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Mid Year Outlook for Irish Agriculture: 2013

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1. Introduction

In general 2012 was a reasonably good year for incomes on most farm types. Even though incomes were on average 15 percent lower than in 2011, they remained considerably above the average for the previous 5 years. There were some exceptions, notably the pig sector where high feed costs and static pig prices gave rise to losses. Some tillage farms also experienced a drop in income due to crop yield losses resulting from the poor summer weather conditions in 2012.

To date 2013 is proving a year of mixed fortunes. While milk and beef prices have remained favourable for the first half of the year, and lamb prices have been improving, there have been some difficulties on the cost side. Feed prices have remained high and this was anticipated due to the poor harvest internationally in 2012. Crucially, in Ireland the poor growing season of 2012 was followed by a long winter period, giving rise to a severe shortage of fodder on many farms. This increased the dependency on expensive feed and led ultimately to the import of additional fodder from the UK and France. The precise cost to farmers of the fodder crisis has yet to be estimated and should become clearer as the results of the 2013 Teagasc National Farm Survey are compiled. However, the impact is likely to be very region specific as some parts of the country were more adversely affected than others.

This publication is a mid year assessment for 2013 and supplements the more detailed Teagasc Outlook for 2013 that was produced in December 2012. It begins with a summary of the Irish and global macroeconomic situation. Following this, a review of the developments on the main agricultural input and output markets in the first half of 2013 and forecasts for the latter half of 2013 are presented. We conclude with an assessment of the outcome for farm margins across the various enterprises.

2. Macroeconomic Situation

Following several years of contraction, the Irish economy has now stabilised but growth remains very limited. The budget deficit for 2013 remains large by historical standards but looks likely to be smaller than projected. The interest rate on Irish bonds has fallen considerably to the point where Ireland seems to be considered to be in a healthier economic position than other Eurozone periphery economies. However, the Irish unemployment rate remains very high by recent standards and domestic demand remains weak.

As a small open economy, prospects for Ireland remain tied to the performance of our key export partners in the UK, continental Europe and the US. The UK and continental European economies growth prospects remain a source for concern. A recovery is forecast for the UK and Eurozone economies, but not until 2014 (ESRI 2013). Notwithstanding the economic problems of developed economies, all of the indications suggest that demand continues to grow in many of the emerging economies in Africa and South-east Asia (Rabobank 2012).

3. Input Expenditure

Normally, an assessment of the change in input expenditure on Irish farms can be made by examining the change in feed, fertiliser and fuel prices. However, the spring of 2013 was characterised by low ground temperatures which hindered grass growth and this was compounded by the much lower than normal carryover of fodder stocks from 2012. This created a crisis in sourcing affordable feed for animals on many Irish farms. The crisis lasted into May on farms where rainfall levels were high. A government supported scheme was introduced to partially subsidise the importation of fodder from the UK and France. According to the Department of Agriculture, Food and the Marine approximately 30,000 tonnes of fodder was imported through the Fodder Transport Subsidy Scheme by the end of May 2013. It is difficult to estimate the value of these imports due to variations in quality, however, it is estimated to be of the order of €6 million.

Using satellite technology, Teagasc has conducted an analysis of 2013 weather patterns and grass growth (Green 2013). This analysis shows that up to the end of April grass growth in almost all regions of the country was significantly behind the ten year average for that time of year. By the end of May grass growth had begun to improve but still lagged slightly behind average for that time of year in most regions, and significantly behind in the Border, Midlands and West. For more details see Figure A1 and Figure A2 in the Appendix. Furthermore, indications are that a majority of farmers had failed to harvest their first round of silage by mid-May. By the end of 2013 sufficient data should be available to accurately estimate the full impact of the fodder crisis on incomes.

Indications from the recent Inter-Agency Fodder Census suggest that even with a return to normal weather conditions in the second half of 2013, up to two-thirds of farmers are likely to have a fodder deficit of on average 23 percent this autumn and that the country as a whole may be up to 12 percent in deficit. Farmers have identified increased concentrate feed usage as their preferred coping strategy in response to this crisis. This is likely to lead to elevated concentrate feed usage on livestock farms in the second half of 2013.

The financial impact of the fodder crisis will have been split over the 2012 and 2013 financial years, with the greater proportion of the cost likely to have fallen in 2013. The Teagasc National Farm Survey (NFS) results show that expenditure on concentrate feed increased by 34 percent on dairy and 20 percent on cattle farms in 2012. Pasture and forage costs were also very elevated in 2012, up 11 percent on dairy and 10 percent on cattle farms. While some of the increases in concentrate, pasture and fodder costs were due to increased prices for these inputs the 2012 Teagasc NFS results confirm that the impact of the fodder crisis was very farm specific, with stocking rates, soil conditions, local weather and the timing of silage making, all influencing the degree to which individual farms were affected. It is estimated that on average expenditure on pasture and forage costs will be approximately 25 percent higher in 2013 than the 2012 level.

