



# Situation and Outlook

## July 2018

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## Introduction

This mid-year update is a supplement to the annual Situation and Outlook published by Teagasc in December 2017. It begins with a summary of current economic conditions, looking at the international macroeconomic picture, recent exchange rate developments and movements in energy prices. It then provides a summary of the developments that have taken place in commodity markets in the first half of 2018. Finally, there is an assessment of the performance of the main farm systems in that period.

The report takes a short term outlook perspective to the year end, assessing likely future developments and how they would influence commodity prices, production costs and farm profitability.

Across the various farm sectors, access to timely official data on production volumes, output prices, input utilisation volumes and inputs prices, remains a challenge across the EU. Official data sources tend to lag behind the actual market situation by three months and more in some cases. It is therefore necessary to rely on unofficial data sources, industry expertise and even anecdotal evidence to form an up to date assessment of output and input prices, production and input usage.

In this publication the situation and outlook is summarised. For each commodity sector, production, consumption, output price, input market developments and income are assessed and given a positive, neutral or negative ranking.

This exercise is carried out in respect of the *Situation*, representing the first half of 2018, and the *Outlook* representing the second half of 2018. The categorisation is performed with respect to the farmer's perspective on the impact of market price, supply and demand developments on farm profitability.

The categorisation takes account of the position in the previous period. So for example a fall in milk prices in the first half of the year in comparison with the same period in

the previous year would be categorised as a **negative** situation.

However, if milk prices were anticipated to rise in the outlook period relative to the same period in the previous year this would be described as a **positive** outlook.

Examples of positive developments would include:

- A rise in output prices
- A fall in inputs prices
- A decrease in international supply
- An increase in international demand
- Favourable weather conditions
- A weaker domestic exchange rate



Conversely, examples of negative developments would include:

- A fall in output prices
- A rise in inputs prices
- An increase in international supply
- A decrease in international demand
- Poor weather conditions
- A stronger domestic exchange rate



Where either the situation or the outlook suggests no change relative to the corresponding period in the previous year, this is categorised as **neutral**.



Finally, where it is either too early to make an informed judgement or where there is a deficit of the necessary data on which a judgement should be made, it may not be possible to determine whether a positive, negative or neutral symbol should be used. Such instances are represented by a question mark.



This approach is designed to highlight the key market developments that have recently taken place and that are likely to take place in the short term and to highlight, if necessary, key uncertainties regarding the short-run outlook. The associated information is then distilled down to a series of summary tables.

## Commodity Sector Summary

Dairy	
Situation	Outlook
 Negative	 Negative

**PRODUCTION:** Global milk supply growth in H1 2018 was weaker than expected due to poor weather in the EU and New Zealand. Irish milk production for H1 2018 is down slightly compared to the same period last year, due to summer drought conditions.

**PRICES:** Irish milk prices fell in Q1 of 2018, but the reduction was limited by lower than anticipated growth in global milk production. In light of a strengthening global supply, a reduction in the Irish milk price of 10% overall in 2018 is envisaged.

**COSTS:** 2018 has been a difficult year due to the extreme weather conditions, leading to a surge in feed use – with a full year forecast of a 75% increase in average feed use per dairy cow. Feed and fertiliser have also increased. Fertiliser usage is down, but may yet recover as normal weather returns. Total production costs for 2018 are forecast to rise by 23% for the average dairy farm.

**MARGINS:** Average dairy net margin in 2018 could be down by 60%. Average dairy farm income could fall to €45,000, but the scale of the farm income drop is likely to be very farm specific.

Beef	
Situation	Outlook
 Negative	 Negative

**PRODUCTION:** Irish beef production has so far increased by about 2% in 2018, with greater prime cattle availability for the year to date partially offset by lower slaughter weights.

**PRICES:** In early 2018 finished cattle prices have been higher than in 2017. Prospects for cattle prices over the rest of the year are stable. Growth in EU demand and buoyant world markets will support EU and Irish prices at close to or just above 2017 price levels.

**COSTS:** Costs of production are to increase significantly in 2018 relative to 2017. Higher input prices are accompanied by higher fuel prices and significantly increased feed usage driven by adverse grass growing conditions.

**MARGINS:** Moderately higher finished cattle prices in Q1 and Q2 2018 support an increase in the value of output. This improvement in output will be surpassed by increasing direct costs. Gross margins on Cattle Finishing farms will fall (-9%), while those on Single Suckling farms will also decline on 2017 levels (-6%).

Sheep	
Situation	Outlook
 Negative	 Negative

**PRODUCTION:** Irish sheep meat production for H1 is slightly higher than in H1 2017. Small decreases in the volume of lambs slaughtered (3%) have been offset by increases in the number of ewes slaughtered (20%).

**PRICES:** To date in 2018 Irish lamb prices are 10% higher than in 2017. Despite the seasonal reduction in lamb prices now underway, lamb prices for 2018 as a whole are forecast to remain higher than in 2017.

**COSTS:** Total sheep feed sales for Q1 2018 are higher than in 2017 and the feed purchases and feed prices are expected to remain higher for the remainder of the year.

**MARGINS:** Gross margins per hectare are forecast to be marginally lower in 2018 with higher lamb output value largely offsetting higher direct costs. Net margin per hectare is forecast to decline by 8% due to a small increase in overhead costs.

Tillage	
Situation	Outlook
 Negative	 Negative

**PRODUCTION:** In Ireland, poor growing conditions to mid July 2018 have meant that yields this year are likely to be well back on last year. Whilst it is still early days in the harvest, first production estimates for 2018 indicate a 27% reduction in total cereal tonnage compared to 2017.

**PRICES:** Weather concerns in the EU, the Black sea region, the US, and Australia are creating upward pressure on prices. Prices quoted at present represent between a 10% and 20% increase over harvest prices in 2017.

**COSTS:** Production costs in 2018 are likely to be about 6% higher than in 2017.

**MARGINS:** With total cereal production declining, the increase in cereal and straw prices will not be enough to compensate. Therefore output value per hectare will be reduced on the 2017 level. With costs increasing by 6%, it is estimated that average family farm income on specialist tillage farms will be down about 25% on the 2017 level.

## Global Economy

Global economic growth strengthened in 2017 to over 3%, the highest level for several years. The outlook for the current year also remains quite positive, with economic growth expected to be stronger than in 2017. The UK is an exception, with growth there expected to slow in 2018.

Growth remains firm in key commodity importing countries. The recovery in the price of oil has boosted oil exporting economies. Price developments in green commodity markets have varied, with growth in some categories and stability elsewhere.

Economic growth in the US, the Eurozone and Japan has been stronger than anticipated, while the UK economy has lagged behind, as it continues to feel the effects of Brexit uncertainty.

Growth in the US has been strong in 2018. The US economy remains close to full employment and the US Federal Reserve has continued to tighten its monetary policy via interest rate increases. Higher interest rates have not impacted adversely on financial markets. There is some concern that the US has moved toward protectionism, with tariffs being raised on imports of steel into the US. There have been retaliatory increases in tariffs by some US trade partners.

The Eurozone outperformed the US in growth terms in 2016 and 2017, but is expected to lag behind in 2018. Unemployment continues to fall across the EU, but there is still significant scope for

further reductions in unemployment. Inflation remains at very low levels, with no imminent change in European Central Bank interest rate policy likely. Current expectations are that it could be well into 2019 before Eurozone interest rates may increase. The Brexit negotiations remain a key concern in the Eurozone and the EU generally and political uncertainty in some EU member states is on the increase.

The UK is currently in a period of turmoil with regard to Brexit and has struggled to develop a negotiating position to present to Brussels. The UK Prime Minister remains under a lot of pressure on this issue including from members of her own party. While the UK position is currently that it would like a relatively soft Brexit, there remains a risk of the UK leaving the EU with no trade agreement in place, given its current negotiating position.

A worse case outcome could see the UK in a trade relationship with the EU on the basis of World Trade Organisation Most Favoured Nation tariffs, which for agri-food products could be trade prohibitive.

If no agreement is reached between the EU and UK by March 2019, then the transition arrangement that would ease the UK's exit from the EU may not materialise.

UK economic growth has slowed considerably and its growth rate now lags behind much of the EU. Sterling remains comparatively weak, but stable, against other key currencies such as the US dollar and the euro.

The oil price recovery is assisting growth in Russia, while China continues to pivot from a dependency on export demand as the

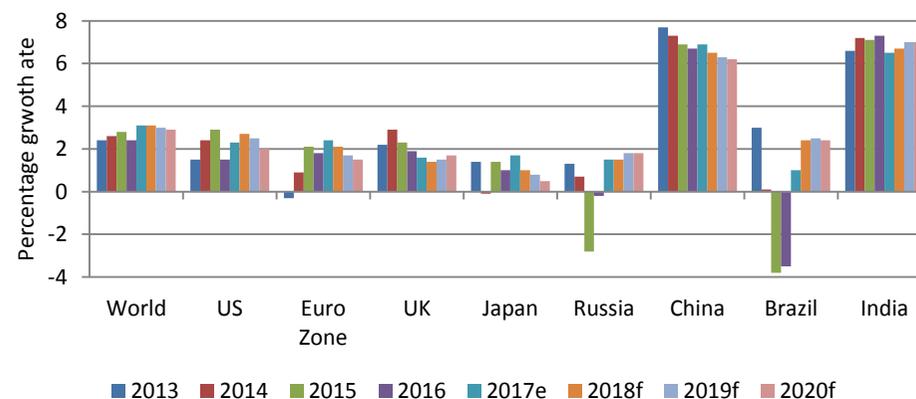
driver of economic growth towards a situation where domestic demand becomes more important as the driver of economic activity. Economic growth in China is set to slow down over the rest of the decade, but still remain above 6% per annum.

The Indian economy has experienced a slowdown in growth in 2017 and this is expected to continue through 2018. Growth in India is forecast to improve in 2019 and surpass China's growth rate.

Economic growth in Brazil has continued to improve, as it re-emerges from the recession it experienced in the middle of the decade.

Actual and projected GDP growth rates for selected regions of the world are shown in Figure 1.

Figure 1: Annual Real GDP growth rates and forecasts 2013 to 2020



Source: World Bank (June 2018)

## Exchange rates

Over the first half of 2018, exchange rates between the euro, the US dollar and sterling have moved over a range of 6 US cent and 1p respectively. Sterling remains at a comparatively low rate against the euro which is a source of concern for Irish exporters to the UK.

