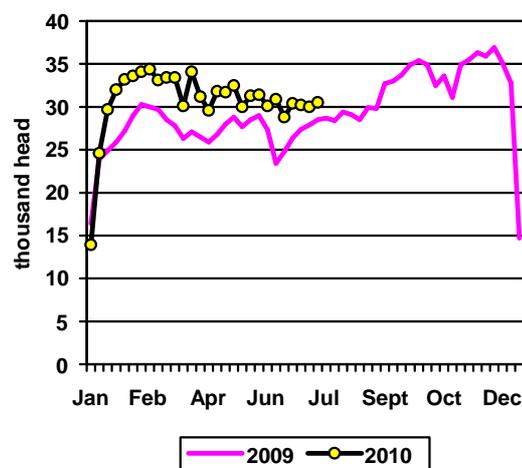
The level of throughput in meat plants and the volume of live exports during the first half of 2010 was significantly higher than 2009, with overall disposals up 20 percent. This suggests that in the autumn of 2010, with lower supplies of finished cattle, that Irish cattle prices may be higher than would otherwise be expected. Despite this expected improvement in cattle prices later in the year average annual prices are still expected to be lower than in 2009. The introduction of quality payment system (price grid) had led to changes in the relative prices of different grades of cattle in Ireland. However, the lower level of finished cattle, calf and weanling prices in Ireland largely reflects the lower cattle prices on Ireland's export markets in the EU that are due to the weaker demand for beef from consumers.

Figure 10: Irish Live cattle exports



Source: DAFF

Figure 11: Irish Cattle slaughter



Source: DAFF

Based on data available in July 2010, we estimate that gross output per hectare on the *single suckling* (inclusive of the coupled *Suckler Cow Welfare Scheme* payment) and *dairy beef* enterprises will decline by 3 percent relative to 2009. The level of gross output on the *weanling to store* fattening system is forecast to decrease by 2 percent and increase by almost 1 percent on the *store to finish* system. The declines in the gross output earned on the *single suckling*, *dairy beef* and *weanling to store* enterprises reflects the lower prices for calves, weanlings and stores sold in 2010 compared with 2009. As noted earlier the introduction of the QPS has altered the relative price relationships across different grades of finished cattle. Given that cattle from the dairy herd are, other things equal, less likely to reach grades that under the QPS command a premium, this will lead to lower gross output valued for this system compared with 2009. On the *store to finish* enterprise the larger decline in the price of animals purchased in allows these farms to earn a higher level of gross output in 2010 than in 2009.

On all cattle systems expenditure on concentrates and pasture and forage is forecast to be lower in 2010 than 2009. On the *dairy beef* system the impact of higher milk prices on expenditure on milk and milk substitutes is sufficient to lead to a marginal increase in the overall direct costs per hectare on this system. On the three other cattle systems analysed direct costs in 2010 are forecast to be lower than 2009.

On the *single suckling* enterprise the decline in direct costs is insufficient to fully offset the decline in the value of gross output per hectare and gross margins are forecast to decline by 2 percent relative to 2009. On the *dairy beef* enterprise higher direct costs (due to increased prices of milk and milk substitutes) when combined with lower gross output, lead to a forecast decline of 12 percent in the gross margin per hectare.