Concentrate Feed Expenditure

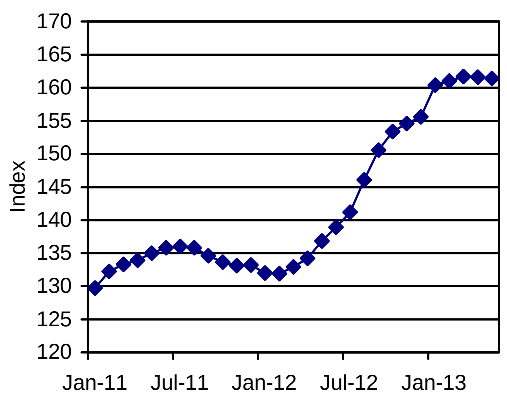
Poor cereal growing conditions internationally had an adverse impact on the global cereal harvest of 2012 and this led to a rise in Irish feed prices through 2012 and into 2013. The monthly Irish feed price index is illustrated in Figure 1. In the first half of 2013 feed prices were between 15 and 20 percent higher than in same period in 2012.

The prolonged winter of 2013 meant that farmers' compound feed use increased in the latter half of 2012 and into 2013 as illustrated in Figure 2. The increase in the sale of beef feed in Q1 2013 was in excess of 40 percent, while sales of dairy feed were up by just over 20 percent compared with Q1 of 2012. Overall the sales of all cattle feeds were up about one-third in volume terms in the Q1 of 2013 compared to the corresponding period in 2012.

While official data have yet to be released, compound cattle feed sales in Q2 of 2013 are also likely to have been higher than in the corresponding period in 2012, but not to the same extent as in Q1. In spite of the high level of feed use in the first half of 2013, weather conditions thus far in Q3 of 2013 have been very different to Q3 in 2012 which was characterised by rainfall levels which were well above normal in southern and eastern regions and consequently abnormally high levels of feed use. Instead the problem has been the lack of rainfall which has impacted on grass growth and silage making. Given that the Inter-Agency Fodder Census suggests that there will be a fodder deficit later in the year, it seems that even if weather conditions over the 2013 summer period remain favourable, feed purchases in Q3 and Q4 of 2013 are still likely to be higher than normal, but probably still below the extremely elevated levels of the corresponding quarters of 2012.

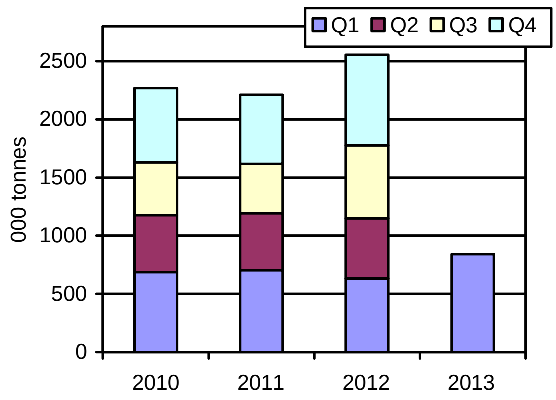
For 2013 as a whole, the expectation is that on average cattle feed use will be up by about 7 percent in volume terms on the elevated 2012 level. This would represent a 22 per cent increase on the 2011 level. There may be some farms where usage levels are higher, particularly cattle farms in western counties. The impact on concentrate feed bills of increased feed use will be compounded by the high price of concentrate feed in the first half of 2013. Overall, is estimated that on average expenditure on concentrate feed will increase by 12 percent on dairy and 17 percent on cattle farms in 2013 relative to the already very elevated levels of 2013.