Exchange rates are important in that they impact on the price of Ireland's exports and imports. Much of Ireland's agri-food related trade is denominated in non-euro currencies. The continuing Brexit related weakness of sterling is a negative for Irish agri-food exports, making them less competitive on the UK market.

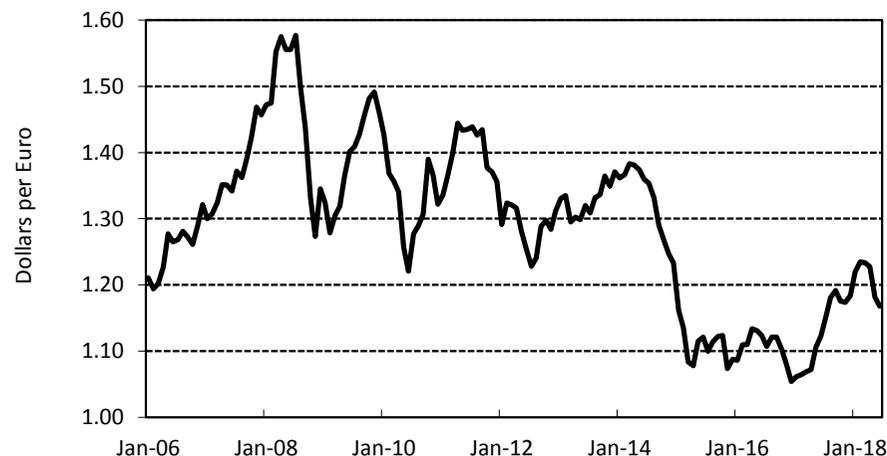
In 2017 and thus far in 2018, the euro is at a higher value than it was over the period 2014-2016. Since January 2018 the euro has moved over a range of \$1.23 to \$1.17.

Sterling has fluctuated over a relatively narrow range against the euro over the last 12 months, as the UK government's internal machinations with regard to Brexit have continued.

The general weakness of sterling reflects uncertainty about the future economic growth prospects of the UK, which are tied to the terms of the Brexit deal which has yet to be negotiated.

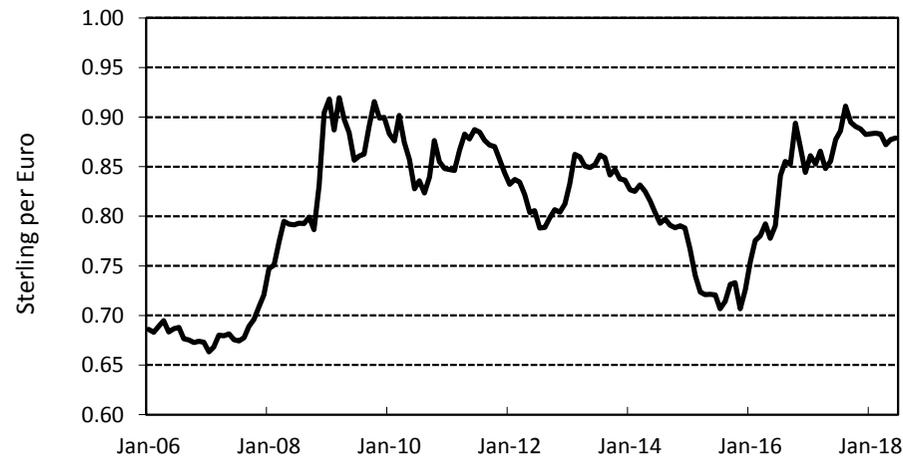
The European Central Bank remains vigilant with respect to the Eurozone's economic recovery. Inflation remains low, while economic growth has recovered. Unemployment in the EU continues to fall.

Figure 2: Euro/Dollar Exchange Rate 2006 -2018



Source: European Central Bank

Figure 3: Euro/Sterling Exchange Rate 2006 -2018



Source: European Central Bank

## Energy Market

While fuel and electricity are less significant input items than feed and fertiliser in grassland systems, the price of energy has implications that extend throughout the economy, given the importance of energy as a cost item in the production and distribution of goods.

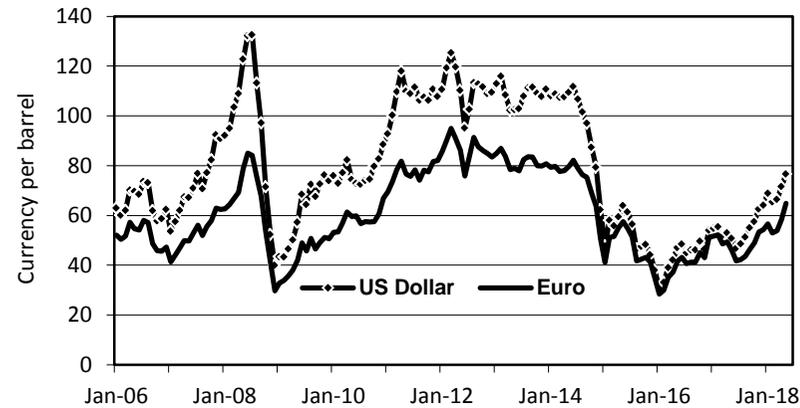
Oil prices have been on the rise since the middle of 2017, as OPEC and Russia have imposed more control over global oil supplies.

Brent crude oil prices moved upward through H2 2017 and H1 of 2018. The monthly average broke through the \$50 per barrel mark in July 2017, as illustrated in Figure 4. Prices rose further to reach over \$60 in November 2017, and have since increased further to \$70 by April 2018, \$75 by May 2018 and have stabilised since then. Set against the high prices observed through much of the period from 2008 through to H2 2014, the current oil price remains moderate.

More generally, higher oil prices have benefitted oil exporting regions globally that have seen their oil revenues increase substantially and have been a negative for oil importers.

European natural gas prices have moved sharply upwards since September 2017, albeit from a relatively low level. This is due to tighter supplies on the EU market and the rising price of oil.

Figure 4: Brent Oil Prices in Euro and US Dollar Terms 2006 -2018



Source: Adapted from the St Louis Fed

Figure 5: European Natural Gas Average Import Price 2006 2018



Source: World Bank

## Inputs Market Summary

### Feed

Situation	Outlook
 <b>Negative</b>	 <b>Negative</b>

- The very difficult weather conditions experienced during winter 2017 and spring 2018 which resulted in the prolonged housing of animals have since been exacerbated by continuing drought conditions.
- As a result grass growth conditions have deviated from normal for most of H1 2018. This has resulted in the early utilisation of winter fodder supplies and increased use of concentrate feed on farms.
- Aggregate feed use for both dairy and beef farms has increased in Ireland in 2018, due both to the growth in animal numbers and poor grazing and fodder making conditions. The actual increase in feed use per head will depend on the particular circumstances on the farm, with usage in some regions comparatively higher than others.
- Feed prices during the first half of 2018 have increased slightly compared to H1 2017 and are expected to continue to increase for the remainder of the year, due to a reduction in global ending stocks for the majority of feed and a reduced domestic cereal crop.

### Fertiliser

Situation	Outlook
 <b>Negative</b>	 <b>Negative</b>

- Despite gradual fertiliser price increases during H2 2017, prices in 2017 were down more than 6% year-on-year.
- However, oil and natural gas prices have been on the rise over the last 12 months and this has contributed to an increase in fertiliser prices in 2018.
- The available data indicates that fertiliser sales in Ireland for the first six months of the 2017/18 fertiliser year are down considerably on the same period in the previous year. This is to be expected given the poor weather conditions which were not conducive to fertiliser application across most regions.
- There is a considerable lag in the availability of the official quarterly data, so precise sales levels for the full fertiliser year will not be confirmed until late autumn.
- In the event of weather conditions returning to normal for the remainder of the year it is likely that usage and thus sales will increase in H2 2018 but will not surpass the high utilisation level in the 2016/17 fertiliser year.

### Energy

Situation	Outlook
 <b>Negative</b>	 <b>Negative</b>

- While fuel and electricity are less significant inputs than some other items, the price of energy has implications that extend throughout the economy, given the importance of energy as a cost item in the production and distribution of goods
- Oil prices have been on the rise since the middle of 2017, as OPEC and Russia have imposed more control over global oil supplies.
- In addition, European natural gas prices have moved sharply upwards since September 2017, albeit from a relatively low level. This is due to tighter supplies on the EU market and the rising price of oil.
- At farm level it is estimated that fuel costs will be 6 to 7% higher in 2018 relative to 2017.
- Whilst farmers have seen fuel prices rise since this time last year, fuel prices remain well below the highs seen from 2012 through to 2014.

## Weather Conditions

From a grass growing perspective, weather conditions in 2014, 2015 2016 and much of 2017 were regarded as very good. However, weather difficulties began to emerge in autumn of 2017. The first problem was the early onset of damp winter conditions, which impacted on the capacity to harvest second cut silage and also led to cows being housed earlier than normal. This left some farmers in a position where their winter fodder stocks were lower than planned.

A very long winter followed, culminating in an exceptional snow fall at the end of February 2018, which remained on the ground for up to a week in many places. The cold ground temperature delayed grass growth by about one month compared to an average year.

In the worst affected parts of the country, cattle remained housed for close to 6 months in 2017/18. Fodder stock ran out in some cases and an overall shortage of fodder nationally, led to a transfer of fodder between farms across the country and some importation of fodder also.

A rise in temperatures in April/May finally brought on good grass growth. Grass growth still remained well behind schedule, but it allowed first cut silage production to take place. An extended period of exceptionally high temperatures and little or no rainfall followed in June and the first half of July, bringing grass growth to a halt. Due to the lack of grazing, farmers were forced to feed silage that had just been harvested, to use silage land for grazing purposes and to feed additional concentrates. Some farmers also housed animals temporarily to avoid heat stress.

Deviations in the air temperature relative to normal are shown for a range of Teagasc sites in Figure 6. February and March 2018 were much colder than normal. By contrast May and June temperatures were well above normal.

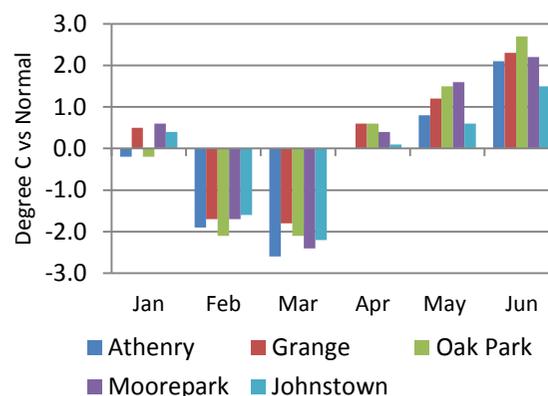
As shown in Figure 7, cumulative spring rainfall amounts in the Teagasc locations were well above normal in March and April, particularly in the South and East. By contrast the widespread drought conditions that have characterised the summer period are evident in data for June 2018.