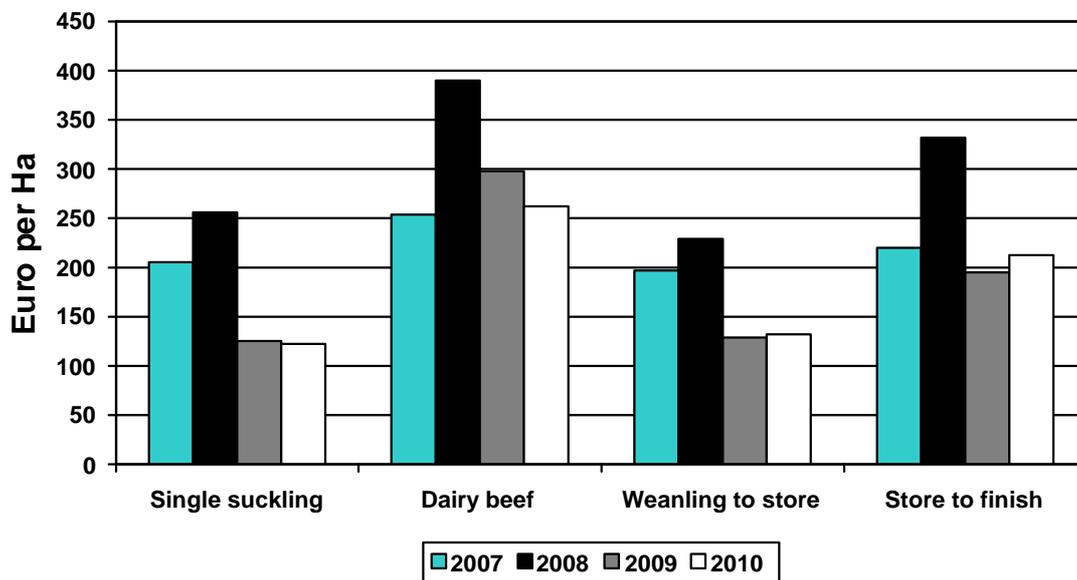
On the cattle finishing systems the impact of lower prices for cattle sold will be at least partially offset by the forecast lower price of calves and weanlings purchased in 2010. This means that these enterprises should see gross margins earned in 2010 increase over levels in 2009. The *store to finish* enterprise gross margin increase over 2009 at 9 percent is the highest since the forecast decline in finished cattle prices in 2010 is expected to be less than the decline in the price of cattle purchased in (stores).

The magnitude of the absolute changes in the value of gross output and direct costs on Irish cattle enterprises from 2009 to 2010 is not forecast to be dramatic, though the low levels of

gross margin earned on all cattle enterprises means that relatively small shifts in the level of direct costs and/or gross output can lead to seemingly large percentage changes. The value of gross output on three of the four cattle enterprises analysed is forecast to decline between 2009 and 2010. On the *weanlings to store* and *store to finish* enterprises the forecast decline in direct costs in 2010 is sufficient to lead to an increase in gross margin earned in 2010 when compared with that earned in 2009. However, on the *single suckling* and *dairy beef* enterprises the forecast fall in direct costs in 2010 will be insufficient to lead to an increase in gross margin per hectare. Overall, the problems of low to negative levels of profitability in Irish beef production are forecast to persist in 2010.

Readers should recall that enterprise gross margins do not account for all of the costs of production. If farm overhead costs, which are difficult to allocate across different farm enterprises, were deducted from farm gross margins, the net margin earned on most Irish cattle farms (which excludes decoupled direct payment receipts) would be negative.

**Figure 12: Gross margin per hectare for Irish Cattle Enterprise 2007 to 2010**



Source: Derived from National Farm Survey data and Authors' Estimates for 2010

## Situation and Outlook for Sheep

### Mid-year update for 2010

*This paper considers the situation on the principal lowland sheep enterprise (mid-season lowland lamb) for the year to date and presents the outlook for 2010 as a whole.*

*At the mid point of the year indications are that costs of production on sheep farms are set to decrease in 2010 relative to 2009, while output prices are expected to be strongly ahead of those that obtained in 2009. With declining costs and increasing output prices in 2010, the average level of gross margins earned from the mid-season lamb enterprise should be higher in 2010 than in 2009.*