Figure 1: Monthly Irish Feed Price Index



Source: CSO

Figure 2: Cattle Compound Feed Sales

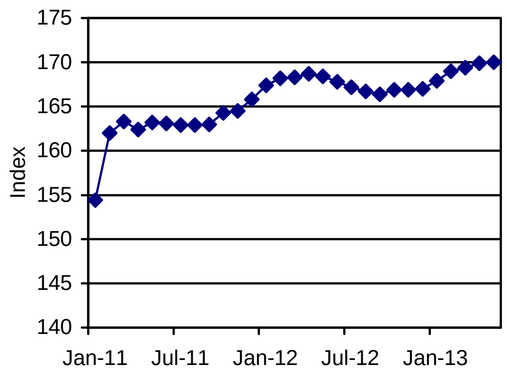


Source: DAFM

Fertiliser Expenditure

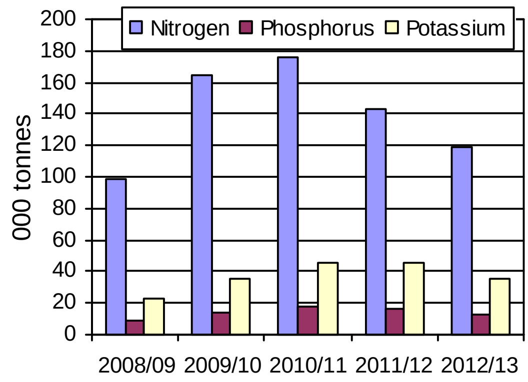
Fertiliser prices have remained steady in the first half of 2013 and are comparable to the same period in 2012 as illustrated in Figure 3. The inclement weather conditions of 2012 meant that fertiliser usage was somewhat depressed as prolonged periods of rain prevented application. As illustrated in Figure 4, the early indications for the 2013 fertiliser year are that this depressed pattern of usage has continued into 2013. Nitrogen sales in the first half of the 2013 fertiliser year are down 16 percent, phosphorous sales are down 21 percent and potassium sales are down 23 percent on the corresponding period in 2012. Anecdotally this can be attributed to a combination of poor conditions for the spreading of fertiliser, cash flow difficulties relating to the fodder crisis and negative sentiment on the part of some farmers relating to weather prospects for silage making. Fertiliser bills should decline in 2013, but this will be due to lower usage levels rather than any change in fertiliser prices.

Figure 3: Monthly Irish Fertiliser Price Index



Source: CSO

Figure 4: Fertiliser Sales (October to March)

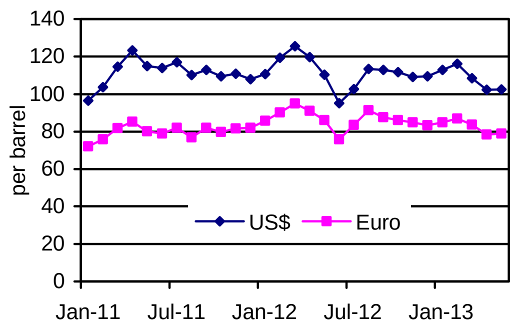


Source: DAFM

Energy

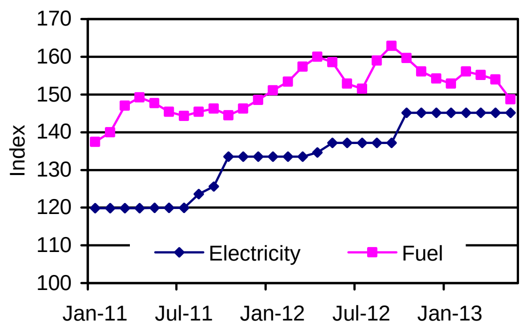
Motor fuel prices in 2013 have been similar to the 2012 level and it looks like fuel prices for 2013 as a whole will be little different to 2012. Electricity prices in 2013 have been higher than in 2012 and if prices remain unchanged for the rest of the year, electricity expenditure will probably be about 8 percent higher than in 2012.

Figure 5: Brent Crude Oil Price



Source: St Louis Fed

Figure 6: Indices of Fuel and Electricity Price



Source: CSO

4. Output Value

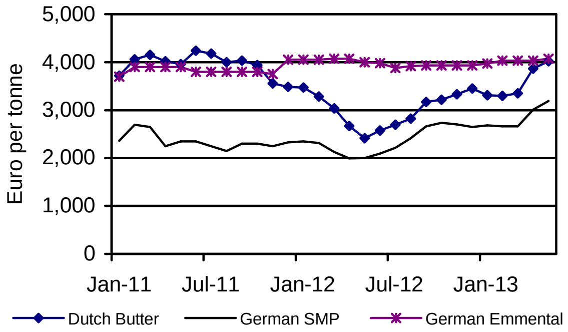
Dairy Sector

Given that milk production in the 2012 quota year was running behind the quota profile, there was an opportunity for high early season production in the 2013 calendar year. However the late spring of 2013 meant that this never transpired and Ireland ended the 2012/13 quota year more than 3 percent below quota. Production remained depressed in April of 2013 due to poor grass growth and difficulties with access to fodder. Monthly deliveries in May and June of 2013 have recovered to normal levels, but milk production in the first half of the 2013 calendar year is still almost 2 percent behind the corresponding period in 2012. Given the further 1 percent increase in milk quota available in the 2013/14 quota year and the slow start to quota year production, there is considerable scope for higher than normal deliveries in the coming months. Milk prices, production costs and weather conditions currently look like they will favour a recovery in production which will allow the quota to be filled.

The annual average milk price in 2012 was about 32.4 cent per litre (actual fat basis vat incl.). International dairy product prices rose through the second half of 2012 and that price rally continued into the early months of 2013. As Q2 of 2013 has progressed international dairy commodity prices have begun to fall but remain close to the historical highs recorded in 2008. As a result of the buoyant market, Irish farm-gate milk prices have averaged about 9 percent higher in the first half of 2013 compared to the corresponding period in 2012. This price rise has been stronger than expected and was aided by the lower than normal level of deliveries in much of Europe in the first half of 2013.