Figure 8 shows grass growth data from Pasture Base Ireland. The delay in early season grass growth in 2018 is evident, as is the collapse in grass growth in June and July of 2018.

Irish weather conditions in 2018 have also adversely impacted on spring sown crops. Yield for spring crops in particular will be well down on 2017. It is estimated that total cereal production volume will be down by 27 % compared to 2017.

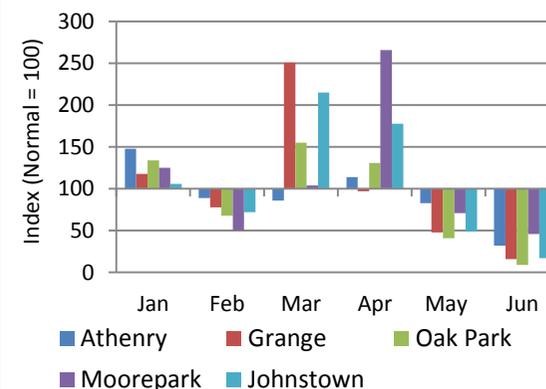
*Note: Normal weather is defined as the 30 year average from 1981 to 2010.*

**Figure 6: January to June 2018 Mean Temperature Relative to Normal (1981-2010)**



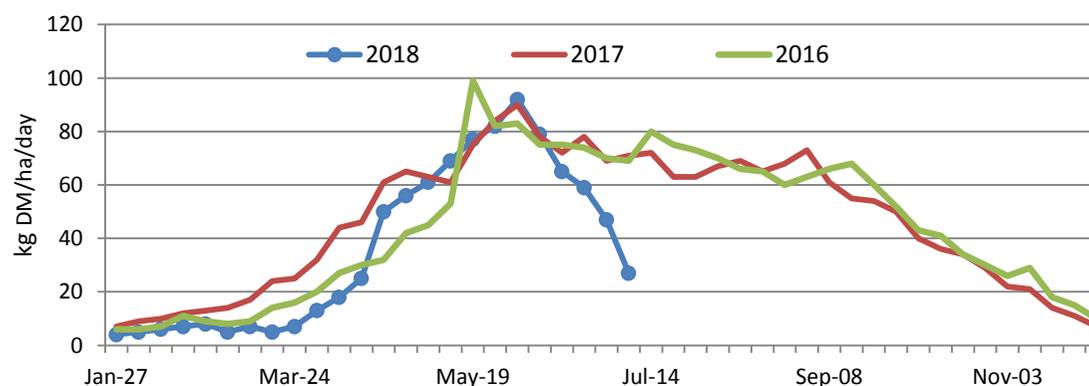
Source: Met Eireann

**Figure 7: January to June 2018 Rainfall Relative to Normal (1981-2010)**



Source: Met Eireann

**Figure 8: Irish Grass Growth 2016, 2017 and 2018**



Source: Teagasc Pasture Base Ireland

## Feed Market

The outturn for 2017 showed that aggregate national bovine feed use in Ireland was up 14% in volume terms. This reflected the continuing increase in animal numbers nationally, but was also due to poor late season grazing and silage making conditions. Based on DAFM and CSO data, average dairy feed use per head in 2017 is estimated to have been about 1,011 kg per cow in 2017, an increase of 14% on the previous year. Beef feed usage per head in 2017 was up about 5% on the previous year.

As of July 2018, official data on feed use in the current year are limited, with DAFM sales data available for Q1 only. These data show that the aggregate volume of dairy feed sales in Q1 2018 was up 21% on the same period in 2017, which can be attributed to the delay in getting cows onto grass. More up to date figures from unofficial sources were not available at the time of publication. However, the continuation of unfavourable weather for grass growth in Q2 and Q3 of 2018 will mean that feed use will be well above normal.

Drought conditions have led farmers to take the unusual step of grazing silage land and feeding additional concentrates.

Favourable weather for grass growth from late July through to November will be crucial, to build up fodder supplies for

the coming winter.

Overall, given the growth in the dairy cow herd, early indications are that dairy feed use per head in 2018 will far exceed the comparatively high level observed in 2017. The current estimate, which is based on normal late season grass growth, indicate a 75% increase in the full year feed requirement per dairy cow in 2018 relative to 2017.

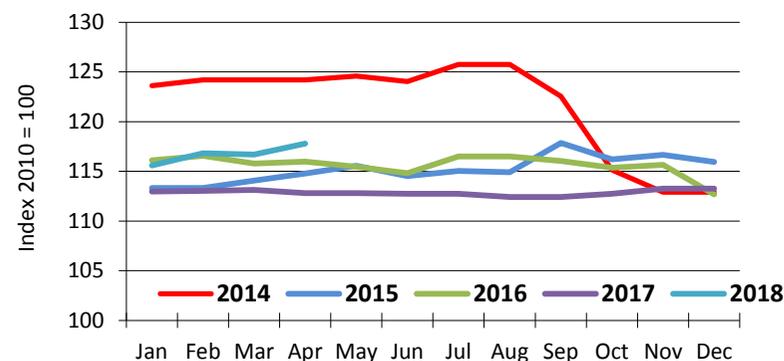
Aggregate beef feed sales increased in Q1 of 2018 by over 25% relative to the same period in 2017, with this increase largely driven by the long winter and shortage of fodder. As with the dairy herd, concentrate feed and silage are likely to have supplemented grass during the drought conditions. However, the lower stocking rate on beef farms, mean that the problem has been less acute than on dairy farms. Anecdotally, regions where beef production is more prominent have not been as badly affected by the drought as regions where dairy is more prominent.

As shown in Figure 9 and Figure 10, feed prices have been up slightly in H1 2018 compared with H1 2017. Feed prices are likely to further increase later in the year, especially since the size of the cereal crop in Ireland this year is likely to be down considerably on previous years.

Taking a more global view, it is still too early in the year to be fully confident,

but it would appear that the global wheat harvest is forecast to drop about 3%. However, an expected increase in the global maize harvest, means that maize is trading at prices that are more competitive than wheat at present (Strategie Grains). Overall this suggests that there will be an increase in cereal prices on the Irish market at harvest 2018 relative to 2017.

Figure 9: Index of Monthly Irish Feed Prices 2014-2018



Source: Central Statistics Office

Figure 10: Longer Term Index of Monthly Irish Feed Prices 2007-2018



Source: Central Statistics Office

## Fertiliser Market

With energy prices at comparatively low levels through 2016 and 2017, this contributed to a period of relatively low fertiliser prices. However, oil and natural gas prices have been on the rise over the last 12 months and this has contributed to an increase in fertiliser prices in 2018.

Official monthly price data are presented in Figure 11 and illustrate the gradual increase in fertiliser prices through H2 2017. Nevertheless for 2017 as a whole, fertiliser prices were down more than 6% on the 2016 level. Prices began to track upwards again in H1 of 2018. Average annual fertiliser prices in 2018 are anticipated to remain above the average 2017 level.

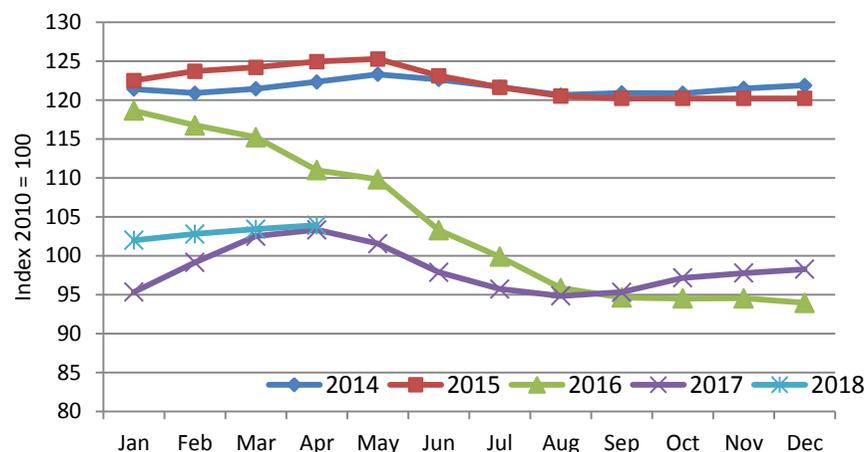
In terms of fertiliser sales in Ireland, the available official data covers the first six months of the fertiliser year (Oct 2017 – Mar 2018). For this six month period Figure 12 shows a 13% decrease in nitrogen sales, and a similar decrease in phosphorous and potassium sales, relative to the same period in 2016/17.

The long winter period and increase in prices may go some way towards explaining the slower rate of fertiliser sales to the end of March 2018.

The dry conditions experienced in June and July will also have tempered fertiliser usage, but it can be expected that there will be a compensating increase in fertiliser usage as soon as there is a return to weather conditions favourable to grass growth.

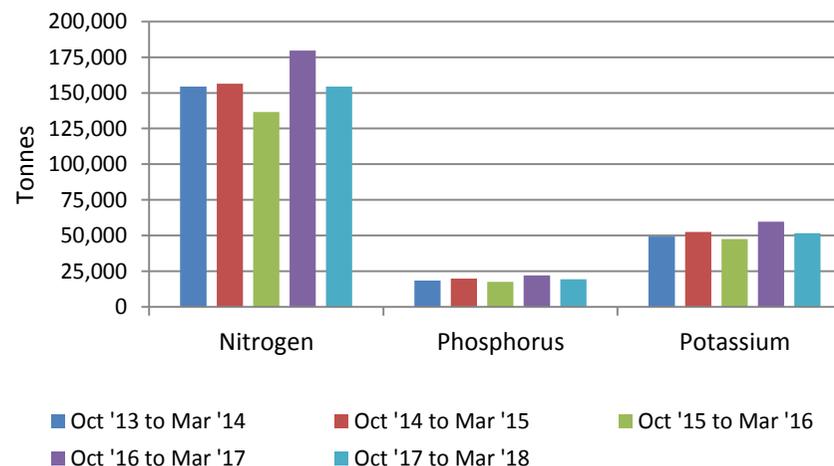
For the year as a whole, it is likely that fertiliser use will not surpass the relatively high utilisation level in 2016/17 fertiliser year.