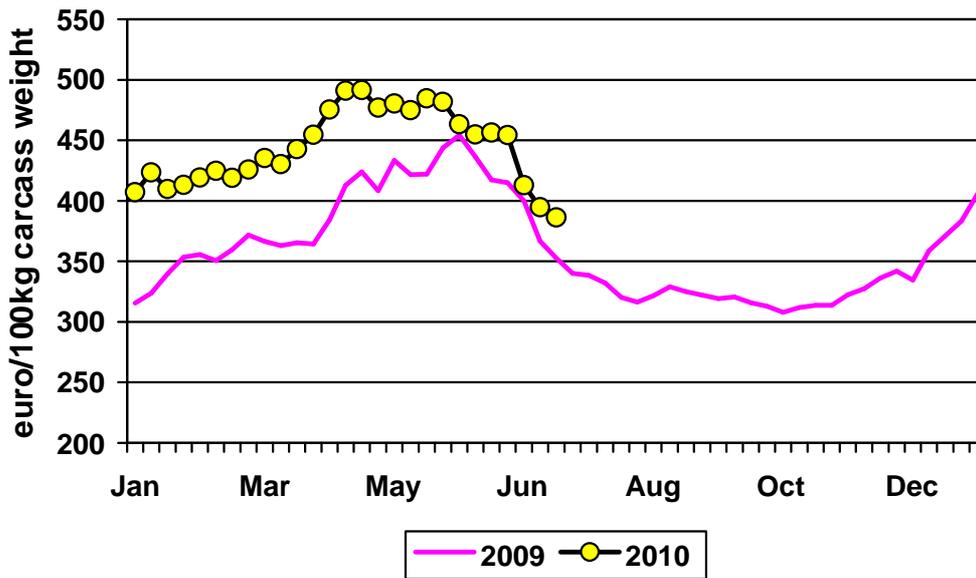
Purchased feed and winter forage account for close to 50 percent of direct costs on the mid-season lamb enterprise. Feed prices fell considerably in the second half of 2009, and despite increases in prices during the first half of 2010 the price of concentrate feeds in 2010 is likely to be considerably lower than in 2009. The poor weather in late 2009 and the harsh winter of 2010 have meant that to date the volume of feed purchased per ewe has been higher than in 2009. The higher volume of feed purchased means that despite declining prices, expenditure on feed and winter forage in 2010 is estimated to be largely unchanged when compared with 2009. Data for the first quarter of 2010 provided by DAFF indicates that aggregate sheep feed purchases were 5 percent lower than in the first quarter of 2009. This decline in aggregate feed volumes is in line with the contraction of the national sheep inventory and does not indicate any change in feed expenditure on a per hectare or per ewe basis. Feed purchases are in part weather dependent and in the absence of any deterioration in the weather over the remainder of the year, we expect expenditure on feed by sheep producers to be largely unchanged in 2010 when compared with 2009.

Pasture costs account for approximately one quarter of direct costs on mid-season lamb enterprises. While fertiliser prices, despite some moderate increases in CAN prices, are forecast to be 10 percent lower in 2010 than in 2009. Increases in energy costs and contracting costs will erode to some extent the impact of lower fertilizer prices on pasture and forage costs. Overall pasture and forage costs are forecast to decline by 7 percent in 2010 compared with 2009.

When total direct costs are considered the decline in 2010 relative to 2009 is estimated at 6 percent.

The indigenous supply of lamb on European markets has contracted in recent years. The reduction in EU supply has been larger than the contraction in EU domestic use of lamb and as a result EU lamb prices have increased. Internationally, the main supplier of lamb to the EU market, New Zealand, has concentrated on maintaining the volume of lamb shipped to the EU and switching the form of lamb product shipped to higher value chilled lamb. This has meant that the improvement in Irish and European lamb prices has not been eroded by increased imports from third countries. Over the first half of 2010 Irish lamb prices have been almost 15 percent higher than over the equivalent period in 2009. In forecasting the average price for 2010 we have assumed that the observed seasonal pattern of Irish lamb prices is repeated in 2010. Given this assumption, Irish lamb prices in 2010 are forecast to be 11 percent higher than in 2009.

