SITUATION AND OUTLOOK
For Irish Agriculture
July 2019

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Contents - Situation and Outlook for Irish Agriculture (July 2019)

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INTRODUCTION

This mid-year update is a supplement to the annual Situation and Outlook published by Teagasc in December 2018. It begins with a summary of current economic conditions, looking at the international macroeconomic picture and recent exchange rate developments. This is followed by a review of weather condition and inputs markets. The update then provides a summary of the developments that have taken place in commodity markets during the first half of 2019. 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 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 2019, and the Outlook representing the second half of 2019. 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

Positive

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

Negative

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

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.

BREXIT

At the time of writing uncertainty remains with regard to the exit process of the UK from the EU. In March 2019 the UK sought, and the EU granted, a six month extension to the UK's planned departure date under the Article 50 process. This extension ends on October 31st 2019. Ostensibly the UK sought this extension to allow more time to gain approval from the UK Parliament for a departure deal.

However, with the change of Prime Minister in the UK, the approach of the UK government towards achieving a departure agreement with the EU is even less clear. The risk of a No Deal Brexit has increased.

However, for the purposes of this Outlook, it is assumed that an orderly Brexit occurs, which does not adversely impact on agricultural commodity and farm output prices in 2019.

COMMODITY SECTOR SUMMARY

Dairy

Situation	Outlook
Positive	Positive

PRODUCTION: Global milk supply growth in H1 2019 has slowed down considerably with increases in some key dairy regions offsetting reductions elsewhere. Irish milk production for H1 2019 is up substantially compared to the same period last year. An increase in Irish milk production of around 10% in 2019 is likely.

PRICES: Irish milk prices fell slightly in Q1 of 2019, but the reduction has been limited. Lower than anticipated growth in global milk production has limited the prices drop. For the year as a whole a reduction in the Irish milk price of about 5% is envisaged.

COSTS: H1 of 2019 has been a normal production year, with no weather extremes. Feed use in 2019 will be well down on the very high 2018 level. Fertiliser use continues to increase. Feed and fertiliser prices in 2019 are higher than in 2018. Total production costs for 2019 are forecast to fall by 6% per hectare or 14% per litre on the average dairy farm.

MARGINS: Average dairy net margin in 2019 could be up 18% per litre or 28% per hectare. An average dairy farm income of about €74,000 in 2019 (+20%) is likely.

Beef

Situation	Outlook
Neutral	Positive

PRODUCTION: Irish beef production increased by 6% in H1 2019 due to rising heifer and young bull beef production. Beef production is forecast to be about 3% higher in 2019 relative to 2018.

PRICES: Finished cattle prices are forecast to be 3% lower in 2019. EU demand is forecast to decline moderately. EU and Irish prices are set to be lower in 2019, despite the decreasing EU beef supply.

COSTS: Costs of production are set to decrease in 2019. A significant reduction in feed usage is the main factor in reducing costs. Feed prices are forecast to be the same in 2019 as in 2018.

MARGINS: Output value is forecast to increase in 2019 primarily due to the Beef Exceptional Aid Measure (BEAM). Lower direct costs will help to boost margins. Excluding the exceptional aid measure, the Gross margins on Cattle Finishing farms will increase (+13%) and on Single Suckling farms (+4%). With Exceptional aid, the Gross margins on Cattle Finishing farms will increase (+37%) and Single Suckling farms (+14%).

Sheep

Situation	Outlook
Negative	Negative

PRODUCTION: Irish sheep slaughter is 6% lower in 2019 compared to 2018. Heavier slaughter weights may offset the impact of lower throughput on carcass output volume.

PRICES: Lamb prices are to date 7% lower in 2019 compared to 2018. This reflects lower prices in the EU for heavy lamb, which are forecast to persist over the remainder of 2019.

COSTS: Costs of production on Irish sheep farms are forecast to decline in 2019, due to lower expenditure on purchased feed. Increased prices for some inputs will partially mitigate the impact of lower feed use on total costs. Overall total costs of production are forecast to decline by 3% compared to 2018.

MARGINS: The forecast reduction in costs in 2019 is insufficient to offset the negative impact of lower output prices on gross margins. In 2019 gross margin per hectare is forecast to decline by 4% to €610/ha.

Tillage

Situation	Outlook
Negative	Negative

PRODUCTION: In Ireland, favourable growing conditions to mid July 2019 have meant that yields in 2019 are likely to be well ahead of 2018. Whilst it is still early days in the harvest season, first production estimates for 2019 indicate a 20% increase in total cereal tonnage compared to 2018 is likely.

PRICES: Despite weather concerns in the US, the Black Sea region and the EU, the estimates for production, demand and ending stocks for this harvest are creating downward pressure on prices. Prices quoted at present represent a 30% decrease on 2018 harvest prices.

COSTS: Production costs in 2019 are likely to be about 3% higher than in 2018.

MARGINS: The increase in cereal yields in 2019 is unlikely to be sufficient to compensate for the decrease in cereal and straw prices. Therefore output value per hectare will be reduced on the 2018 level. With costs increasing by 3%, it is estimated that average family farm income on specialist tillage farms in 2019 will be down about 20% on the 2018 level.

GLOBAL ECONOMY

MACRO ECONOMY

Global economic growth slowed slightly in 2018 to 3%. The outlook for the current year indicates a further slowdown, with economic growth expected to be weaker in major economies such as the US and Eurozone. Growth in the UK is also slowing down, with considerable Brexit uncertainty ahead.

Growth remains strong in India and growth levels appear to be stabilising in China.

The prospect of increased trade frictions between major trading areas is affecting investment activity. In response, central banks have stalled plans to raise interest rates.

Growth in the US has remained strong. US unemployment remains very low and US inflation is close to 2 %. Increased trade tensions and the imposition of tariffs have led the US Federal Reserve to slow the pace of interest rate increases.

US growth is forecast to be 2.5% in 2019, 1.7% in 2020 and 1.6% in 2021, representing a downward revision in comparison to a year ago.

The pace of growth in the Eurozone has waned over the last 12 months, largely due to reduced export activity. On a positive note Eurozone unemployment continues to fall and wage growth is strong.

Eurozone 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 2020 before Eurozone interest rates may increase. The Brexit negotiations remain a key issue in the Eurozone and the EU generally and political uncertainty in some EU member states remains a concern.

With Eurozone growth estimated to have been 1.8% in 2018, growth is forecast to slow to 1.2% in 2019, 1.4% in 2020 and 1.4% in 2021, representing a downward revision in comparison to a year ago.

The uncertainty with respect to future growth prospects in the UK continues due to the lack of a resolution to the EU/UK Brexit negotiations. With a new UK Prime Minister now in place this may signal a more hawkish approach to trade relations with the EU, that increase the risk of a No Deal Brexit.

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 some agri-food products could be trade prohibitive.

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

With UK growth estimated to have been 1.4% in 2018, growth is forecast to slow to 1.2% in 2019, 1.0% in 2020 and 2021.

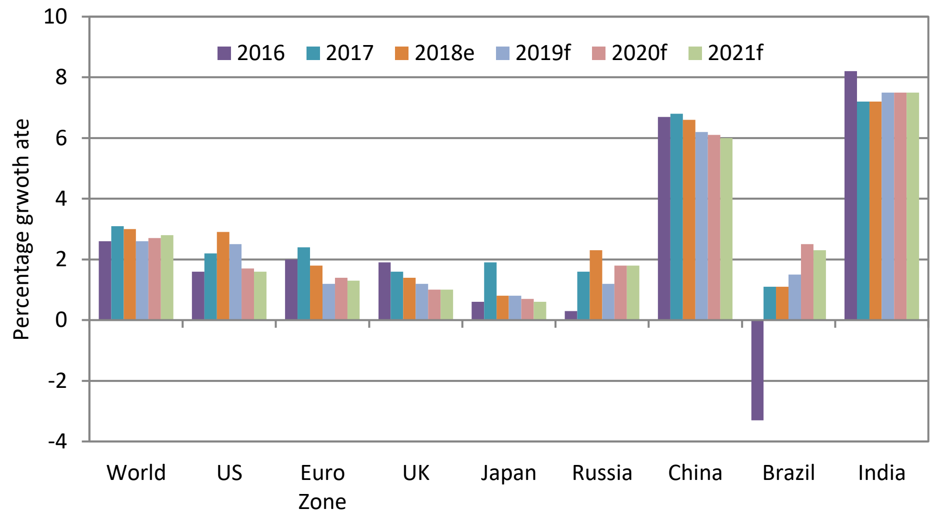
Following a period of uncertainty with respect to the slowdown in China's growth prospects, growth is set to stabilise in the coming years. Increased trade tension between the US and China are however a source for concern.

