Mid Year Outlook for Irish Agriculture: 2014

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Key points

It is difficult to generalise about the outcome for agricultural incomes in 2013 as it was a year of mixed fortunes. High costs were a significant concern on all farms, particularly those experiencing increased feed requirements due to unfavourable growing conditions in the first half of the year.

While output prices for milk and meats were high, only dairy farmers managed to come out ahead, as high costs led to a fall in margins in the drystock sector. On the tillage side high yields were offset by a fall in international and Irish grain prices, leaving producers worse off than in 2012.

Developments to date in 2014 are suggestive of another year of mixed fortunes, with milk producers likely to be more content with developments than drystock and tillage producers. Costs of production in 2014 are certainly decreasing due to a combination of lower prices for key inputs, such as feed and fertiliser and lower feed volume requirements now that the effects of the fodder crisis have receded. However, developments in terms of output prices across the systems are more mixed and this is impacting differentially on profitability.

Milk: Milk prices have been falling in the first half of 2014, but the decrease is from a very elevated level, and prices have remained ahead of the corresponding period in 2013. For the year as a whole, the annual average milk price should be close to that achieved in 2013. A significant fall in the cost of production should mean that margins in milk production in 2014 are up on the 2013 level. Given that the fodder crisis impacted to differing degrees on dairy farms in 2013, the extent of the improvement in farm profitability in 2014 will be quite farm specific.

Beef: The current price situation on beef markets is a source of concern for cattle producers. Production of beef in Ireland is up substantially in 2014 and a sizable gap has emerged between Irish factory beef prices and prices in the key UK market. The extent and nature of the change in beef farm profitability in 2014 will be quite farm specific. The adverse cost impact of the fodder crisis in 2013 was not uniform, the reduction in costs in 2014 will vary from farm to farm. In general, beef farmers who are not raising cattle to finish have seen smaller reductions in prices for cattle sold off of the farm than farmers bringing cattle to finish. As a result while margins for cattle finishers are likely to decline despite lower costs of production, margins for cattle rearing farms (and particularly those selling calves and weanlings) should improve in 2014 relative to 2013.

Sheep: With tighter supplies on EU markets, stable demand for lamb and lower volumes of imports from New Zealand and Australia, EU and Irish lamb prices have increased in 2014 as compared with 2013. Irish prices in 2014 are forecast to be 4% higher than in 2013. With significantly lower costs of production in 2014 compared with 2013, margins on mid-season lamb enterprises are expected to increase strongly from the low levels experienced in 2013. Better lambing conditions in 2014 as compared with 2013 should also contribute to increased margins.

Pigs: Due to disease outbreak in Eastern Europe, there has been some disruption to the EU pigment export trade, and led to a temporary dip in pig prices in the first quarter of 2014. Feed costs have been lower in the first half of 2014 than in the same period in the previous year. A greater than anticipated reduction in sow numbers means that pig availability in the EU will be more limited, which should cause upward movement in prices in the second half of 2014. Overall, 2014 should represent a better year for pig producers than 2013.

Tillage: Forward contract prices for cereals have declined since April of this year, with 2014 harvest prices now likely to decline by about 10 per cent relative to the harvest prices received in 2013. This price drop is due to good growing conditions internationally, with an estimate of the second highest level of global cereal production ever recorded, and based on estimates would exceed world demand by about 3 per cent and result in a slight increase in carry-out stocks.

This publication is a mid-year assessment for 2014 and supplements the more detailed Teagasc Outlook for 2014 that was produced in December 2013. 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 2014 and forecasts for the latter half of 2014 are presented. We conclude with an assessment of the outcome for farm margins across the various enterprises in 2014.

1. Macroeconomic Situation

International

The economic picture continues to improve as the impact of the global recession gradually recedes. While there is now much less concern for the stability of the euro currency, the economic growth rates of the Eurozone and European Union (EU) economy generally are lagging behind other major economic regions. In response, interest rates have been further reduced by the European Central Bank in order to incentivise banks and those with cash deposits to make lending and spending decisions that would boost economic activity.