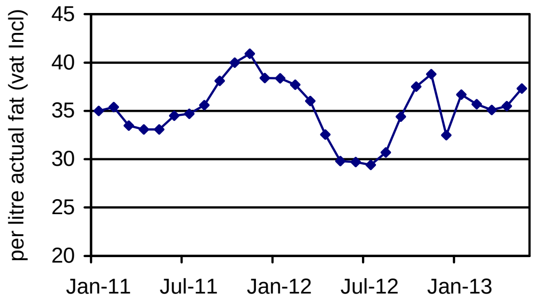
On the back of strong milk prices and a return to more normal weather, milk deliveries across Europe are expected to return to normal levels or even increase in Q3 of 2013. Monthly dairy product prices may have already peaked by mid 2013 and are forecast to gradually decline as the rest of 2013 plays out. However, milk prices are expected to remain relatively high and given the seasonal supply profile it is likely that the annual average farm-gate milk price for 2013 should be about 8 or 9 percent higher than the average for 2012, resulting in an annual average milk price of approximately 35.2 cent per litre.

Figure 7: EU Dairy Product Prices



Source: Dutch Dairy Board

Figure 8: Monthly Irish Farm Milk Price



Source: CSO and authors' estimates

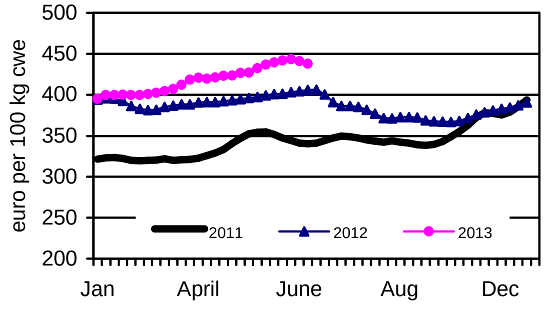
Beef Sector

Finished cattle prices in the first half of 2013 are ahead of prices in the first half of 2012 by over 6 percent. With prime cattle throughput up at the factories by close to 10 percent thus far in 2013, this means that the value of beef output at a national level will be up significantly in 2013, relative to 2012. The increase in the volume of cattle available for slaughter in 2013 was expected on the basis of lower live exports in recent years. Additional disposals of cows have also taken place in 2013. Whether the overall change in the national output value of beef is reflected at the individual farm level will depend on the volume changes that have occurred on individual farms.

Calf prices have been depressed across the EU and even more so in Ireland, as demand has fallen in response to the fodder crisis in Ireland. Calf prices in Ireland fell by 33 percent in the first half of 2013 relative to the corresponding period in 2012, while on average prices across the EU fell by 12 percent. This development has led to increased live exports of calves from Ireland to the Netherlands, Spain and Belgium. Irish calf exports in 2013 will be over 150 percent higher than in 2012. Total Irish cattle exports to date in 2013 are over 70 percent higher than in 2012.

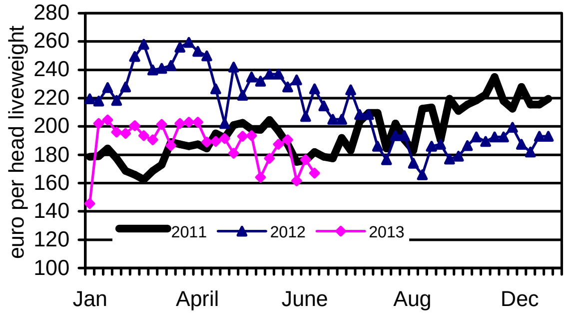
Given that almost half of all cattle throughput occurs in the first 6 months of the year and considering the relatively buoyant beef prices over the first half of 2013, it looks like 2013 will be a reasonably good year for finished cattle prices overall. It is estimated that the 2013 R3 price will average 7 percent above the 2012 price. Given that younger animals sales fall largely in the first half of the year the negative impact of substantially lower calf and weanling prices observed for the year to date are likely to be reflected in the annual average price levels. On both cattle finishing and cattle rearing farms increased concentrate feed and pasture and forage costs will be incurred due to the fodder crisis of 2012/2013.

Figure 9: Weekly Irish Finished Steer Prices



Source: DG Agri

Figure 10: Weekly Irish Weanling Prices



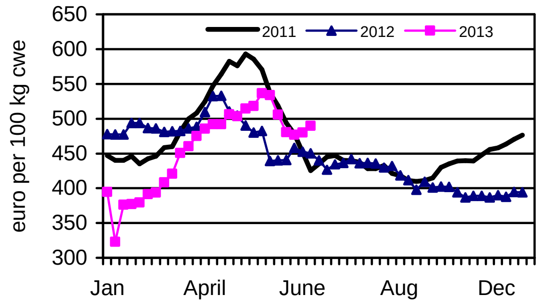
Source: DG Agri

Sheep Sector

Although lamb prices have followed an upward path in the first half of 2013, on average Irish lamb prices are 4 percent lower than in 2012 on a year to date basis. EU production of lamb should increase slightly in 2013, due to expansion in Ireland and the UK and increasing imports of lamb from outside the EU. As a result, Irish and European lamb prices for 2013 are likely to average below 2012 levels. The continuing weakness in EU lamb demand due to the ongoing macroeconomics difficulties, mean that annual average Irish lamb prices for 2013 are forecast to be 4 percent lower than in 2012.