Growth in Russia in 2018 surpassed expectations, reaching 2.3%. However, short term growth projections for Russia have been revised down in part due to planned oil production cuts. Russian growth is forecast to slow to 1.2% in 2019, 1.8% in 2020 and 1.8% in 2021.

In India investment remains robust and inflation has slowed down. The Indian growth rate remains high, surpassing the growth rate of China and is expected to remain strong in the short term.

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 2016 to 2021



Source: World Bank (June 2019)

EXCHANGE RATES

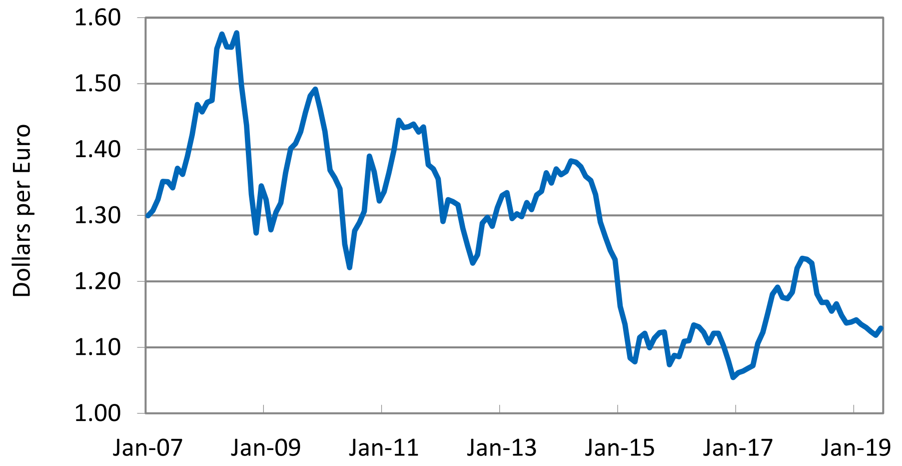
Exchange rates are important in that they impact on the price of Ireland's exports and imports. Much of Ireland's agri-food related trade is denominated in non-euro currencies.

The value of the euro against the US dollar has generally been in decline since H2 2018. Over the course of the last year the rate has moved over a range of 4 US cent. There has been some fluctuation in the exchange rate between the euro and sterling over the course of the past year, with the range about 4 pence. Sterling remains at a comparatively low rate against the euro which continues to be a source of concern for Irish exporters to the UK.

Since the outcome of the Brexit referendum in the UK in mid-2016 sterling has fluctuated over a relatively narrow range with the euro value remaining relatively high at approximately 89p. The continuing Brexit related weakness of sterling is a negative for Irish agri-food exports, making them less competitive on the UK market. The general weakness of sterling reflects uncertainty about the future economic growth prospects of the UK due to Brexit. At present, an extension period to October 31st has been set to agree withdrawal arrangements, however at this point in time the possibility of a no deal remains. In addition to uncertainty around exchange rate movements this would pose further challenges for exporters in the form of tariff and non-tariff barriers.

Forecast economic growth within the Eurozone is currently uncertain, particularly in the context of Brexit and US trade tensions. Conversely, inflation remains low and unemployment is at its lowest in twenty years (6.3% EU-28).

Figure 2: Euro/Dollar Exchange Rate 2007 -2019



Source: European Central Bank

Figure 3: Euro/Sterling Exchange Rate 2007 -2019

Source: European Central Bank

WEATHER CONDITIONS

WEATHER CONDITIONS

Weather conditions, and as a result grass growth, returned to normal in 2019, following very challenging circumstances in 2018. Although the farm-level impact of these severe weather conditions was broadly felt, the relative effect was farm specific and varied across regions and systems. In general, improved conditions later in 2018 led to a good recovery in grass growth and a replenishing of fodder stocks for winter 2018 and spring 2019. Relatively benign weather conditions during those periods were also beneficial, with animals being housed for a shorter period.

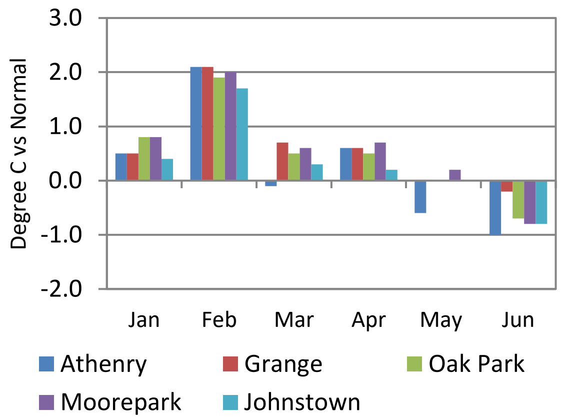
Figure 4 provides a summary of deviations in air temperature to date this year compared to normal levels. In stark contrast to the previous year average air temperatures were up across the country in February and March 2019 in particular. On the other hand, temperatures in June were generally cooler and well below those experienced during the same period last year, where near drought conditions were beginning in some areas.

Figure 5, illustrates cumulative spring rainfall amounts across a number of Teagasc locations during 2019 to date. The data indicate that rainfall levels were generally above normal in March with levels somewhat higher in the South during April. In contrast to last year, rainfall levels in June 2019 were broadly in line with normal.

The return to more normal weather conditions in 2019 is reflected in the grass growth data from Pasture Base Ireland which is contained in Figure 6. Year-on-year grass growth has increased on average in 2019. That said it lagged somewhat below 2017 over the spring (due primarily to increased rainfall). Likewise, the average figures for May 2019 are lower than those over the same month last year when above average air temperatures were experienced. Conversely, a recovery in grass growth during June and July is evident compared to the much discussed collapse over the same period last year.

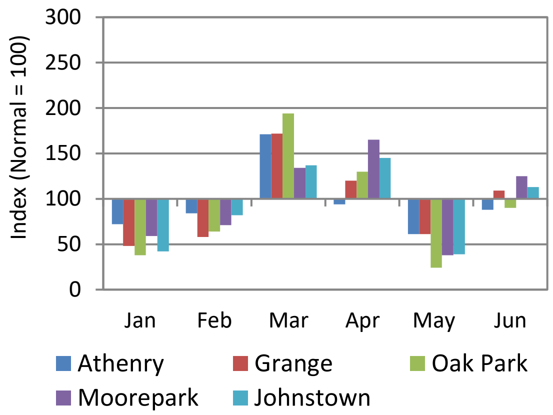
Note: Normal weather is defined as the 30 year average from 1981 to 2010.

Figure 4: Jan. to June 2019 Mean Temperature Relative to Normal (1981-2010)



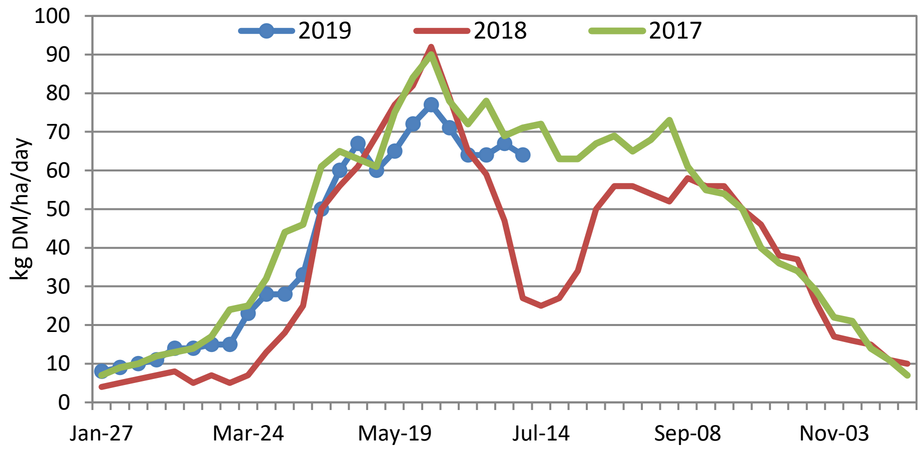
Source: Met Eireann

Figure 5: Jan. to June 2019 Rainfall Relative to Normal (1981-2010)



Source: Met Eireann

Figure 6: Irish Grass Growth 2017, 2018 and 2019



Source: Teagasc Pasture Base Ireland

FARM INPUTS

INPUT MARKET SUMMARY

Feed

Situation	Outlook
Positive	Positive

- Improved weather conditions experienced during winter 2018 and spring 2019 resulted in a reduction in concentrate feed use on livestock farms.
- In addition, grass growth conditions generally returned to normal during H1 2019.
- More benign weather conditions have resulted in a substantial decrease in aggregate beef feed use in H1 2019 and this is expected to persist over the full year, given that good production conditions prevail.
- Feed usage on dairy farms has also decreased significantly in H1 2019, due to more favourable weather conditions than in H1 2018. Average feed use per cow over the year will be well down on 2018 levels.
- Feed prices during H1 2019 have risen compared to the same period last year, but are expected to decline in the second half of the year for a number of reasons. Firstly, an increase in the use of feed barley from store is envisaged, this has heretofore in 2019 been challenged by competitively priced imported maize. Secondly, an improved Irish harvest is expected in 2019 in contrast to a forecasted reduction in the global maize harvest.
- Averaging across the full year it is likely that feed prices in 2019 will be unchanged on the 2018 level.