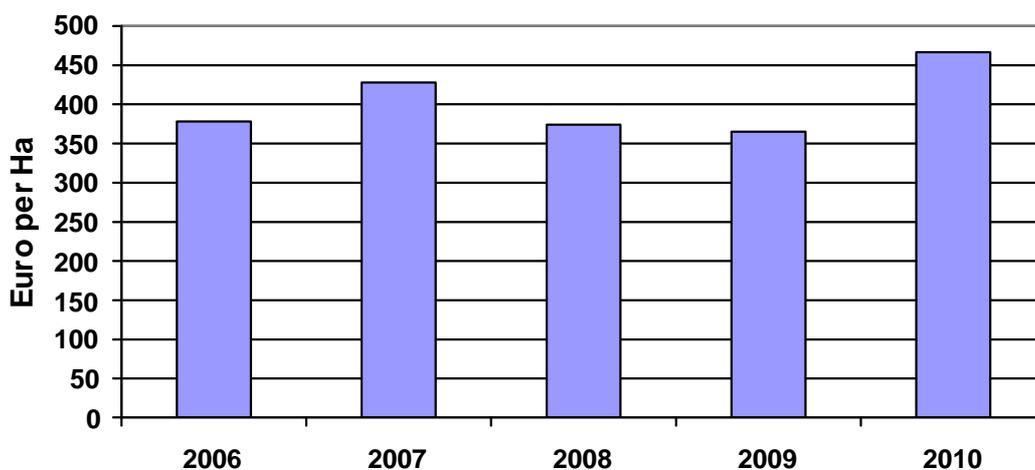
**Figure 13: Irish lamb price in 2009 and 2010**



Source: DG Agri

In forecasting the 2010 gross margin for the mid-season lamb enterprise we have assumed no change in the technical performance of Irish sheep farmers, i.e. ewes per hectare and lambs weaned per ewe are assumed to be unchanged from the levels recorded in the 2009 NFS. Given the higher lamb prices that are forecast for 2010, the value of gross output per hectare is expected to increase in 2010. The higher level of gross output per hectare is expected to be accompanied by lower direct costs of production per hectare as outlined above. These lower costs of production are primarily due to lower expenditure on concentrate feeds and reduced fertiliser prices. Lower direct costs of production and higher gross output combine to yield a 28 percent increase in the gross margins per hectare earned by farmers operating a mid-season lamb enterprise in 2010 when compared with 2009.

**Figure 14: Gross Margin per hectare for Irish Mid Season Lamb 2006 to 2010**



Source: Derived from National Farm Survey data and Authors' Estimates for 2010

In this analysis no account has been taken of the impact of the recently announced *Grassland Sheep Scheme*. Under the terms of this scheme lowland sheep farmers will be eligible for a maximum payment of €70 per hectare up to a maximum of 30 hectares based on the area declared on their SPS application form and sheep registered during the 2009 sheep census. This coupled payment (eligibility is based on continued sheep farming activity) is likely to further increase the returns to sheep farming.

Readers should recall that enterprise gross margins (such as those presented here for the lowland mid-season lamb enterprise) do not account for all of the costs of production. If the overhead costs associated with sheep production, which by definition are difficult to allocate across different farm enterprises, could be deducted from the enterprise gross margins the resulting net margins earned (before account is taken of decoupled direct payment receipts) would be negative on some Irish sheep farms.

## Further Reading

Breen, J. P., Clancy, D., Donnellan, T. and Hanrahan, K. Briefing Note No. 2010 / 1 “Cost Implications of a Carbon Tax on Fuel Used in Agricultural Production in Ireland” Available at:

[http://www.teagasc.ie/publications/2010/11/11\\_Briefing\\_Note\\_Carbon\\_Tax\\_050510%20Final.pdf](http://www.teagasc.ie/publications/2010/11/11_Briefing_Note_Carbon_Tax_050510%20Final.pdf)

Connolly L, Kinsella A, Quinlan G and Moran B (2010) National Farm Survey. Teagasc, Rural Economy Research Centre Athenry Ireland. Available at

<http://www.agresearch.teagasc.ie/erc/downloads/NFS/NFSReport09.pdf>

CSO (2010) Agricultural Price Indices: Preliminary Estimates 2009. Statistical Release. Available at [www.cso.ie](http://www.cso.ie).

DAFF (2010) Quarterly Summary Report for Feed Usage (Various Issues).

European Commission (2010) Agricultural Markets: Sheep meat and goat meat. Available at [ec.europa.eu/agriculture/markets/sheep/index\\_en.htm](http://ec.europa.eu/agriculture/markets/sheep/index_en.htm)

European Commission (2010) Agricultural Markets: Beef and Veal. Available at [ec.europa.eu/agriculture/markets/beef/prica/index.htm](http://ec.europa.eu/agriculture/markets/beef/prica/index.htm)