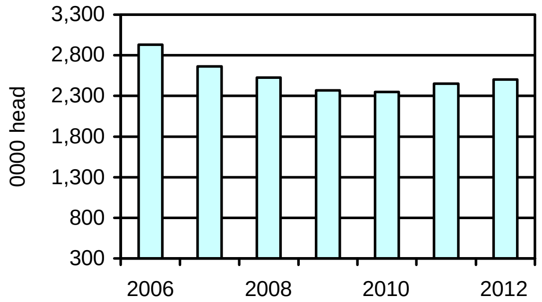
With increased volumes of lamb production (due to ewe flock expansion in 2011 and 2012) the decline in Irish lamb prices in 2013 will be offset in aggregate at the national level by an increase in output volume. At a farm level, any growth in output value on a per hectare basis will be contingent on whether or not farmers held additional breeding numbers in 2013 compared to 2012. It is probable that the increase in sheep slaughtered in 2013 relates to an increase in the numbers of sheep on existing farms rather than an increase in the number of farms with a sheep enterprise. As a result some increase in the volume of output at the farm level is forecast. This increase is likely to be sufficient to offset the impact of decreased lamb prices on the value of sheep output. Increased feed and pasture and forage costs are likely to erode the positive impact of increased output volume on margins.

Figure 11: Weekly Irish Lamb Prices



Source: DG Agri

Figure 12: Irish Ewe Numbers (December)



Source: CSO

Cereals Sector

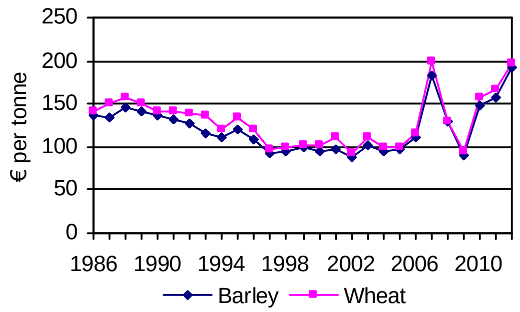
Prospects for the northern hemisphere winter cereal harvest in 2013 continue to improve as the year progresses. Current estimates are that global production in the 2013/14 crop year may increase by 40 mt on the 2012/13 level (Strategie Grains, June 2013) due to both increases in area harvested and a strong recovery in yields. Increases in cereal use for feed and in the production of biofuels are forecast but these are expected to lag the expected growth in production.

With growth in production exceeding the forecast growth in use, prices in 2013 are expected to decline relative to 2012. The current MATIF futures contract price for milling wheat (November 2013 delivery) is approximately €190 per tonne and has declined from over €230 per tonne in January 2013. Our forecast is that Irish wheat and barley prices are likely to decline by up to 20 to 30 percent relative to the harvest prices received in 2012.

The improved production prospects that are driving prices lower are largely driven by an expectation that yields in Ireland and other regions return to normal levels in 2013. Early indications are that average winter barley yields in 2013 will be up to 30 percent higher than in 2012, if similar yields increases are achieved on the larger spring cereal crops overall cereal production in 2013 should increase strongly over 2012 levels. In Ireland, it is expected that improved yields in 2013 should largely offset the negative impact of declining output prices on output value.

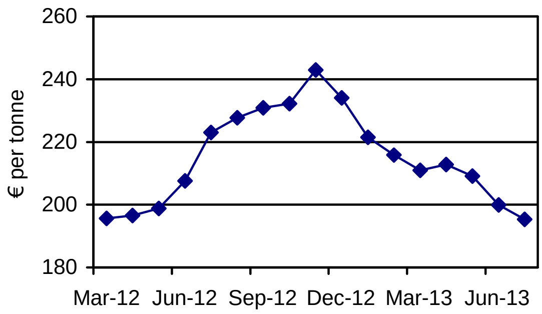
As discussed earlier energy and fertilizer prices and expenditure per hectare are unlikely to be higher in 2013 as compared to 2012, while prices of plant protection products are also not expected to increase significantly in 2013 as compared to 2012. This means that the outlook for margins on Irish cereal farms will depend on the extent to which gains in yields per hectare are sufficient to offset the forecast lower harvest prices.