Fertiliser

Situation	Outlook
Negative	Negative

- Fertiliser prices remained high in 2019 having increased steadily in 2018.
- Price data for Q1 2019 is the most up-to-date available and these indicate a marginal decline in recent months. That said, prices remain approximately 7% above those for the same period last year.
- Fertiliser prices are influenced by energy price movements. Oil prices remain high in 2019, although natural gas prices have been in decline over the past year.
- Overall, fertiliser prices are expected to remain above 2018 levels for the remainder of 2019.
- The available data indicates that fertiliser sales in Ireland for the first six months of the 2018/19 fertiliser year are above the same period in the previous year.
- This increase in fertiliser use reflects more favourable weather for application, higher stocking rates, reduced feed usage and strong growth in milk yields. 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.

Energy

Situation	Outlook
Negative	Negative

- 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 continued to fluctuate in 2019 against the backdrop of global supply tensions. Currency movements have also impacted somewhat on international demand.
- Conversely, natural gas prices have declined dramatically in recent months. The reasons are mainly two-fold; with increased European importation of liquid natural gas (LNG) and a general move away from fossil fuels.
- Irish fuel and electricity prices have continued to increase slowly in H1 2019 after some fluctuation in 2018.
- Given continued uncertainty around oil price movements, making a forecast for the rest of the year is difficult. If political tensions ease then energy related costs on farms should remain stable for the rest of the year.

FEED MARKET

A feature of 2018 was the dramatic increase in ruminant feed use resulting from adverse weather conditions in the spring and summer.

Based on DAFM and CSO data, average dairy feed use per head in 2018 is estimated to have been about 1,380 kg per cow in 2018, an increase of 34% on the previous year. Beef feed usage per head in 2018 was up about 22% on the 2017 year, while sheep feed use increased by the same extent.

Given that these increases in feed use were driven by exceptional weather events, a reduction in the volume of ruminant feed use in 2019 is expected.

As of July 2019, 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 2019 was down just 6% on the same period in 2018, suggesting that there was a residual effect of 2018's adverse weather which spilled over into 2019.

However, 2019 has so far been quite a good year for grass production and therefore is it expected that for Q2 through to Q4 of 2019 feed use will have reverted to normal levels.

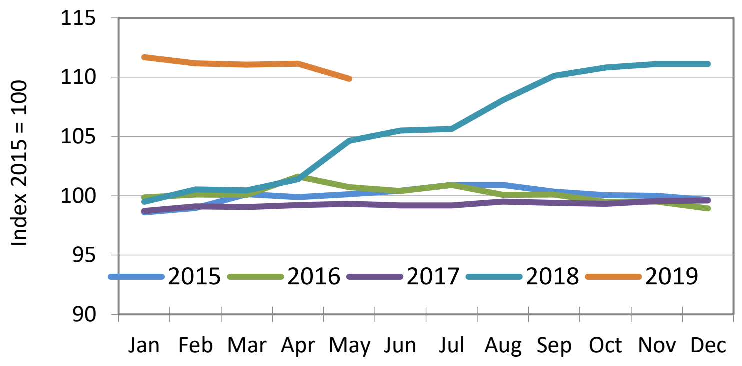
Aggregate beef feed sales decreased in Q1 of 2019 by 11% relative to the same period in 2018, with this decrease reflecting the milder winter and spring in 2018/19 compared with the previous year. For the year as a whole it is estimated that beef feed use will revert to normal levels. Similarly sheep feed use should revert to normal levels for 2019.

Overall, given the growth in the dairy cow herd, early indications are that aggregate dairy feed use will decrease by close to 25% over the full year, whereas feed use per head in 2019 will fall by close to 20% in volume terms.

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 increase in 2019 by 5%. However, a 3% reduction in the global maize harvest is expected. Overall this suggests that there will be a decrease in cereal prices on the Irish market at harvest 2019 relative to 2018. At present in mid July 2019, a 30% decrease in farm gate cereal prices for the 2019 harvest is expected.

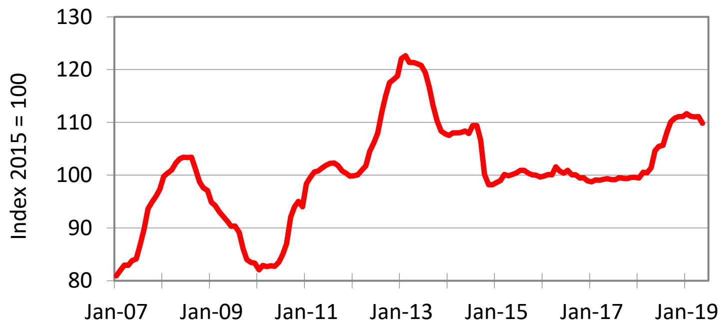
As shown in Figure 7 and Figure 8, feed prices have moved upwards in H2 of 2018 and have remained at higher levels in H1 2019. This increase reflects the increase in cereal harvest prices in 2018. Feed prices are likely to drop back later in the year, with an expectation of a fall in price for the 2019 cereal harvest. Averaging across the full year it is likely that feed prices in 2019 will be unchanged on the 2018 level.

Figure 7: Index of Monthly Irish Feed Prices 2015-2019



Source: Central Statistics Office

Figure 8: Longer Term Index of Monthly Irish Feed Prices 2007-2019



Source: Central Statistics Office

FERTILISER MARKET

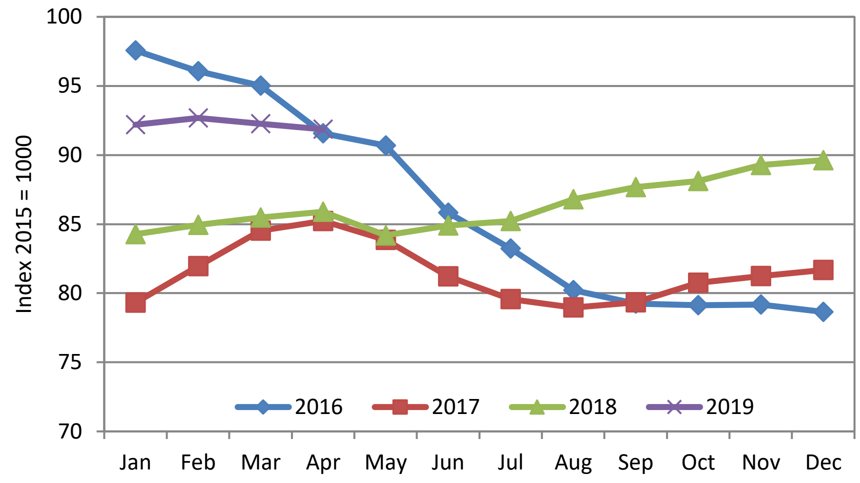
Energy prices increased substantially during the course of 2018 after a number of years at relatively low levels. As a result fertiliser prices increased steadily, particularly during H2 2018. This is reflected in Figure 9 which contains official monthly price data from the CSO. This upward movement in prices continued to February 2019, with a marginal decline evident since then. It is anticipated that 2019 prices will on average continue to remain above those in 2018.

In terms of fertiliser sales in Ireland, the available official data covers the first six months of the fertiliser year (Oct 2018 – Mar 2019). For this six month period Figure 10 shows a 7% increase in nitrogen sales, despite higher prices. Sales of phosphorous and potassium increased by a larger magnitude, up 13% and 16% respectively compared to the same period in 2017/18. This can in part be explained by the unfavourable weather experienced during much of 2018 where conditions were not conducive to the application of fertiliser on grassland.

Improved weather conditions in H2 2018 and the need to increase fodder stocks, led to an increase in fertiliser usage on farms which has continued during H1 2019 with weather reverting to a more normal pattern. While it is difficult to be certain, it is anticipated these elevated fertiliser usage levels will persist through the rest of the current fertiliser year.