Figure 11: Index of Monthly Irish Fertiliser Prices 2014-2018



Source: Central Statistics Office

Figure 12: Irish Fertiliser Sales in first 6 months of fertiliser year



Source: DAFM

## Dairy Market

Global Supply		Global Demand		Milk Prices		Irish Production		Input Cost		Irish Farm Income	
Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook
 Negative	 Neutral	 Neutral	 Neutral	 Negative	 Negative	 Neutral	 Negative	 Negative	 Negative	 Negative	 Negative
<ul style="list-style-type: none"> <li>In spite of lower milk prices in 2017 global milk production growth ran ahead of demand growth.</li> <li>Moving in to 2018, milk production growth in the EU and New Zealand was hampered by poor weather.</li> <li>High stock levels remain an issue in the powder market.</li> <li>EU production in 2018 is expected to be 3% higher than in 2017.</li> <li>While US production continues to grow, production in New Zealand in the season just ended remained static.</li> </ul>	<ul style="list-style-type: none"> <li>International dairy product demand is stronger for some dairy products than for others.</li> <li>Butter demand has been stronger than that for other products, with demand for SMP particularly weak.</li> <li>Chinese imports of powders for H1 2018 are broadly in line with 2017.</li> <li>The Russian embargo has remained in place and this continues to adversely affect international dairy product demand.</li> <li>High EU SMP stocks continue to hinder growth in SMP prices in the short term.</li> <li>Overall, this suggests that the market is a little over supplied at this time.</li> </ul>	<ul style="list-style-type: none"> <li>In US dollar terms, international dairy commodity prices dipped towards the end of 2017.</li> <li>While butter prices remained very high, SMP prices were exceptionally low in H1 2018. Cheese prices dipped in Q1 2018, but have improved in Q2 of 2018.</li> <li>Irish farm milk prices were reduced over successive months in the spring of 2018 and have hovered around 32 to 33 cent per litre for national average fat and protein constituents.</li> <li>Short term milk price prospects are mixed, with the recent trend of negative GDT results a source for concern.</li> </ul>	<ul style="list-style-type: none"> <li>January to May Irish milk deliveries in 2018 were down 0.2% on 2017.</li> <li>Irish dairy cow numbers continued to increase until April 2018 but culling rates are on the increase, suggesting that the herd will begin to contract in the coming months due to the difficult production conditions.</li> <li>Milk production in 2018 is unlikely to run ahead of the 2017 level. Milk deliveries in H2 of 2018 will depend on weather conditions in the coming months.</li> <li>For 2018 as a whole, Irish milk production is likely to show a slight decrease on the 2017 level.</li> </ul>	<ul style="list-style-type: none"> <li>Feed prices to date in 2018 have been slightly higher than in 2017.</li> <li>Aggregate dairy feed sales to the end of Q1 were running about 20% ahead of the same period in 2017. Feed use also increased in Q2 and high feed use is inevitable in Q3 and Q4.</li> <li>Higher energy prices over the last year have contributed to higher fertiliser prices in H1 of 2018 compared with H1 2017.</li> <li>Fertiliser sales over the first half of the 2017/2018 fertiliser year are down considerably on the previous year.</li> <li>Total production costs per litre in 2018 could rise by 6 cent.</li> </ul>	<ul style="list-style-type: none"> <li>Average net margin in 2018 is likely to be about 6 cent per litre, with a lot contingent on grass growing conditions from now until November.</li> <li>The lack of grass availability over the summer will limit grazing in the coming months, due to the need to create silage reserves. Elevated feed use will therefore continue.</li> <li>The current forecast is that the average sized Irish dairy farm could see net margin decrease by 60% in 2018.</li> <li>Early indications are that average dairy farm income is likely to be in and around €45,000 in 2018.</li> </ul>						

## Dairy Market

Strong global milk production growth in 2017 saw supply growth run ahead of demand. A global milk surplus has existed from the outset in 2018, with substantial stocks of powder in both the EU and US.

This created some negative price pressure in Q1 of 2018, which has been partly offset in Q2 by poor production conditions in the major dairy production regions of Northern Europe and also in New Zealand, which has left production below expectations.

While production growth in 2018 is likely to be weaker than initially had been expected, the market remains oversupplied.

For the calendar year 2017, milk production was up by 2.0% in the EU, while it was up 1.4% in the US. Milk production in Australia in the dairy season just ended increased by 4%, while New Zealand's production for the season was unchanged on the previous year.

At the EU member state level there was a general upward trend in milk production in 2017, with relatively few exceptions. Among the larger milk producers in the EU, production in Ireland, UK, Poland and Italy continued to expand. Milk production in 2017 in France and Germany remained stable.

In the EU, production growth has slowed in H1 of 2018, partly in response to lower milk prices, but also due to difficult weather conditions in some production areas. Figure 13 summarises recent milk supply developments. In the four months to the end of April 2018, milk production in the US is up by 1.2% relative to the same period in 2017, while milk production in the EU is up 2.3% on the corresponding period in the previous year.

International dairy markets have been relatively weak. Poor weather in Europe and in New Zealand limited supply growth and this has led to a short term

improvement in commodity prices in H1 2018.

With the exception of butter, European dairy production prices have tended to have a downward trend over the 12 months to the end of June 2018. Over that period, European butter prices have moved through a very large range, peaking in September 2017, and then declining for the rest of 2017, before moving upward again in H1 2018 to reach a level of over €5,500 per tonne by mid-year. Over the 12 months to June 2018, European whey prices have eased back considerably from the high level reached in mid-2017, to a level of €650 per tonne. European SMP prices have fallen below €1,400 per tonne in recent months, with stocks continuing to overhang the market. European WMP prices have weakened by about 10% in the 12 months to June 2018. UK cheddar prices have also weakened over the last 12 months by about 7% in euro terms.

The decrease in wholesale dairy product prices and the strengthening of the euro versus the US dollar has been reflected in a decrease in Irish farm milk prices from January 2018 onwards. Figure 15 shows monthly Irish farm milk prices. In Q2 of 2018 -the peak delivery period – milk prices have hovered around the 32 cent per litre mark (actual national average fat and protein basis).

Short term prospects for dairy commodity prices are for stability rather than further increases, given that the higher prices of recent months are fuelling a recovery in production growth. Figure 16 charts the most recent Global Dairy Trade (GDT) auction price developments, which shows that price movements have generally been negative over Q1 and Q2 of 2018.

Milk production in Ireland in 2018 has been hit by two major weather events, with a long winter culminating in major snowfall in late February/early March. This has

since been followed by high temperatures and drought conditions, the extent of which has not been seen since the 1970s. While cow numbers continued to grow through H1 of 2018, there were signs in June and July that a reversion of that trend was beginning, with reports of elevated levels of dairy cow culling in response to a very severe shortage of grass.

The outcome for Irish milk production for 2018 as a whole will depend largely on grass growing conditions between now and the end of the season. In contrast to expectations at the beginning of the year, milk production for 2018 is unlikely to be up on the 2017 level.

The available data for the first half of 2018 shows a moderate increase in Irish feed prices in comparison with 2017, with expectations that feed prices will continue to rise over the rest of the year. It is notable that the volume of aggregate Irish dairy feed sales in 2018 has been running well ahead of the 2017 level. This can be explained by the long winter and run down of fodder stocks and also the very dry conditions, unfavourable to grass growth, that have emerged in June and July of 2018.

Following the rise in oil prices through 2017 and in to 2018, there has been an associated rise in natural gas price, with farm level fertiliser prices trending upwards through H1 of 2018. Fuel expenditure has also increased in 2018, reflecting the considerable rise in oil prices.

Direct input costs will be up considerably in 2018, with most of the pressure coming from increased volumes of purchased feed and forage. Overall, dairy production costs for 2018 have already increased dramatically on the 2017 level and the outlook for the rest of 2018 suggests that these production cost pressures will remain. While grass growth may recover in August, a return to normal levels of grass growth is unlikely until September.

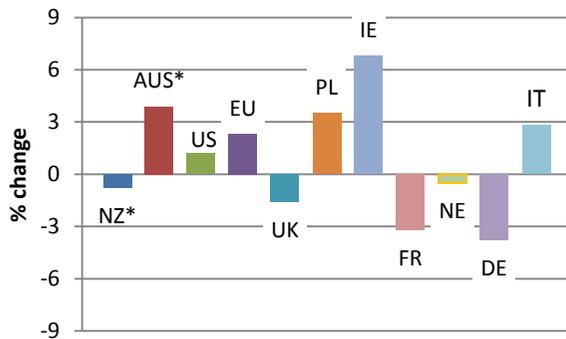
The weak international dairy market, lower farm milk prices, stagnant production and a hostile cost environment, means that dairy farm incomes in Ireland will fall substantially in 2018 relative to 2017.

The annual average price in 2017 was over 37 cent per litre (actual fat VAT inclusive basis), whereas milk prices in 2018 are likely to be about 10% lower.

It is very early to make an estimate of average dairy farm margin and income for the year, especially in the context of the very unusual production conditions, and the uncertainty about how the rest of the year will evolve. For the purposes of this assessment, it is assumed that grass growth does return to normal in September of 2018.

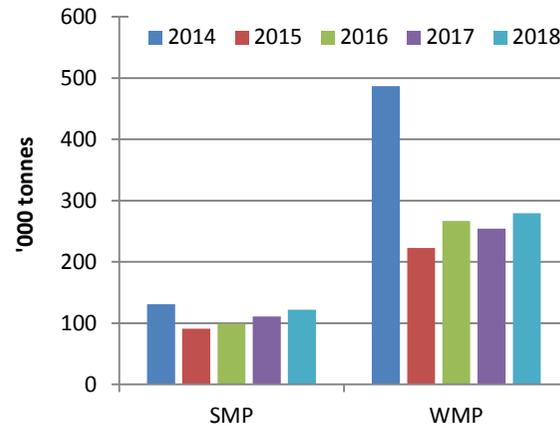
Figure 17 shows the historical average net margin per hectare and 2018 forecast. The milk price reduction in 2017, alongside the surge in production costs is forecast to leave the typical dairy farm net margin per hectare down by 60% in 2018. The average dairy farm is likely to have a Family Farm Income of €45,000 in 2018, which would be close to half of the 2017 level. However, there is likely to be considerable variation around that, depending on the circumstances of each individual farm.