Figure 13: Cereal Harvest Prices: 1986-2012



Source: Authors' own estimates

Figure 14: MATIF Wheat Futures Prices: Nov '13



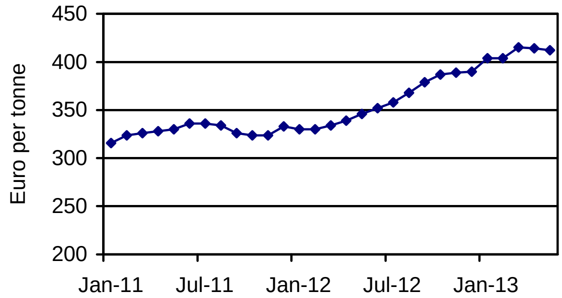
Source: HGCA

Pig Sector

There was a 1 percent reduction in total EU pig slaughter in the period January to April 2013 in comparison with the same period in 2012. Total pigmeat production in that period in 2013 was virtually unchanged on the same period in 2012 due to a slight rise in slaughter weights. By mid 2013, pig slaughtering in Ireland was running behind the corresponding figure for 2012 by about 1 percent. The June 2012 and December 2012 CSO pig numbers showed a decline in the pig breeding herd, indicative of a likely contraction in Irish pig production in 2013, so this observed decline in Irish throughput in 2013 was anticipated.

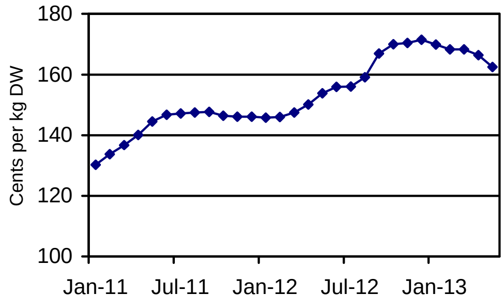
Pig feed prices rose through 2012 and have remained elevated in 2013, as illustrated in Figure 15. By mid 2013 pig feed prices were about 60 to 70 euro per tonne (circa 20 percent) higher than in the corresponding period in 2012. To improve the economic performance of Irish pig production, sustained high pig prices were required in 2013 to offset the impact of high feed prices. Irish pig prices rose through the latter half of 2012 and at the outset of 2013 were about 25 cents per kg ahead of prices at the beginning of 2012 as illustrated in Figure 16. However, Irish pig prices have moved into decline as 2013 has progressed and by July were only slightly higher than at the mid point of 2012.

Figure 15: Irish Pig fattening Meal Price



Source: CSO

Figure 16: Irish Finished Pig Price



Source: Bord Bia

Having been well below the EU average pig price throughout 2012, the Irish pig price converged on the EU average price in April 2013. However, since then the EU average price has risen by 8 cent per kg while the Irish price has fallen by 8 cent, opening up a 16 cent price gap between EU and Irish prices by the end of June 2013.

The rise in Irish pig prices in 2013 will be sufficient to ensure that the total value of Irish pig output will increase in 2013 relative to 2012. However, the end result is that Irish pig producers will remain in financial difficulties, due to high feed prices, which will only be alleviated via a reduction in feed costs or an increase in pig prices. A decline in feed costs in the second half of 2013 does seem plausible, given forecast cereal harvest prices, but it remains to be seen whether the Irish pig price can recover to closer to the EU average level in the coming weeks and months.

5. Outlook for Farm Margins

At the mid point of 2013 assessing the outcome for margins across the various enterprises for the year as a whole is complicated by a number of factors, most notably weather conditions in the latter half of the year and the impact that these will have on total input expenditure in 2013.

In the case of dairy and drystock an important caveat is that the fodder shortage in 2013 is likely to have impacted some farms more adversely than others. As a general statement farms in the west and north west are likely to have been subject to a greater production cost increase than farms in the south and east in 2013. Here our analysis reflects average national outcomes for the enterprises concerned and therefore the performance of many farms within these enterprise categories will either be above and below this average.

In the case of dairy, higher milk prices and an increase in milk production in 2013 should more than offset the impact of the increase in the direct costs of milk production. This will mean that on average, the gross and net margins on dairy farms in 2013 will be up on the 2012 level by somewhere in excess of 10 percent. Farmers that can increase production over the relatively depressed levels of 2012 are likely to see a further increase in margins and net margin per hectare is likely to reach an average of just under €900.

Costs for beef finishers will also increase in 2013 but these producers will also see a rise in output value, reflecting increased prices for finished animals and an increase in overall cattle production. On average, the rise in production costs should be largely offset by the increase in output value and so that margins should be below but, relatively close to, the 2012 level.