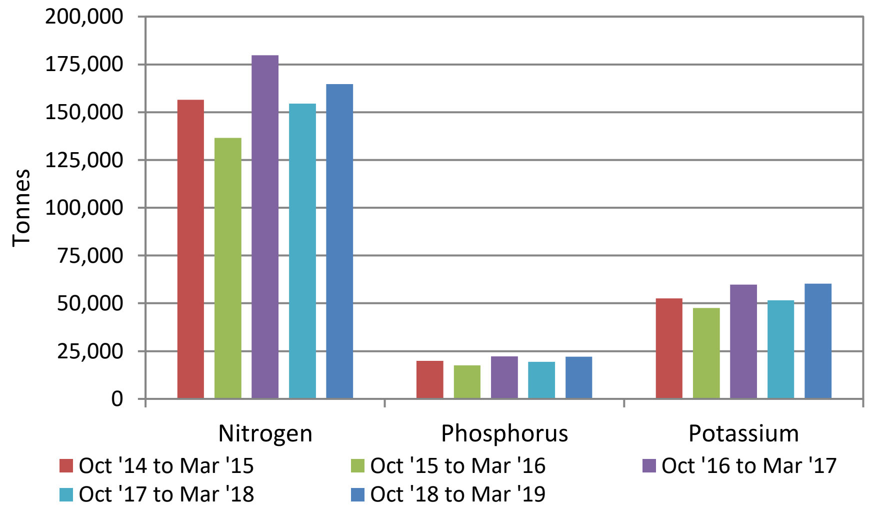
Fertiliser usage associated with cereal production tends to be more predictable from year to year than that experienced on grassland farms. On cereal farms any changes in fertiliser volume will tend to be associated with any shift in the total crop area sown. i.e. shifts in cropping pattern between winter and spring sown crops and nutrient off takes from the previous year yields. Hence, for the 2019 harvest, it is expected that fertiliser volume on cereal farms will be up due to a slight increase in cereal area and an increase in winter sown crops.

Figure 9: Index of Monthly Irish Fertiliser Prices 2016-2019



Source: Central Statistics Office

Figure 10: Irish Fertiliser Sales in first 6 months of fertiliser year 2014-2019



Source: DAFM

ENERGY MARKETS

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.

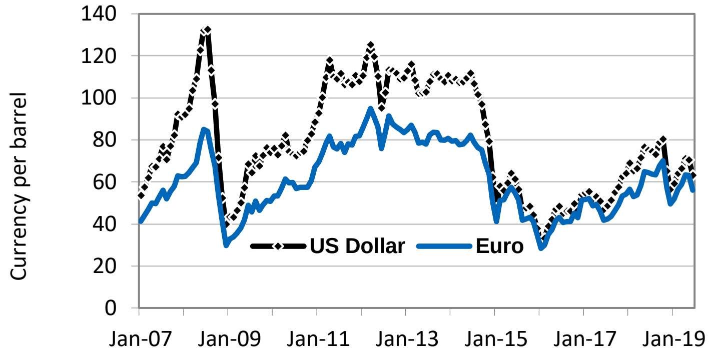
Oil prices rose considerably through 2016, 2017 and through the first half of 2019 as OPEC and Russia maintained an agreement that imposed more control over global oil supplies. US sanctions on oil exports from Iran also contributed to the rise in oil prices. Crude oil is generally traded in US dollars and the strength of the currency over the last 12 months has tended to have a depressing effect on demand.

Most recently political tensions in the Strait of Hormuz, a potential bottleneck in the oil supply chain from the Middle East, have led to some upward movement in crude oil prices. Iran has threatened to block oil movements through the Strait if its oil exports are stopped.

The monthly average Brent crude oil price reached almost \$80 in September 2018, as illustrated in Figure 11. However, prices declined sharply in the period to December 2018, to a little over \$56. In the period January to June 2019 Brent crude oil prices have cycled over a range of \$60 to \$70 per barrel. The volatility in oil prices in recent months is in large part as a response to supply side factors (strong US and Russian production and uncertainty about supplies from the Middle East) rather than underlying economic factors affecting demand.

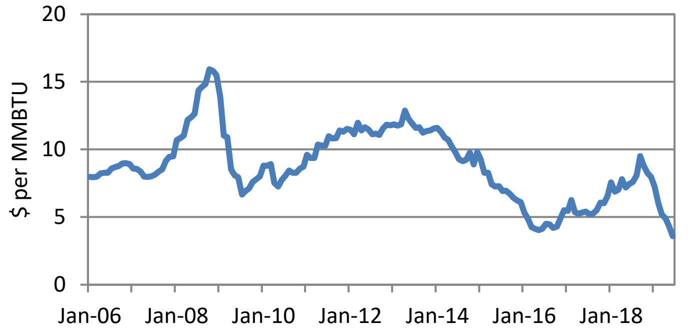
European natural gas prices have moved down sharply in recent months, reaching their lowest level since June 2016. Increasing global liquid natural gas (LNG) supplies have facilitated considerable imports of LNG into Europe, pushing European natural gas prices downward. The fall in prices also reflects a growing trend away from fossil fuels and towards greener energy sources.

Figure 11: Brent Oil Prices in Euro and US Dollar Terms 2007 -2019



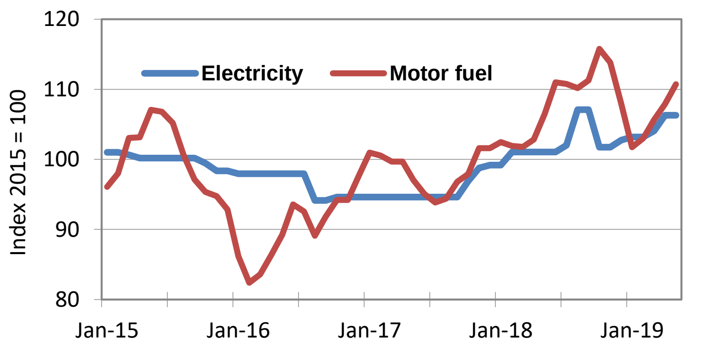
Source: Adapted from the St Louis Fed

Figure 12: European Natural Gas Average Import Price 2006 2019



Source: World Bank

Figure 13: Index of monthly fuel and electricity prices



Source: CSO

DAIRY

DAIRY

Global Supply

Situation	Outlook
Neutral	Neutral

- Global milk production growth has slowed considerably in 2019.
- Falling milk production in some key milk regions is offsetting production growth elsewhere.
- In 2019, milk production has contracted sharply in Australia and Argentina due to adverse weather.
- Milk production in NZ is also down slightly, due to difficult weather in Q1 2019.
- US milk production is static and there is modest growth in the EU, where production is expected to increase by less than 1% in 2019.

Global Demand

Situation	Outlook
Neutral	Neutral

- International dairy product demand is stronger for some dairy products than for others.
- Butter demand has weakened considerably amid concerns that the market is oversupplied. This has led to the lowest butter prices since 2016.
- Demand for SMP has improved, and EU exports have grown. This is reflected in a steady increase in prices.
- Demand for cheddar has remained relatively stable, but Brexit stock piling has affected the pattern of imports in to the UK.
- Chinese imports of powders for H1 2019 are up significantly relative to H1 2018.

Milk Prices

Situation	Outlook
Negative	Neutral

- European wholesale dairy prices have had a mixed performance in 2019.
- Butter prices, while still elevated, have dropped below €4,000 / tonne, while SMP prices continue to rise, passing €2,000/ tonne, as the surplus of product in intervention has cleared. Cheddar prices have moved over a fairly narrow range.
- Monthly Irish farm milk prices in 2019 have been lower than in spring and summer 2018. The price has held at around 32 cent per litre for national average fat and protein constituents.
- Short term milk price prospects are mixed, with a run of negative GDT results in Q 2 of 2019.

Irish Production

Situation	Outlook
Positive	Positive

- Favourable production conditions meant that in H1 2019 Irish milk deliveries were up over 10% on H1 2018.
- The growth in Irish dairy cow numbers has slowed, relative to recent years, with an increase of less than 2% likely in 2019.
- Given that grass availability is much better than in 2018, milk yields have increased and are likely to be up by about 8% in 2019.
- Milk fat levels in 2019 should be on a par with 2018, while protein should show an increase.
- Milk production in 2019 is likely to be about 10% up on the 2018 level, assuming normal production conditions over H2 of 2019.

Input Cost

Situation	Outlook
Positive	Positive

- Feed prices in H1 of 2019 have been 10% higher than in H1 2018.
- However, with lower harvest prices expected, feed prices for the full year could be unchanged on the 2018 level.
- Dairy feed sales in Q1 2019 have dropped substantially relative to 2018. Overall, feed use in 2019 should revert to normal, representing a drop of over 25%.
- Energy prices in 2019 have been marginally higher than in 2018, while fertiliser prices have been about 7% higher.
- Fertiliser sales are up 8% in the first half of the fertiliser year.
- Total production costs per litre in 2019 could drop almost 4 cent per litre, mainly due to lower feed use.