**Figure 13: Percentage Change in Milk Production Jan- Apr/May 2018 in EU & US**



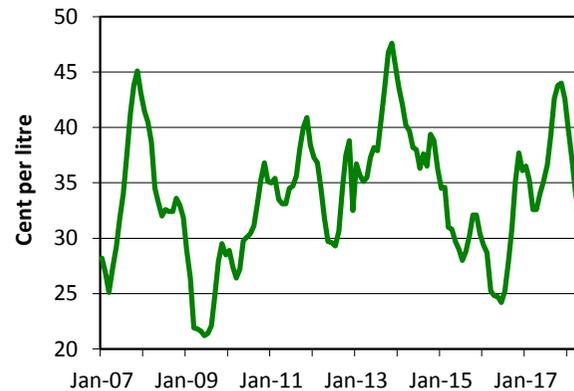
Source: Eurostat, USDA, Dairy Australia, DCANZ  
Note: \*July '17- May '18 for both NZ & AUS

**Figure 14: Chinese Powder Imports Jan-May 2014-2018**



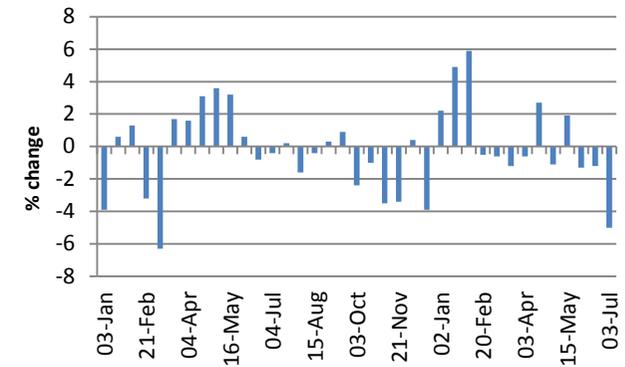
Source: US Dairy Export Council

**Figure 15: Monthly Irish Farm Milk Prices (actual fat)**



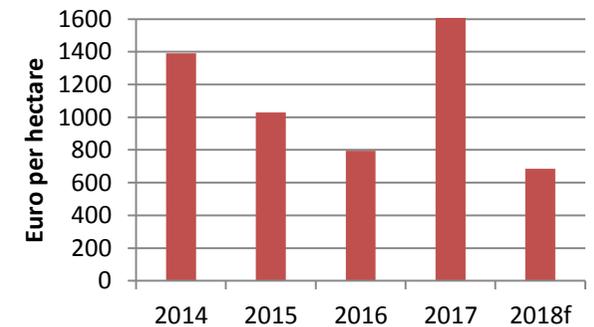
Source: CSO

**Figure 16: GDT Auction Index Month on Month Price Movements in 2017 and 2018**



Source: GDT

**Figure 17: Dairy Net Margin per hectare 2014 to 2017 and Forecast for 2018**



Source: Teagasc NFS 2014-2016, 2017 Author forecast.

## Beef Market

EU Supply		EU Demand		Beef Prices		Production		Input Costs		Farm Income	
Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Situation	Situation	Outlook	Situation	Outlook
											
Neutral	Neutral	Positive	Positive	Positive	Neutral	Positive	Positive	Negative	Negative	Negative	Negative
<ul style="list-style-type: none"> <li>EU beef production in the first four months of 2018 has increased by just 0.2% relative to the same period in 2017.</li> <li>The increase in production in 2018 is influenced by the increased disposals of young female dairy cows (not needed for cow replacement).</li> <li>For 2018 as a whole, EU production is forecast to increase by 0.5%.</li> <li>EU beef imports are forecast to increase strongly in 2018 and EU beef exports are forecast to decline significantly in 2018.</li> </ul>		<ul style="list-style-type: none"> <li>Moderate growth in EU demand for beef is expected in 2018.</li> <li>Growth in per capita incomes in the EU is expected to support per capita consumption in the EU at close to levels observed in 2017.</li> <li>The outlook for EU exports of beef, offals is somewhat negative. Live exports are however forecast to increase and particularly for markets such as Turkey and Algeria.</li> </ul>		<ul style="list-style-type: none"> <li>Average EU cattle prices in 2018 have increased moderately compared to 2017.</li> <li>The good performance of cattle prices reflects demand for beef on EU and global markets.</li> <li>Irish finished cattle prices are forecast to increase by up to 2% in 2018. In Q1 and Q2 2018, weanling prices are up 1% on 2017. Over all of 2018, calf and weanling prices are forecast to remain unchanged relative to 2017.</li> </ul>		<ul style="list-style-type: none"> <li>Irish beef production in the first half of 2018 is almost 2% higher than in the same period in 2017.</li> <li>Production is forecast to continue to grow through the second half of 2018 and some farmers may finish cattle earlier given the feed situation.</li> <li>The increase in beef production in 2018 follows the recent evolution of the Irish breeding cow herd.</li> <li>For 2018 Irish beef production is forecast to increase by up to 2% compared to 2017, driven by the increased availability of animals for slaughter.</li> </ul>		<ul style="list-style-type: none"> <li>The direct costs of beef production are dominated by purchased feed and pasture costs.</li> <li>A significant increase in feed demand is forecast in 2018 due to negative grass growth conditions and requirements for purchased feed.</li> <li>For the year to date, fertiliser prices in particular have been higher than in 2017.</li> <li>Feed prices for the year to date have been significantly higher than in 2017.</li> </ul>		<ul style="list-style-type: none"> <li>Output value on cattle finishing farms will be moderately higher due to moderate increases in finished cattle prices and output volume per hectare. Output is forecast to be marginally higher on Single Suckling farms.</li> <li>Gross margins on Cattle Finishing farms in 2018 are forecast to decrease by 9%, while Single Suckling farms margins are forecast to decrease by 6%.</li> <li>For cattle farms, the dependence on direct payments increases in 2018. This is particularly the case on Cattle Other farms where concentrate feed costs constitute a large share of direct costs.</li> </ul>	

## Beef Market

EU beef production in the first four months of 2018 is 0.2% higher than in the equivalent period in 2017. In most EU member states cow slaughter in 2018 has increased on levels observed in 2017. Total EU cow slaughter is 2.3% higher in the first four months of 2018 relative to 2017 and is forecasted to increase by 0.8% in 2018 relative to 2017 as a whole. Slaughter of non-breeding adult cattle in the EU is marginally lower for the first 4 months of 2018 and is forecast to decrease marginally over the remainder of 2018. An increase in slaughter weight is supporting a rise in EU beef production. Total 2018 EU beef production is therefore forecasted to increase modestly (0.6%) compared to 2017.

The fall in EU imports of beef during 2017 is being reversed. EU beef imports were 20% higher in the first four months of 2018 relative to the same period in 2017. A new system for the management of a particular tariff-rate quota (TRQ) is considered responsible for some of the increase during the January-April period. EU imports of beef are expected to increase by 6% for 2018. The decline in the value of the Brazilian real has increased the competitiveness of Brazilian beef exports to the EU. Brazil had limited deliveries to the EU in 2017 due to a meat scandal, but has since recovered and increased exports by one-third. Imports from Argentina have also increased significantly in 2018.

With a forecast of modest growth in the indigenous supply of beef in the EU, the outlook for cattle prices in Ireland and the EU for 2017 hinges on the prospects for further growth in domestic EU demand and for beef exports to non-EU markets. The outlook for economic growth in 2018 in the EU continues to be positive. However, UK economic growth is forecast to be weak in 2018 (1.4%).

Positive growth in EU beef demand is forecast in 2018, with growth in per capita incomes expected to support per capita domestic use. EU exports of live cattle and beef are expected to decline in 2018 (-6%). Resilience in domestic demand for beef is expected to lead to small increases (+2%) in finished cattle prices in 2018.

Through the first two quarters of 2018, cattle prices were generally higher than prices in the same period in 2017. The improving demand from EU consumers has been reflected in improving finished cattle prices. EU cow prices are approximately 1% higher than in 2017, while heifer prices have remained stable relative to 2017. EU R3 steer prices have increased by less than 1% while young bull prices have increased by approximately 3% relative to the first 5 months of 2017. Irish cattle prices continue to exceed the levels observed in continental markets. During the first five months of 2018, a higher rate of growth in Irish prices relative to EU prices has ensured that Irish prices remain well above the EU average. Irish weanling prices so far in 2018 have been higher than in 2017.

Irish beef production in 2018 is expected to grow compared to 2017. To date in 2018, Irish cattle slaughter is approximately 2% higher than over the same period in 2017. The growth in the number of cattle slaughtered will be offset somewhat by the impact of increased dairy genetics in the national herd on average cattle slaughter weights.

The direct costs of production on Irish cattle farms are dominated by purchased feed, pasture and forage costs. To date in 2018, difficult grass growing conditions have meant that grass availability on Irish cattle farms has been well below normal. Aggregate sales of beef feed in Ireland in Q1 2018 are up almost 20% on volumes sold in in Q1

2017. This increase in beef feed is largely attributable to the difficult weather and grass growing conditions in Q1 and Q2 2018. Despite the strong increase in Q1 and the very poor grass growing conditions experienced on many farms during the summer of 2018 our forecast for the increase in the volume of feed purchased over the volumes purchased in 2017 is more moderated than on Irish dairy farms. On Cattle Finishing farms we estimate that volumes of feed purchased during 2018 will be 20% higher than in 2017 while on single suckling farms the volume of concentrate feed purchased will be 10% higher.

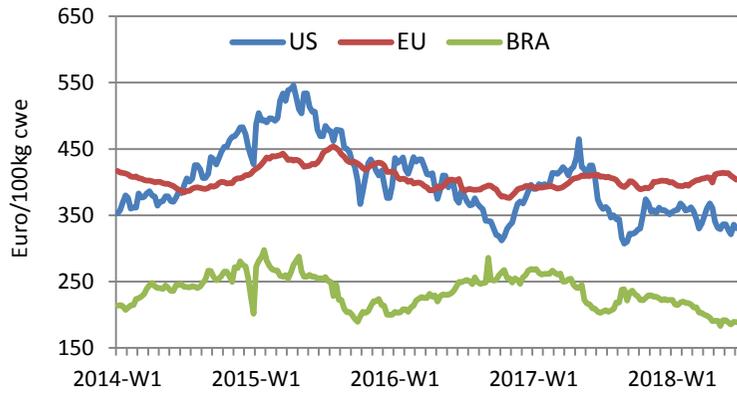
So far in 2018, cattle feed, fuel and fertiliser prices have been higher than in 2017. Increases in input use on cattle finishing farms (in particular feed) when combined with higher prices for inputs in 2018, is expected to lead to significantly higher costs of production. Costs per hectare on single suckling farms will increase but to a lesser extent, as purchased feed is a smaller cost component.