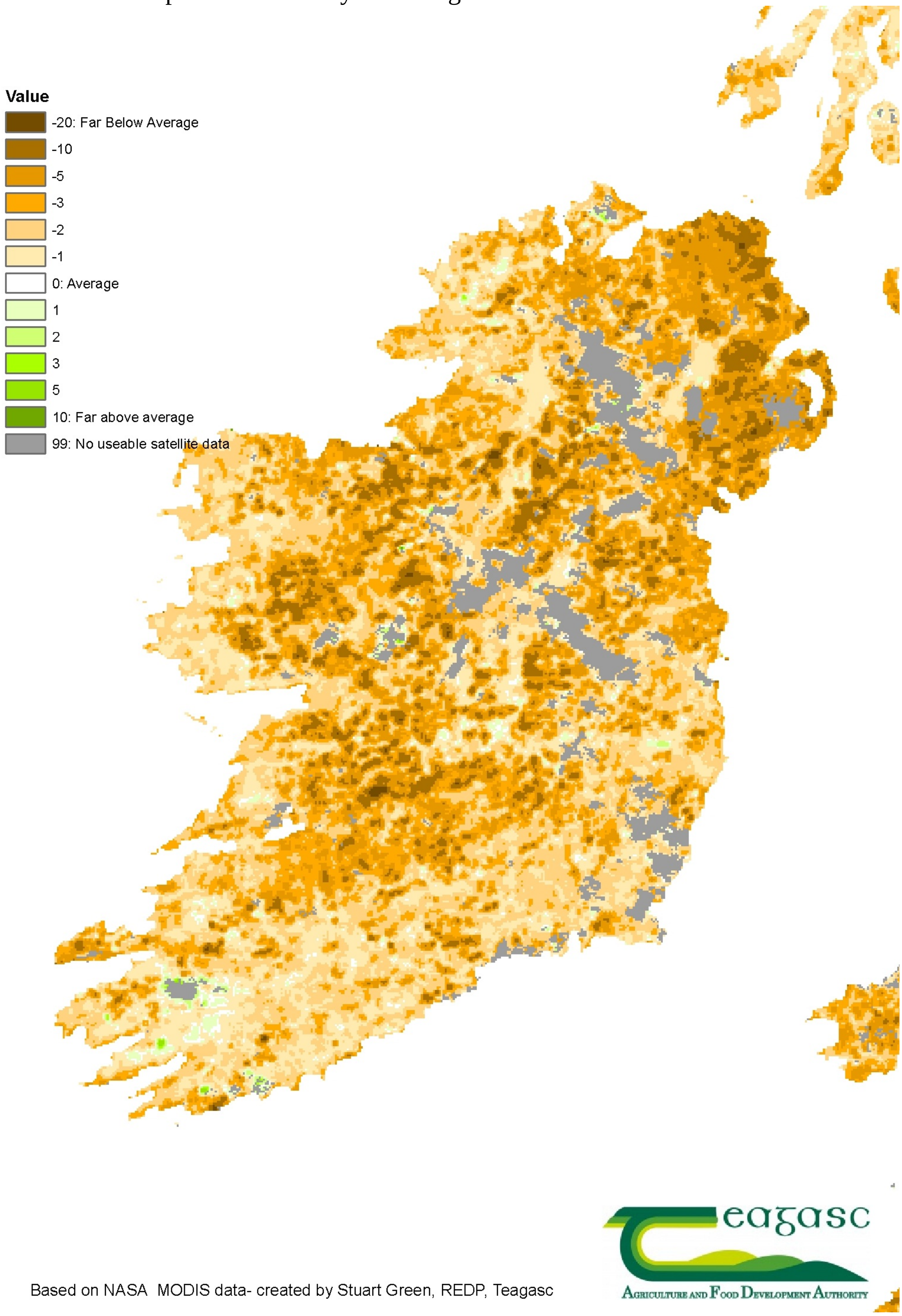
The suckler cow enterprise is stuck in a price-cost squeeze in 2013. Substantially lower calf and weanling prices will reduce the value of output from these farms, and, along with increased input expenditure, this will result in substantially lower margins for suckler enterprises in 2013. It is expected that suckler margins will return to the 2010 level.

Sheep enterprises should see a slight decrease in margins in 2013. Lamb prices are likely to decline by 4 percent and the small increase in output value due to higher lamb numbers is likely to be insufficient to offset the rise in production costs.

For Irish cereal producers, the improved global harvest will result in a significant output price drop in 2013 relative to 2012. The price reduction looks like being of the order of 20 to 30 percent, but it will still be some time before an accurate assessment of international harvest volumes can be made. The cereal price reduction will be partially offset by a significant recovery in Irish cereal yields relative to 2012, which should see yields returning or even surpassing normal levels. Cereal production costs per hectare should be relatively unchanged in 2013 in comparison with the previous year. Overall, gross and net margins for winter wheat and spring barley are likely to be lower than in 2012, as cereal price reductions outweigh yield improvements on most farms.