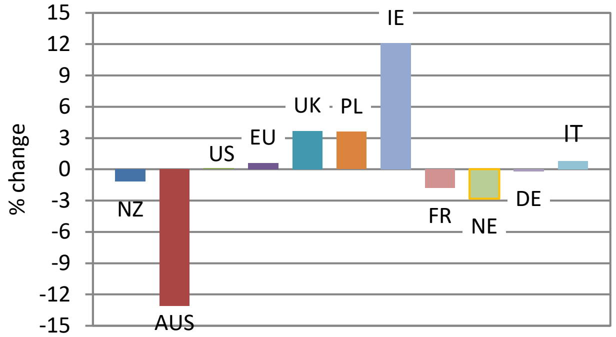
Irish Farm Income

Situation	Outlook
Positive	Positive

- Average net margin in 2019 is likely to be about 11 cent per litre, but will depend on grass growing conditions in H2.
- Significant savings on feed and forage expenditure relative to 2018 will be the main driver of improved profitability.
- The current forecast is that the average Irish dairy farm could see a net margin increase of 28% per hectare in 2019 to €1,449.
- Early indications are that average dairy farm income is likely to be in around €74,000 in 2019 an increase of 20%.

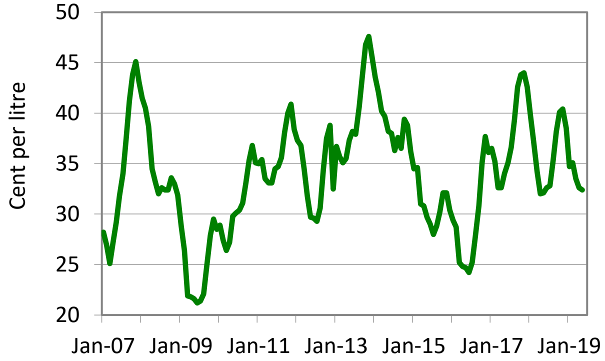
DAIRY

Figure 14: %age Change in Milk Production Jan- Apr 2019



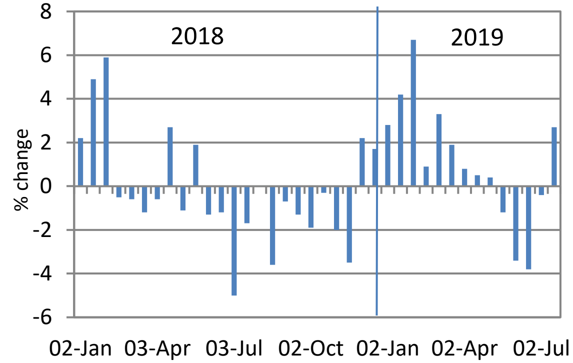
Source: Eurostat, USDA, Dairy Australia, DCANZ

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



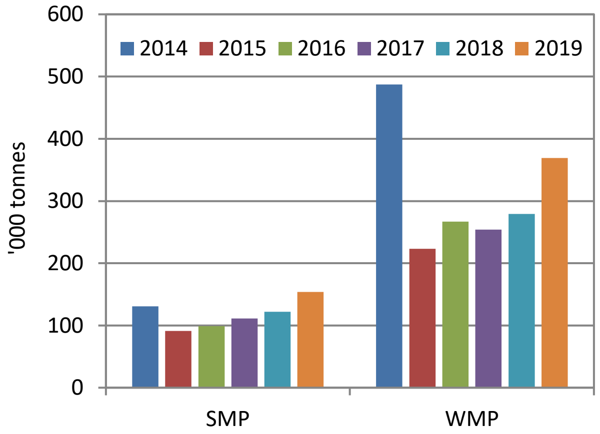
Source: CSO

Figure 16: GDT Auction Index Month on Month Price Movements in 2018 and 2019



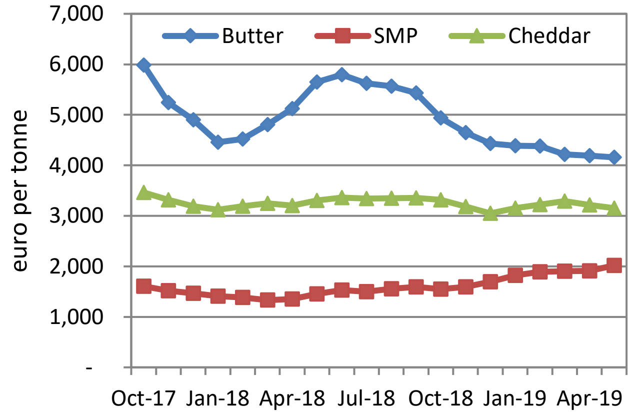
Source: GDT

Figure 17: Chinese Powder Imports Jan-May 2014-2019



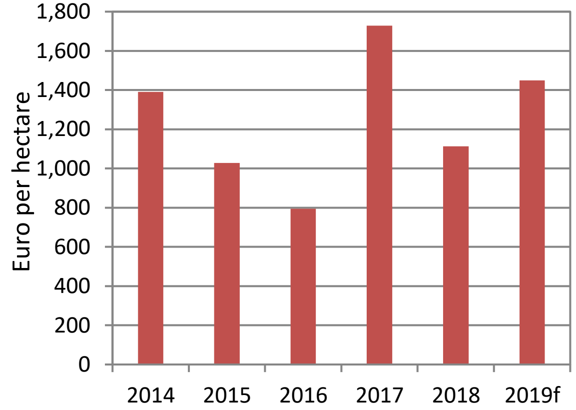
Source: US Dairy Export Council

Figure 18: EU Wholesale Dairy Product Prices Oct 2017 to May 2019



Source: DG Agri

Figure 19: Dairy Net Margin per hectare 2014 to 2018 and Forecast for 2019



Source: Teagasc NFS 2014-2018, 2019 Author forecast.

BEEF

BEEF

EU Supply

Situation	Outlook
Positive	Positive

- EU beef production in the first three months of 2019 has decreased by 1.3% relative to the same period in 2018.
- The decrease in production in 2019 is due to the smaller breeding herd and lower numbers of store cattle in major EU countries.
- For 2019 as a whole, EU production is forecast to decrease by 1.1%.
- EU beef imports are forecast to decrease by 2% in 2019 and EU beef exports are forecast to increase by 15% in 2019.

EU Demand

Situation	Outlook
Negative	Negative

- Moderate decline in EU demand for beef is expected in 2019 with consumption falling by 2%.
- A moderate growth in per capita incomes is limiting the per capita demand for beef in the EU.
- The Polish beef scandal is contributing towards a reduction in overall beef consumption.
- The outlook for EU exports of beef and offals is positive.
- Live exports are forecast to increase and particularly to markets such as Algeria and Israel.

Beef Prices

Situation	Outlook
Negative	Negative

- Average EU cattle prices have decreased, with steer prices 4% lower and heifer prices 3% lower in H1 2019 relative to H1 2018.
- Irish finished steer and heifer prices have decreased by 6% in H1 2019 relative to H1 2018. For 2019, finished cattle prices are forecast to fall by about 3% relative to 2018.
- Young bull prices in Ireland are forecast to be 6% lower in 2019 relative to 2018.
- In H1 2019, weanling prices are down 8% on H1 2018. Over all of 2019, weanling prices are forecast to be 6% lower relative to 2018.
- Store cattle prices are forecast to decline by 2% relative to 2018.

Irish Production

Situation	Situation
Positive	Positive

- Irish beef production in H1 2019 is about 6% higher than in H1 2018.
- Modest beef production growth is forecast in H2 2019 relative to H2 2018.
- The increase in beef production in 2019 follows the recent evolution of the Irish breeding cow herd.
- For 2019 Irish beef production is forecast to increase by 3% compared to 2018, driven by the increased slaughter of animals in the first half of the year.

Input Costs

Situation	Outlook
Positive	Positive

- Direct costs of beef production are dominated by purchased feed and pasture costs.
- A significant decrease in feed demand is forecast in 2019 due to the return to relatively normal weather conditions and lower requirements for purchased feed especially for cattle finishing farms.
- For the year to date, fertiliser prices have been higher than in 2018.
- For the year as a whole, feed prices are forecast to be the same in 2019 as in 2018.

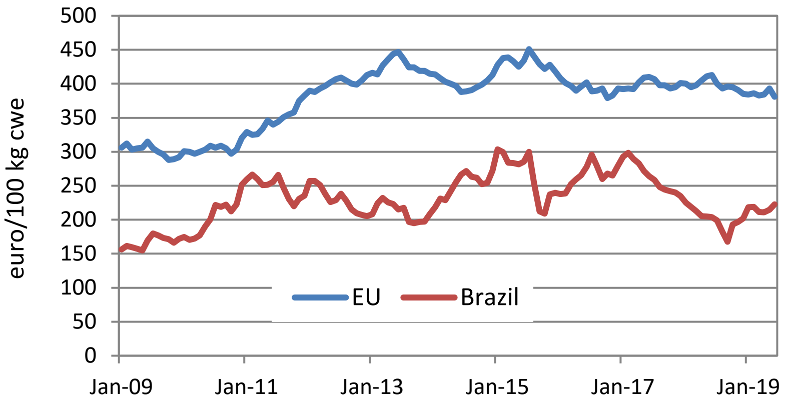
Farm Income

Situation	Outlook
Neutral	Positive

- Output value on cattle farms will increase due to exceptional aid.
- Lower finished cattle prices and young cattle prices will place downward pressure on marketed output value.
- Lower direct costs will boost margins particularly for cattle finishing farms.
- Without exceptional aid, Gross margins in 2019 on Cattle Finishing farms will increase (+13%) or (€53 per ha) and Single Suckling farms (+4%) or (€14 per ha.).
- With exceptional aid, Gross margins in 2019 increase by (+37%) or (€158 per ha) on Cattle Finishing farms and (+14%) or (€54 per ha.) on Single suckling farms.