Higher output per hectare, and a small improvement in prices, will not be sufficient to prevent gross margins earned on cattle finishing enterprises from declining (-9%) relative to 2017. On single suckling enterprises, stable calf and weanling prices will be reflected in stable output value per hectare. With forecasted higher costs of production, the gross margins are expected in 2018 to decline (-6%).

The projected declines in enterprise gross margins largely reflect changes in input costs. Cattle farms have, on average, a high dependence on direct payments. Despite the presence of these direct payments, the average FFI on Cattle Rearing farms is forecast to decline by 12%, while average FFI on Cattle Other farms is also forecast to decrease by 12%.

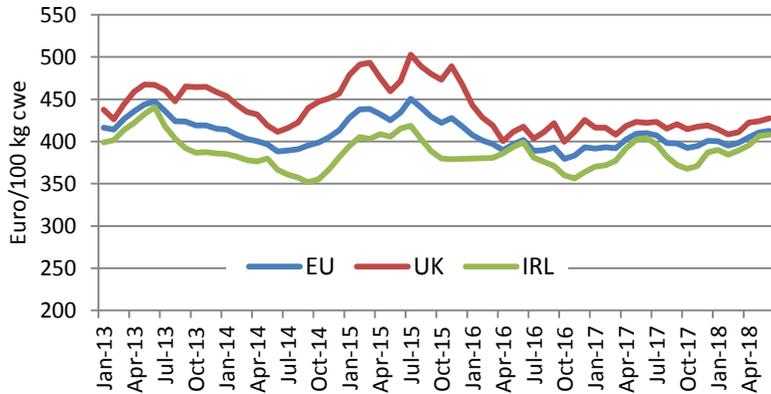
# Beef Market

Figure 18: Weekly EU and World Steer Prices 2014-2018



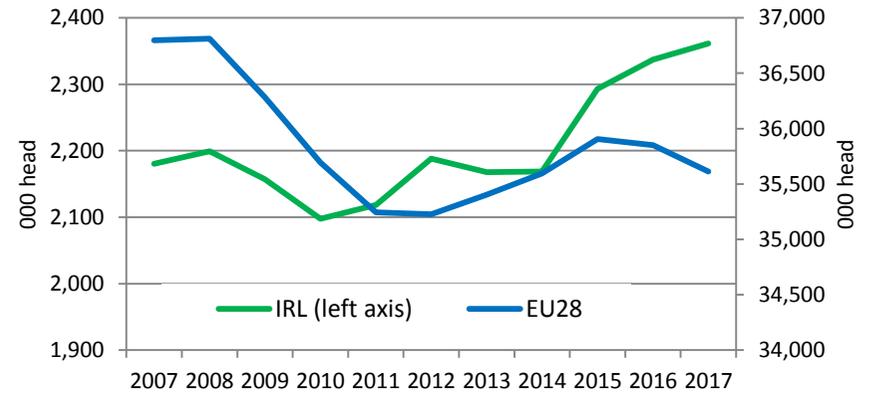
Source: Bord Bia and DG Agriculture and Rural Development

Figure 19: Monthly EU, UK and Irish Finished Cattle Prices 2013 to 2018



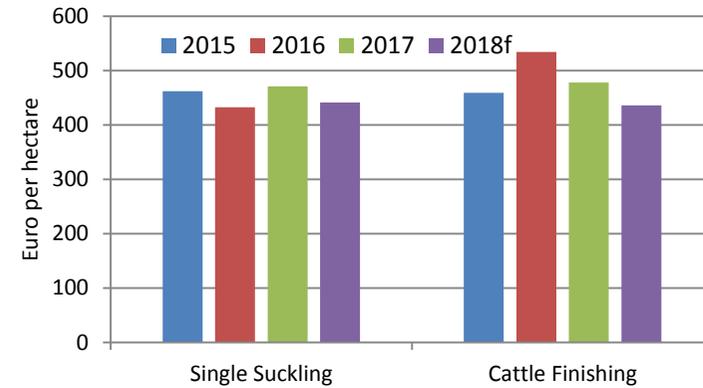
Source: DG Agriculture and Rural Development

Figure 20: Irish and EU cow inventories (December) 2007-2017



Source: Eurostat

Figure 21: Single Suckling and Cattle Finishing Gross Margin per hectare 2015-2017 and Forecast for 2018

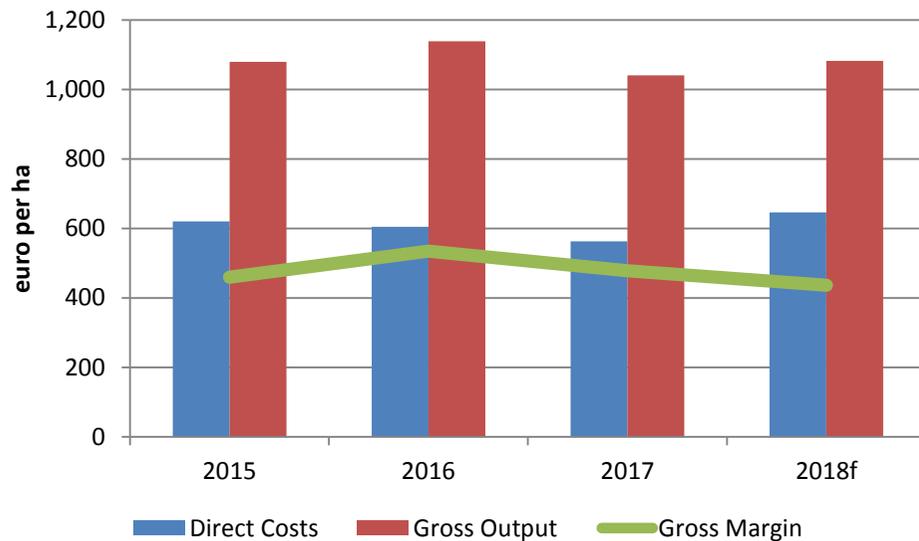


Source: Teagasc NFS 2015-2017 and Author forecast for 2018.

## Beef Market

The improvement in average gross margin earned in 2016 was partially reversed in 2017 as the negative impact of lower cattle prices more than offset the impact of reduced direct costs of production on enterprise gross margins. In 2018 gross margins on both of the principal cattle enterprises is forecast decline. In contrast to the experience in 2017, where margins declined due to lower output prices, margins in 2018 are forecast to contract as a result of higher direct costs of production – principally higher feed bills due to the harsh and long winter and summer drought of 2018.

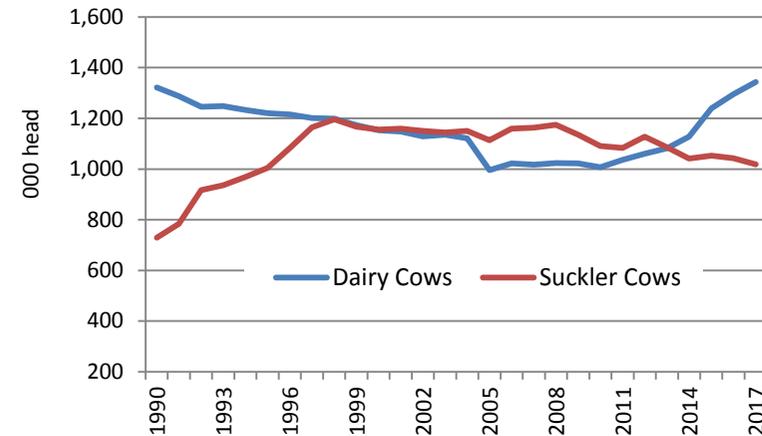
Figure 22: Cattle Finishing Gross Output, Direct Costs and Gross Margin per hectare



Source: Teagasc NFS

Developments in dairy and suckler cow inventories are important, both as indicators of likely future developments in beef and milk supply, but also because of the key role played by bovines in GHG emissions from Irish agriculture. In Figure 23 developments in dairy and suckler cow inventories since 1990 are presented. In recent years the decline in Irish suckler cow numbers has been more than offset by increased dairy cow numbers, with aggregate cow numbers growing by almost 1% a year since 2008. The latest DAFM AIMS animal inventory data indicate that the growth in Irish dairy cow inventories is continuing through 2018, though at a slower rate than observed in recent years. Irish suckler cow inventories are likely to decline only marginally in 2018.

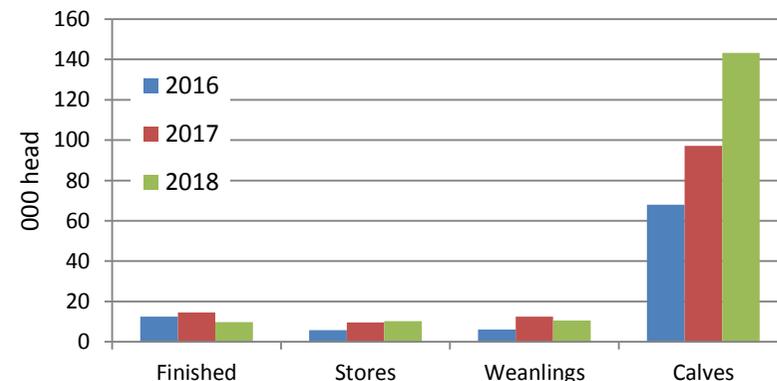
Figure 23: Long Term trends in Dairy and Suckler Cow Inventories (December)



Source: Eurostat

The volume of Irish live exports of calves, weanlings and store animals affects the volume of cattle available for slaughter in Ireland over the short to medium term. The most volatile component of Irish live cattle exports are calf exports. In the last 10 years the volume of calves exported has varied from almost 160,000 head in 2010 to less than 40,000 head in 2012. As Figure 24 illustrates the year to year volatility in the volume of calf exports has continued in 2018, with exports of calves 47% higher than in 2017.