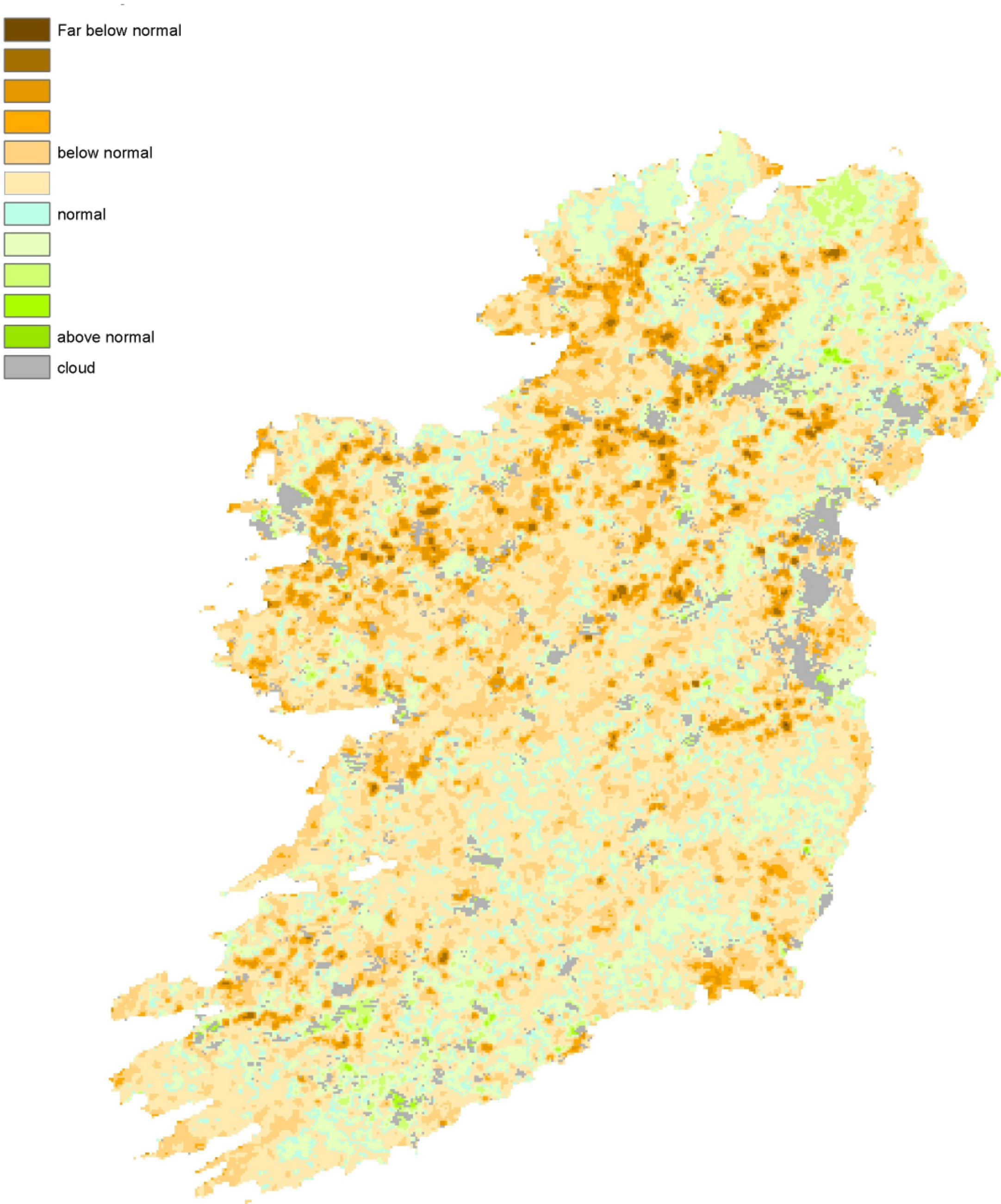
In 2013 Irish pig producers face another bleak year in terms of profitability. While some relief is in store in the second half of the year with an expected fall in feed prices, pig farmers will need pig prices to remain firm in order to claw back accumulated losses.

Figure A1: Vegetation growth anomaly 7th to 23rd April 2013 – Vegetation amounts compared with a ten year average



Note: The methodology takes account of "normal" variations, so only large differences compared to normal show up as variations. In the images above the range is brown for extremely low vegetation growth, compared to the average for the decade, through orange which is very low, to blue which is normal to green for above average vegetation growth. The graphic shows northern and western regions being the worst affected.

Figure A2: Vegetation growth anomaly 9th to 25th April 2013 – Vegetation amounts compared with a ten year average



Based on NASA MODIS data- created by Stuart Green, REDP, Teagasc

Note: The methodology takes account of "normal" variation so only large differences show up as variation. In the images above the range is brown for extremely low vegetation growth, compared to the average for the decade, through orange which is very low, to blue which is normal to green for above average vegetation growth. The graphic shows that the situation is much improved on that of April 2013, but problems areas remain in some northern and western regions.