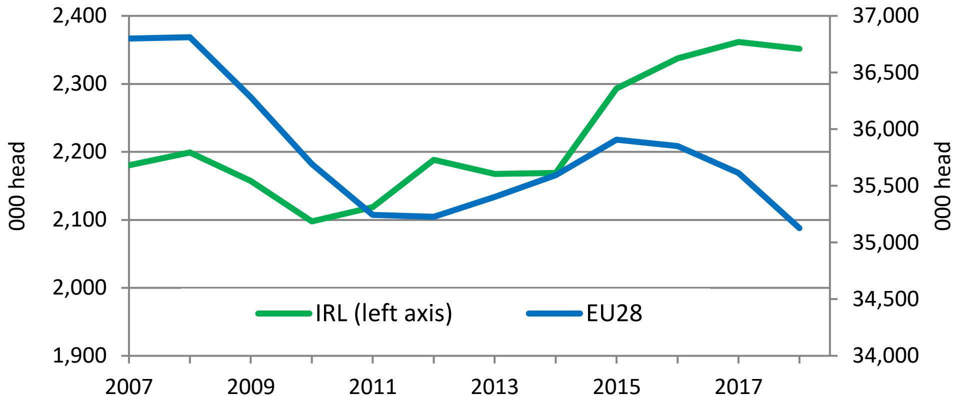
BEEF

Figure 20: Monthly EU and Brazilian Steer Prices 2009-2019



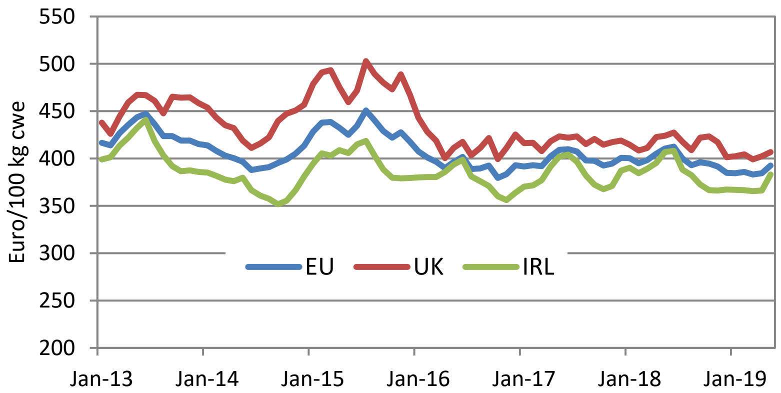
Source: DG Agriculture and Rural Development and Consorcio de Exportadores de Carnes Argentinas ABC

Figure 21: Irish and EU cow inventories (December) 2007-2018



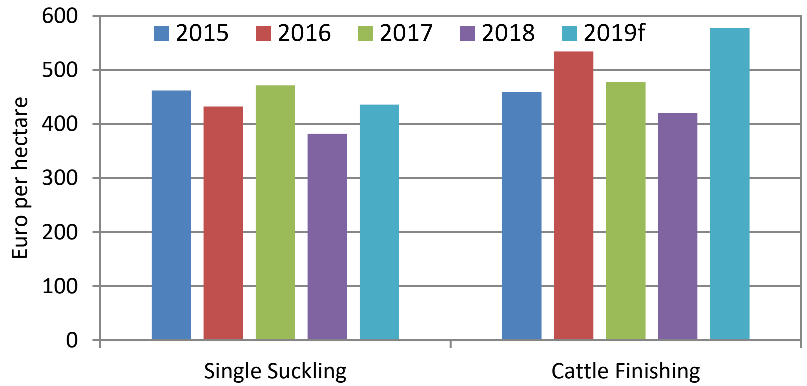
Source: Eurostat

Figure 22: Monthly EU, UK and Irish Finished Cattle Prices 2013 to 2019



Source: DG Agriculture and Rural Development

Figure 23: Single Suckling and Cattle Finishing Gross Margin per hectare 2015-2018 and Forecast for 2019



Source: Teagasc NFS 2015-2018 and Author forecast for 2019.

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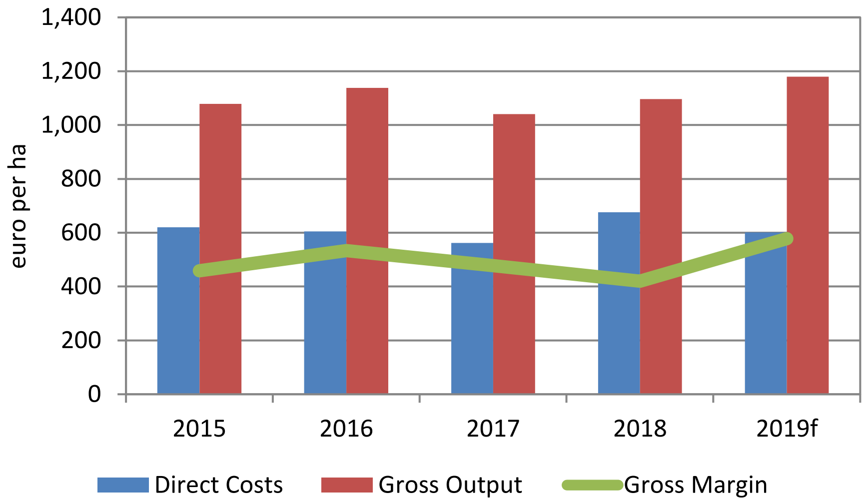
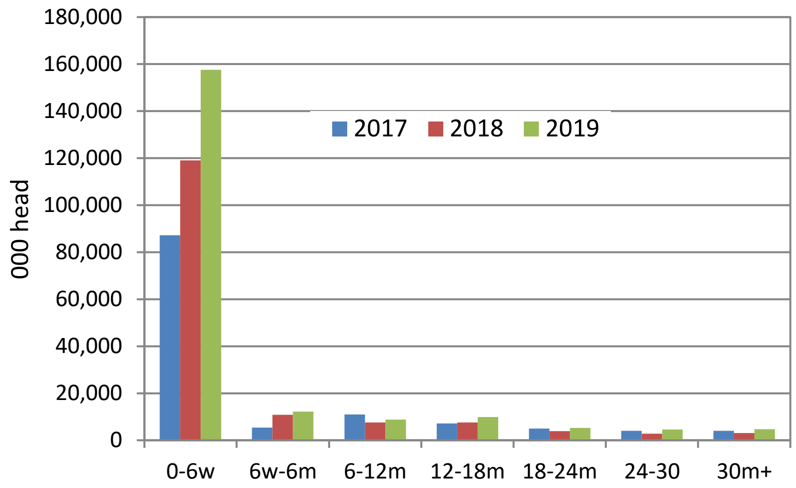
Figure 24: Cattle Finishing Gross Output, Direct Costs and Gross Margin per hectare



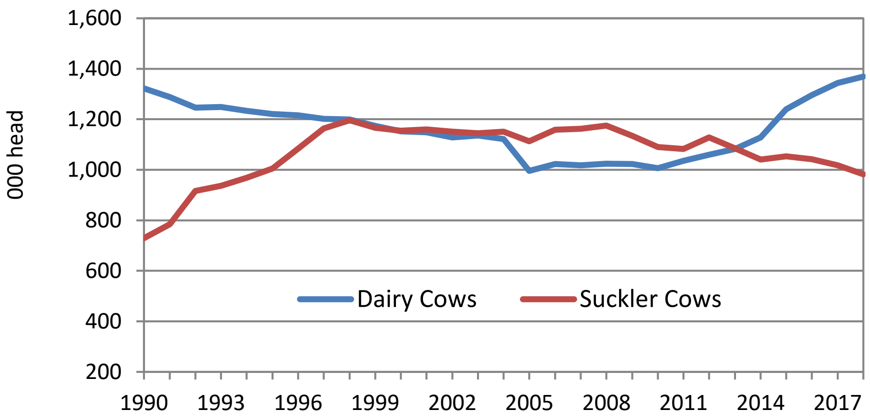
Source: Teagasc NFS

Figure 25: Irish Live Cattle Exports January – May 2017, 2018 & 2019



Source: DAFM

Figure 26: Long Term trends in Dairy and Suckler Cow Inventories (December)



Source: Eurostat

SHEEP

SHEEP

EU Supply

Situation	Outlook
Positive	Neutral

- Over the year as a whole, EU sheep meat production is forecast to marginally increase.
- Total EU slaughter is forecast to decline, due largely to higher light lamb live exports
- EU imports of lamb in 2019 are expected to be 15% lower in 2019 as compared to 2018.
- EU imports of lamb are dominated by New Zealand and Australia.
- Total New Zealand export volumes are forecast to be lower, with an increasing share now being shipped to China.