Figure 24 Irish Live Cattle Exports Year to Date 2016 to 2018



Source: Bord Bia

## Sheep Market

EU Supply		EU Demand		Lamb Prices		Production		Input Costs		Farm Income	
Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook
 Neutral	 Neutral	 Positive	 Neutral	 Positive	 Positive	 Positive	 Positive	 Negative	 Negative	 Negative	 Negative
<ul style="list-style-type: none"> <li>EU production of sheep meat to date in 2018 is marginally higher than in 2017.</li> <li>Over the year as a whole, EU sheep meat production is not forecast to grow on the level produced in 2017.</li> <li>EU imports of lamb in 2018 (primarily from New Zealand) are forecast to remain unchanged on 2017 levels.</li> <li>In 2018 total supplies of sheep meat on the EU markets are forecast to be largely unchanged compared to 2017.</li> </ul>	<ul style="list-style-type: none"> <li>EU sheep meat consumption in 2017 is estimated to have declined marginally.</li> <li>Strong (seasonal) demand in the first half of 2018 is not forecast to continue through the second half of 2018.</li> <li>Brexit is expected to negatively affect economic growth rates and slow the growth in per capita demand for sheep meat in the UK.</li> <li>The Eurozone economy is forecast to grow steadily and support demand.</li> <li>The outlook for demand in 2018 as a whole is forecast to be stable.</li> </ul>	<ul style="list-style-type: none"> <li>Prices in the EU for heavy lamb grew in 2018 as seasonal demand growth (Easter and the Eid festival) outstripped supply.</li> <li>The weaker pound sterling since the Brexit referendum continues to support the competitiveness of UK lamb exports.</li> <li>To date in 2018 Irish lamb prices are 10% higher than in 2017.</li> <li>In recent weeks Irish prices have exceeded their 2017 levels, but with the seasonal reduction in lamb prices now underway, lamb prices for 2018 as a whole are forecast to average approximately 4% higher than in 2017.</li> </ul>	<ul style="list-style-type: none"> <li>Irish sheep meat production for H1 2018 is slightly higher than in H1 2017.</li> <li>Small decreases in the volume of lambs slaughtered (-3%) have been offset by increases in the number of ewes slaughtered (20%).</li> <li>For the year as a whole, Irish sheep meat production and ewe disposals are forecast to be slightly higher in 2017.</li> </ul>	<ul style="list-style-type: none"> <li>Direct costs of production on Irish sheep farms are dominated by concentrate, pasture and forage costs.</li> <li>Total sheep feed sales for Q1 2018 were higher than in 2017 and use of feed is expected to remain above 2017 levels over the remainder of the year.</li> <li>Fertiliser prices are expected to be higher, though fertiliser use is expected to be lower than in 2017.</li> <li>Owing to increases in feed usage, coupled with higher input prices for 2018, total production costs will be higher.</li> </ul>	<ul style="list-style-type: none"> <li>Margins earned from sheep production in 2018 are forecast to decline compared to 2017, due mainly to increased concentrate feed usage and increasing input prices.</li> <li>Overall on sheep farms net margin is forecast to decrease by 8% in 2018, with the continuing weather impacts on forage production and feed costs more than offsetting the positive impact of higher lamb prices.</li> </ul>						

## Sheep Market

EU production of sheep meat in the first 6 months of 2018 is slightly higher than in the same period in 2017. Increases in Irish production this year have been offset by lower French and UK production. Over the whole of 2018 EU sheep meat production is forecast to be largely unchanged as compared to 2017.

In 2018, EU imports of lamb are forecast to remain unchanged compared to 2017. The decline in EU lamb imports in 2017 is not expected to continue in 2018, with the strength of the EU lamb market expected to be sufficient to maintain volumes at close to the 2017 levels. The UK remains the main EU market for New Zealand (NZ) lamb exports. The decline in the value of the pound sterling as a result of Brexit has reduced the attractiveness of the UK market as an export destination for NZ lamb. No further depreciation of the UK pound is forecast for 2018 and this is reflected in the relative stability of EU (still inclusive of the UK) lamb imports. With stable indigenous production also forecast for 2018, the total supply of sheep meat on EU markets in 2018 should be largely unchanged as compared to 2017.

With a stable EU supply situation for 2018 as a whole, the outlook for EU sheep meat prices in 2018 will depend on the outlook for EU demand. During the first half of the year domestic demand for lamb was ahead of indigenous supplies, and EU and Irish sheep meat prices outperformed those observed in 2017 (See Figure 27). However, with EU supply and demand for the remainder of the year expected to be largely in balance, the average price for the year is not expected to converge on 2017 price levels for the remainder of the year.

EU heavy lamb prices steadily improved between 2008 and 2015. In 2016 and 2017 growth in EU supplies of

sheep meat and the weakness of sterling combined to reduce EU prices somewhat. In 2018 low but steady growth in EU demand for lamb is expected to match the small increase in total supply expected over the year as a whole.

As discussed earlier exchange rate developments can have a dramatic impact on market price outcomes. While the Brexit referendum result led to a weakening of sterling relative to the euro and has affected lamb prices through 2016 and 2017 no further depreciation is forecast for 2018. The current rate of exchange between euro and sterling has conferred a competitive advantage on UK lamb in EU markets that is maintained through 2018, no further depreciation of sterling is forecast that would further weaken EU price levels.

Irish sheep throughput is slightly higher for the first half (H1) of 2018 as compared with H1 2017. A small decrease in the supply of lambs (-3%) has been offset by increased ewe slaughter, which for the year to date is more than 20% higher than for the same period in 2017. For the year as a whole, Irish sheep meat production and ewe disposals are forecast to be slightly higher in 2018 than in 2017.

Direct costs of production on Irish sheep farms are dominated by concentrate and pasture and forage costs. In 2018, the shortage of forage will be the main driver for increased input expenditure. Increased sheep feed sales in Q1 2018 (+19%) have been reported by DAFM, consistent with the consequential effects of the prolonged winter and exceptional snowfall at end of February. We have forecast an increase in concentrate feed usage over the year as a whole of 15% with increased feed purchases in Q1 followed by somewhat

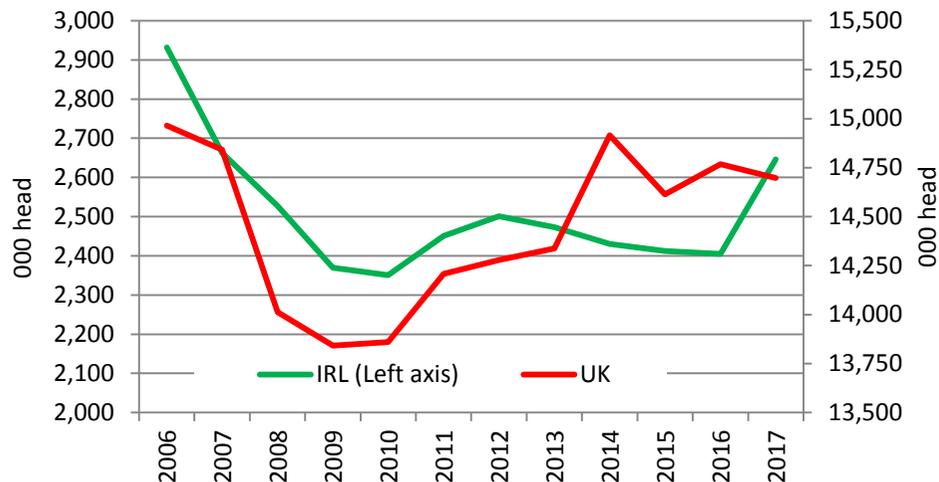
higher feed purchases in Q2 on farms where the summer drought has affected grass availability. Owing to substantially higher input prices, total costs of production per hectare are expected to be increase in 2018 by approximately 12%.

For the year to date, Irish lamb prices have averaged over 10% higher than in 2017 (see Figure 27). Despite the seasonal reduction in lamb prices now currently underway, our forecast is that average prices for the year as a whole will remain higher than in 2017. Irish lamb prices converged on 2017 levels during the month of June. EU supply and use fundamentals do not suggest any significant change in price over and above levels in 2017. Overall our forecast is for 2018 Irish lamb prices to be over 4% higher than in 2017 for the year as a whole.

With rising costs largely offsetting higher output prices, our forecast is for relatively stable gross margins per hectare on the mid-season lowland lamb enterprise. Gross margins per hectare on the mid-season lowland lamb enterprise in 2018 are forecast to be approximately 1% lower than those earned in 2017 (see Figure 28). With largely unchanged direct payment receipts and somewhat higher overhead costs of production, net margins earned on the mid-season lowland enterprise are forecast to decline by circa 8% on 2017 levels.