EU Demand

Situation	Outlook
Negative	Negative

- EU sheep meat consumption in 2019 is forecast to decline.
- Strong seasonal demand in the first half of 2019 is not forecast to continue over the remainder of 2019.
- Brexit is expected to negatively affect economic growth rates in the UK and this is forecast to slow the growth in per capita demand for sheep meat in the UK.
- The increase in EU per capita use of sheep meat in 2018 is expected to be reversed in 2019.
- Overall, the contraction in demand for sheep meat is expected to exceed the forecast decline in supply in 2019.

Lamb Prices

Situation	Outlook
Negative	Negative

- Heavy lamb prices in the EU for the year to date are 9.5% lower than in 2018 and are forecast to be over 10% lower for the year as a whole.
- The weaker pound sterling since the Brexit referendum continues to support the competitiveness of UK lamb exports to other EU markets.
- Irish prices for the year to date are 7% lower than in 2018, but remain close to the 5 year average price (2014-2018).
- With the seasonal reduction in lamb prices now underway, lamb prices for 2019 as a whole are forecast to average approximately 9% lower than in 2018.

Irish Production

Situation	Outlook
Positive	Positive

- For the year to date, total sheep slaughter is 6% lower than in 2018.
- The year on year decline in ewe disposals is larger than in 2018, reversing the large increase in ewe slaughter observed during 2018.
- Average slaughter weights for the year to the end of April are up by over a kilo per head due to increased hogget slaughter.
- Over the remainder of the year slaughter weights are expected to revert towards the long average, as spring lamb throughput predominates.

Input Costs

Situation	Outlook
Positive	Positive

- Direct costs of production on Irish sheep farms are dominated by concentrate, pasture and forage costs.
- Total sheep feed sales for Q1 2019 were much lower than in 2018 and the use of feed is expected to remain significantly below 2018 levels over the remainder of the year.
- Some input prices, e.g. fertiliser, are forecast to be higher in 2019.
- Overall the large decrease in feed use forecast for 2019 is expected to lead to a 3% reduction in costs of production.

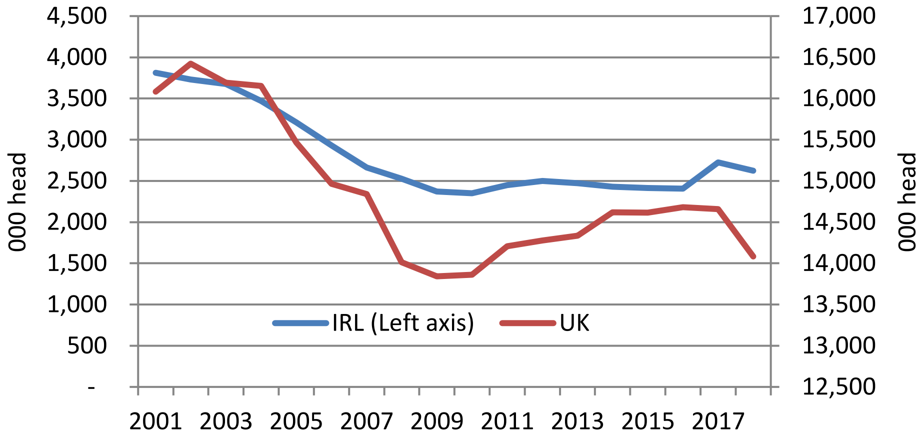
Farm Income

Situation	Outlook
Negative	Negative

- Margins earned from sheep production in 2019 are forecast to decline compared to 2018, due mainly to lower sheep and lamb prices.
- Although direct costs of production on Irish sheep farms are expected to be lower in 2019, the reduction in costs is not sufficient to offset the forecast decline in gross output value.
- In 2019 the net margin from mid-season lowland lamb production is forecast to decrease by 26% to €86/ha.
- The average gross margin per hectare is forecast to decline by 4% to €610/ha.

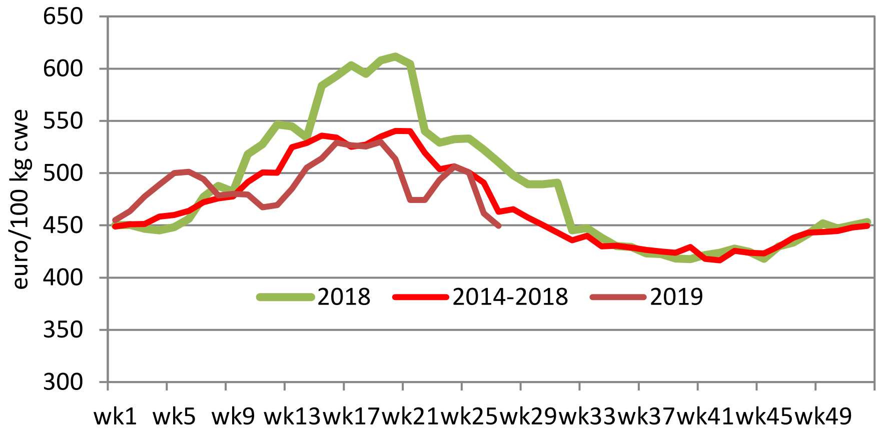
SHEEP

Figure 27: UK and Irish Ewe Inventories (December) 2001-2018



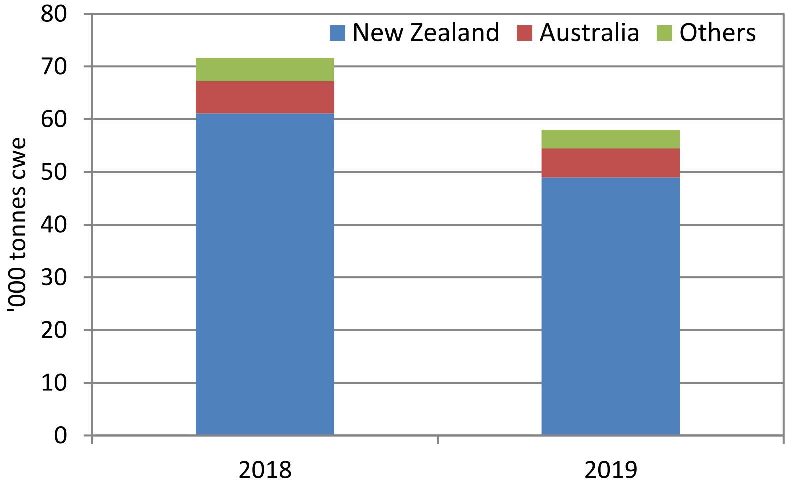
Source: Eurostat

Figure 28: Weekly Irish Lamb Prices 2019, 2018 and average 2014-2018



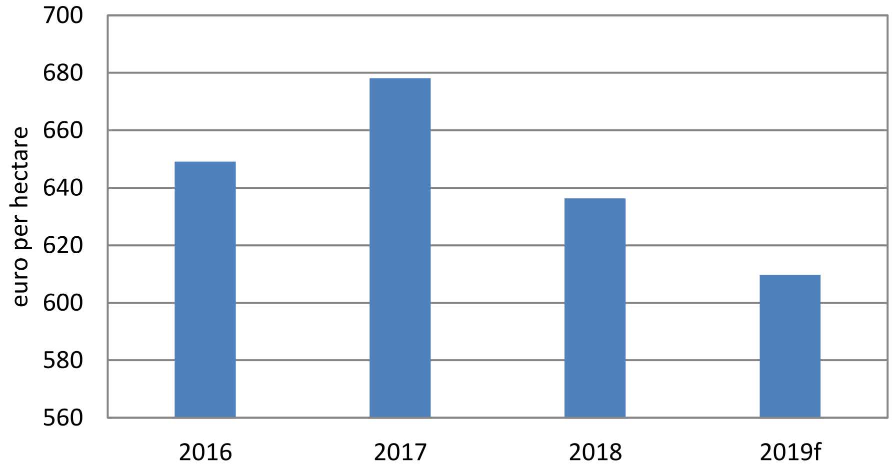
Source: DG Agriculture and Rural Development

Figure 29: EU28 Sheep meat imports (January – April) 2018 and 2019



Source: DG Agriculture and Rural Development

Figure 30: Mid-Season Lowland Lamb Gross Margin per hectare 2016-2018 & Forecast 2019



Source: Teagasc NFS 2016-2018 and Author forecast for 2019

TILLAGE

TILLAGE

Wheat Market

Situation	Outlook
Negative	Negative

- EU wheat production in 2019/2020 is expected to be about 140.6 Mt, with a 13.5 Mt year-on-year harvest reduction.
- World wheat production in 2019/20 is expected to be 738.5 Mt, up 36.7 Mt on 2018/19.
- World wheat use in the marketing year 2019/20 is expected to rebound, compared to the 2018/19, assuming wheat remains competitively priced.
- World demand is set to increase, by 18.8 Mt on the 2018/19 level.
- World ending stocks are expected to be up by 1.3 Mt in 2019/20 compared to 2018/19.

Barley Market

Situation	Outlook
Negative	Negative

- Aggregate EU barley production is set to increase by about 6% compared to 2018.
- World barley supply is forecast at 147.7 Mt, which is 6 % higher than in 2018/19.
- Similar to the wheat story, world demand is expected to be higher this year, due to a reallocation from maize last year, with this year's demand estimated at 146.1 Mt, due to higher animal feed demand.
- World ending stocks are forecast to be approx. 23.9 Mt in 2019/20, up from 22.4 Mt in 2018/19.
- The stock to use ratio of world barley is projected to be 16.4%.

Prices

Situation	Outlook
Negative	?

- With an increase forecast in ending stocks for wheat and barley, all signals at present indicate a decrease in harvest price in 2019 relative to 2018.
- July MATIFF futures are indicating a decrease in harvest prices in 2019, with on account green harvest prices in the Irish market quoted 30% lower than 2018.
- Demand for straw appears to have been higher earlier in the season, but now in early July straw prices appear to be returning to more average levels, with the high prices of 2018 not expected to be repeated.
- Particular unknowns for later in the year include: demand interactions between commodities and international production potential.

Irish Production

Situation	Outlook
Positive	?

- Provisional data from DAFM show that all Irish cereal crops, except spring barley and spring oats, increased in area in 2019.
- Total cereal area has increased by just over 1% in 2019, the first increase in area since 2012.
- It is too early to accurately forecast Irish yields for 2019, but early indications are that cereal crop yields will be higher than in 2018. Spring barley yield in particular is expected to show significant yield improvement in 2019.
- First estimates of total Irish cereal tonnage in 2019 are up by approximately 20% on 2018 levels.

Input Costs

Situation	Outlook
Negative	Negative

- In 2019, there has been a slight increase in total direct costs, on a per hectare basis. Fertiliser prices are estimated to have increased by about 9%, seed prices by 15%, with little change in fuel, crop protection and other direct costs.
- The increase in the area of winter crops is expected to contribute to an increase in total farm direct costs.
- No change in energy prices should mean little change in overhead cost items.
- Anecdotal evidence suggests that land rental prices have increased.
- Overall, it is estimated that total costs on the average tillage farm in 2019 will be about 3% higher than in 2018.

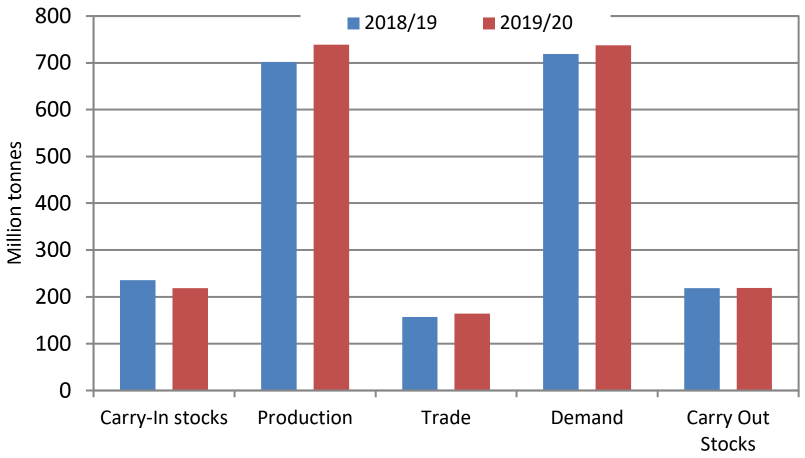
Farm Income

Situation	Outlook
Negative	?

- With lower output prices for cereals and straw, coupled with less significant increases in yields for the main cereal crops, Irish cereal output value is forecast to be down in 2019.
- Overall costs in 2019 are forecast to increase by about 3%.
- Average income on tillage farms in 2019 is expected to struggle to reach €35,000, which is about 20% lower than 2018.
- However, much uncertainty still surrounds the full yield potential of all crops and their prices at this stage of the harvest.

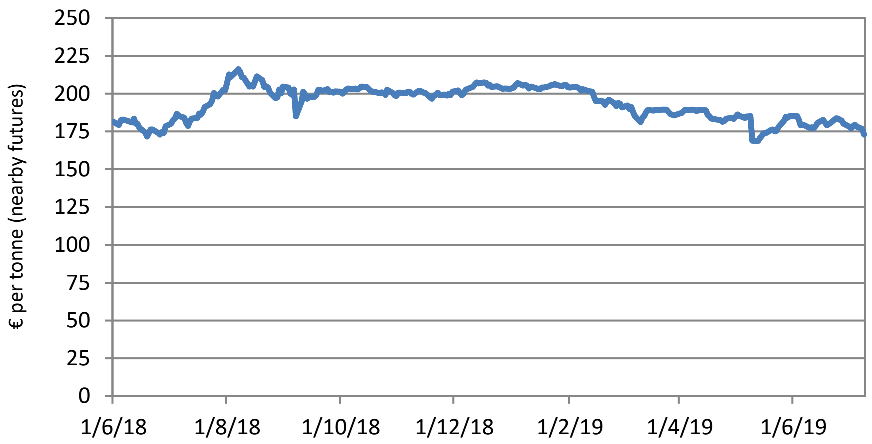
TILLAGE

Figure 31: World Wheat Balance Sheet (Mt)



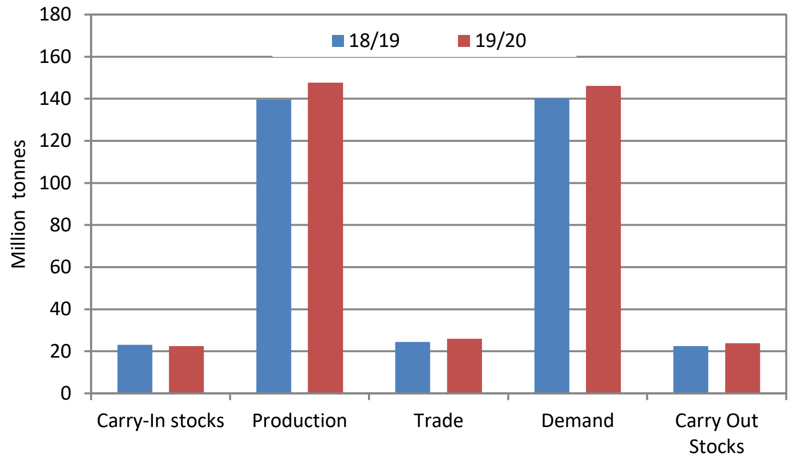
Source: Strategie Grains

Figure 32: Nearby Futures Prices – July 2018 – July 2019 (€ per tonne)



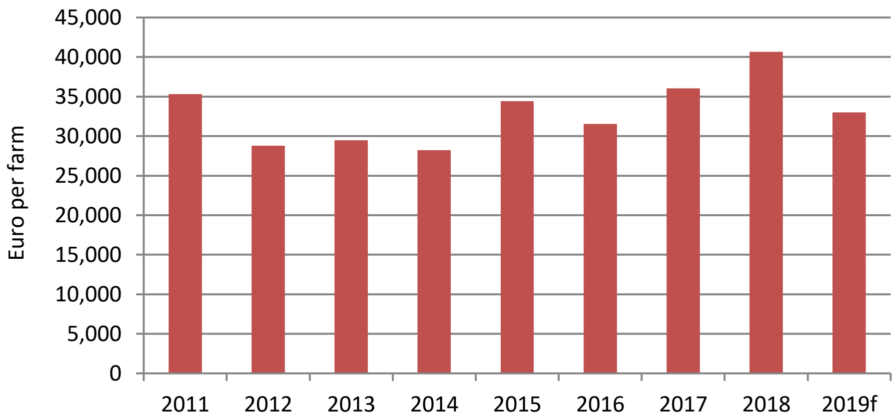
Source: AHDB (MATIFF nearby futures)

Figure 33: World Barley Balance Sheet (Mt)



Source: Strategie Grains

Figure 34: Average Irish Tillage Farm Income (2011-2019f)



Source: Teagasc, National Farm Survey 2011-2018 and Author forecast 2019.

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