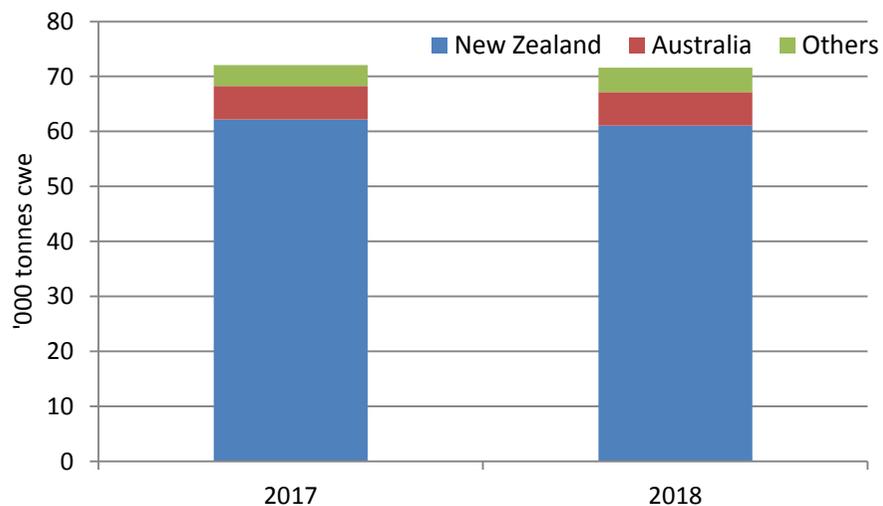
## Sheep Market

Figure 25: UK and Irish Ewe Inventories (December) 2006-2017



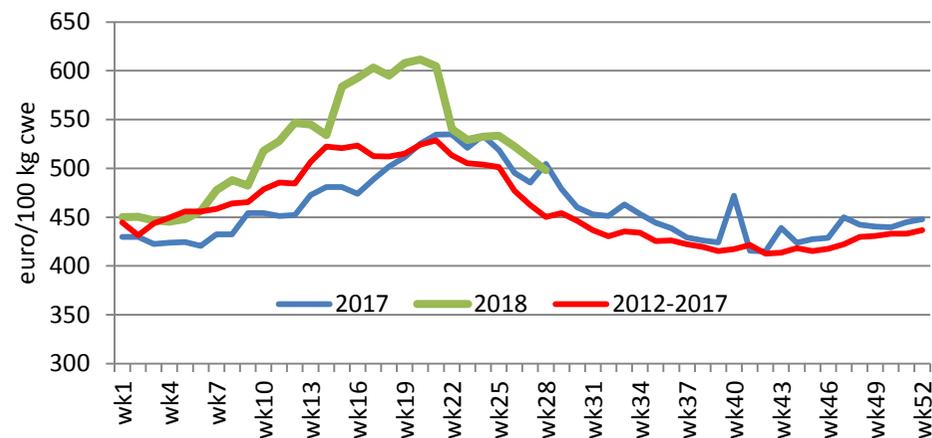
Source: Eurostat

Figure 26: EU28 Sheep meat imports (January – April) 2017 and 2018



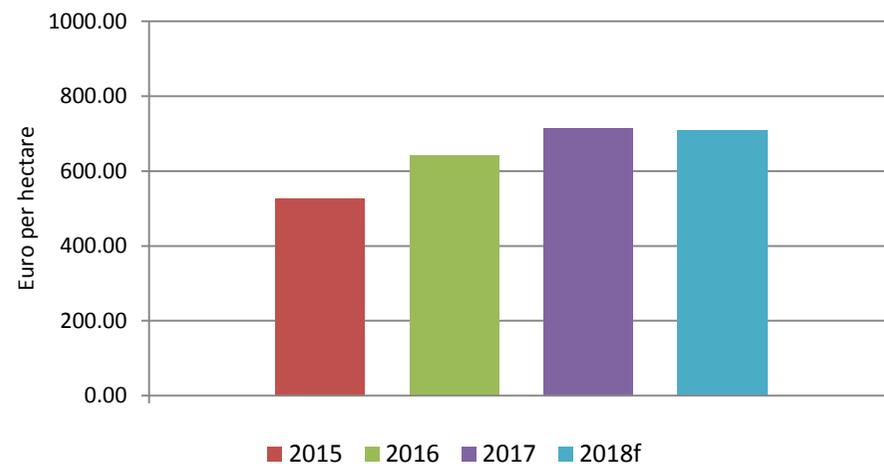
Source: DG Agriculture and Rural Development

Figure 27: Weekly Irish Lamb Prices 2018, 2017 and average 2012-2017



Source: DG Agriculture and Rural Development

Figure 28: Mid-Season Lowland Lamb Gross Margin per hectare 2015-2017 and Forecast for 2018



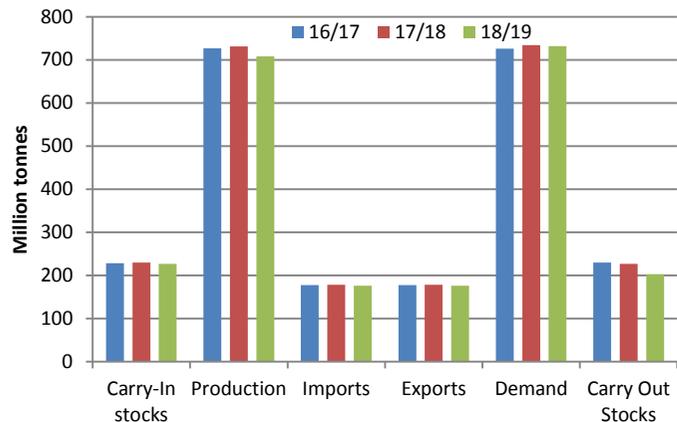
Source: Teagasc NFS 2015-2017 and Author forecast for 2018.

## Tillage Market

Wheat Market		Barley Market		Prices		Production		Input Costs		Farm Income	
Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook	Situation	Outlook
 Positive	 Positive	 Positive	 Positive	 Positive	 ?	 Negative	 ?	 Negative	 Negative	 Negative	 ?
<ul style="list-style-type: none"> <li>EU wheat production in 2018/2019 is expected to be about 132.4 Mt, with a 9.4 Mt year-on-year harvest reduction.</li> <li>Wheat use in animal feeds in 2018/19 is estimated at 50.7 Mt, down 4.3 Mt year-on-year, with demand currently reallocated to maize and soymeal.</li> <li>World wheat production in 2018/19 is expected to be 708.5Mt, down 23 Mt on 2017/18.</li> <li>Demand is set to decrease, by 2 Mt on the 2017/18 level.</li> <li>World ending stocks are expected to be down by 3.5 Mt in 2018/19 compared to 2017/18.</li> </ul>	<ul style="list-style-type: none"> <li>Aggregate EU barley production is set to increase by about 2% compared to 2017.</li> <li>World barley supply is forecast at 145.4 Mt which is 1.6 Mt more than in 2017/18.</li> <li>World demand is expected to be lower this year, standing at 146.7 Mt, due to lower animal feed demand.</li> <li>World ending stocks are forecast to be approx. 20 Mt in 2018/19, down from 21.4 Mt in 2017/18, due to a large reduction in beginning stocks.</li> <li>The stock to use ratio of world barley is projected to be 13.7%.</li> </ul>	<ul style="list-style-type: none"> <li>With a decrease forecast in ending stocks for wheat and barley, all signals at present indicate an increase in harvest price in 2018 relative to 2017.</li> <li>July MATIFF futures are indicating at least a 10% increase in harvest prices in 2018 over 2017 levels, with on account green harvest prices quoted 20% higher than 2017.</li> <li>Demand for straw appears exceptionally strong, with quoted prices up 100 % on 2017.</li> <li>Particular unknowns for the latter part of the year include: exchange rate influences, demand interactions between commodities (e.g. maize and wheat) and international production potential.</li> </ul>	<ul style="list-style-type: none"> <li>Data show that all Irish cereal crops, except spring barely decreased in area in 2018.</li> <li>It is too early to accurately forecast Irish yields for 2018, but early indications are that all cereal crop yields will be lower than in 2017. Spring crops are particularly hard hit by recent drought conditions.</li> <li>Early harvests of winter barely indicate that yield per hectare is down about 3% compared to 2017.</li> <li>First estimates of total Irish cereal tonnage are down 27% on 2017 levels.</li> </ul>	<ul style="list-style-type: none"> <li>In 2018 there has been a slight increase in the majority of direct cost items. Fertiliser prices are estimated to have increased by about 4%, seed prices by 2%, and fuel prices by 6%.</li> <li>Slightly higher energy prices should lead to increased overhead costs.</li> <li>Anecdotal evidence suggests that land rental prices have increased, but this is counterbalanced by a decline in total cereal area.</li> <li>Overall, it is estimated that total costs on the average tillage farm in 2018 will be about 6% higher than in 2017.</li> </ul>	<ul style="list-style-type: none"> <li>With higher output prices for cereals and straw, coupled with lower yields for the main cereal crops, Irish cereal output value is forecast to be down in 2018.</li> <li>Overall costs in 2018 are forecast to increase by about 6%.</li> <li>Average income on tillage farms in 2018 is expected to be around €30,000, which is significantly lower than 2017.</li> <li>However, much uncertainty still surrounds the full yield potential of all crops and their prices at this stage of the harvest.</li> </ul>						

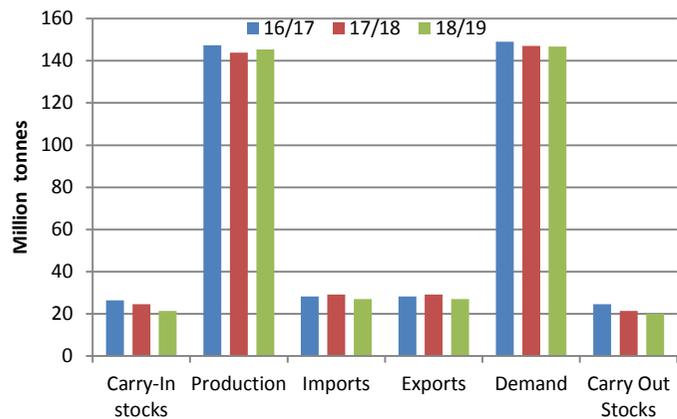
## Tillage Market

Figure 29: World Wheat Balance from Main Exporting Countries (Mt)



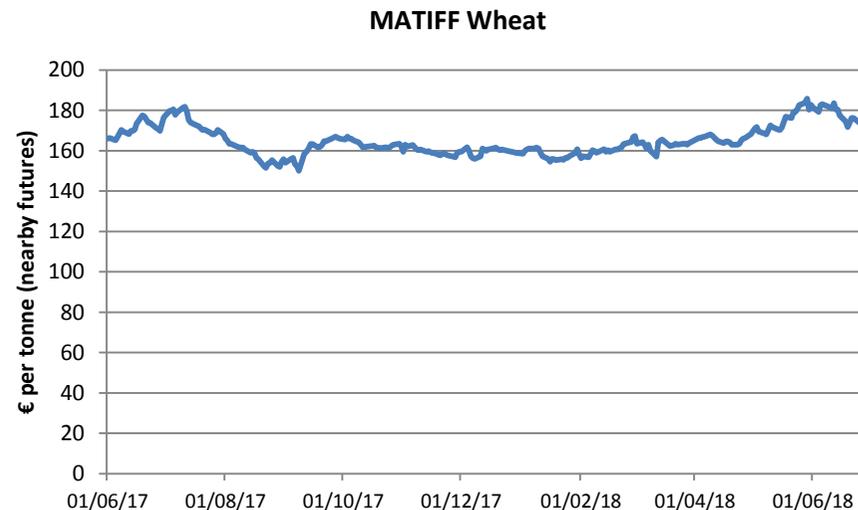
Source: Strategie Grains

Figure 30: World Barley Balance Sheet (Mt)



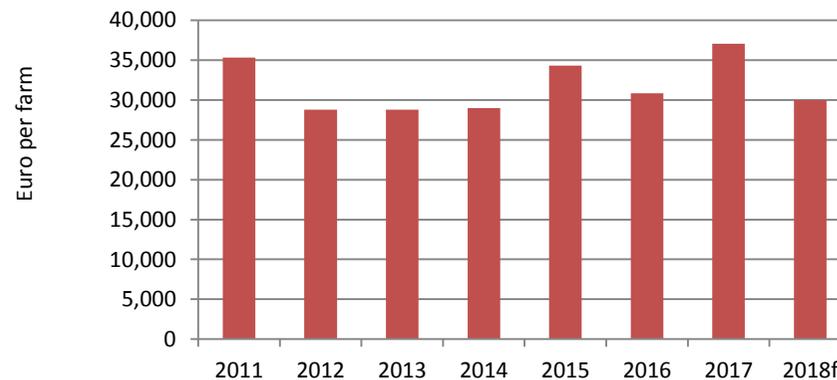
Source: Strategie Grains

Figure 31: Nearby Futures Prices – July 2017 – July 2018 (€ per tonne)



Source: HGCA

Figure 32: Average Irish Tillage Farm Income (2011-2018f)



Source: Teagasc, National Farm Survey 2011-2017 and Author forecast 2018.