Unemployment rates are falling in the US and in the EU, but progress has been uneven, with the economies of southern Europe continuing to fair less well than those of northern Europe. So called jobless growth has been a feature of the recovery in some EU economies. The key German economy continues to be the best performing in the EU. Closer to home, economic growth in the UK has been impressive and UK employment has now reached record levels.

As illustrated in Figure 1, in 2014, the euro currency has gradually weakened against sterling and has now fallen to below 80 pence, which improves the competitiveness of Irish exports to the UK. There has been little variability of note in the Euro/US Dollar exchange rate in 2014.

Political unrest in the Ukraine and in the Middle East had placed some upward pressure on international energy prices, but the increase has been moderated by increased oil export capacity elsewhere, notably the US.

Ireland

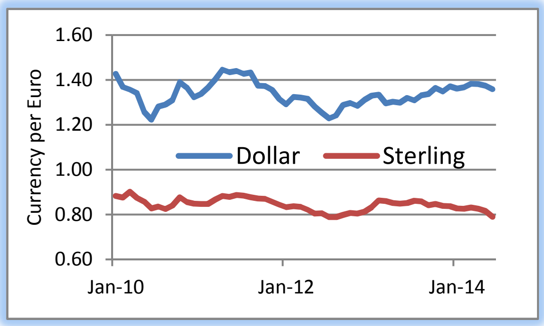
Relative to 2013, there are more pronounced signs of an economic recovery in Ireland to date in 2014. As illustrated in Figure 2, the standardised unemployment rate has been falling month on month and is now down to 11.6 percent (June 2014), from a high of 15.1 percent in February 2012. Nationally, the decline in property values has been arrested and prices are now increasing in cities around Ireland.

It would seem that the State's capacity to manage its debt burden is no longer a concern for international analysts. The yield on Irish Government bonds has returned to pre-crisis levels and these bonds now have an investment grade rating.

Nevertheless, there are continuing concerns relating to the capacity of homeowners to make mortgage repayments and, more generally, the extent of the debt burden on Irish households continues to limit domestic consumption growth.

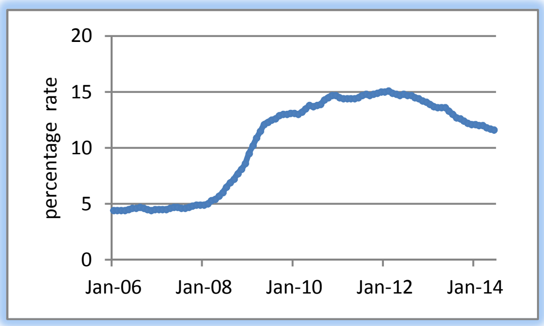
The ability of small and medium sized businesses to obtain credit is also a continuing concern, although, anecdotally, commercial banks are reported to be well-disposed towards extending loans to Irish farmers interested in investment geared towards expansion.

Figure 1: US Dollar Euro Exchange Rate



Source: St Louis Fed.

Figure 2: Irish Unemployment Rate



Source: CSO (Live Register Standardised Unemployment Rate Seasonally Adjusted)

2. Input Expenditure

In 2014, the dominant story in relation to input expenditure for grassland farms is the reduced requirement for purchased feed and a reduction in both feed and fertiliser prices. To date, weather conditions for grass growth have been generally good in 2014. A mild winter was followed by a wet spring, and so far at least, a favourable summer.

2.1 Concentrate Feed

The monthly Irish cattle feed price index is illustrated in Figure 3. An improved harvest internationally in 2013 led to a fall in cereal prices around the world. This price reduction filtered through to prices on the Irish feed market by the end of 2013 and feed prices for the first half of 2014 have been relatively unchanged from month to month. Overall, for the first half of 2014, Irish feed prices were 11 percent lower than the same period in 2013.

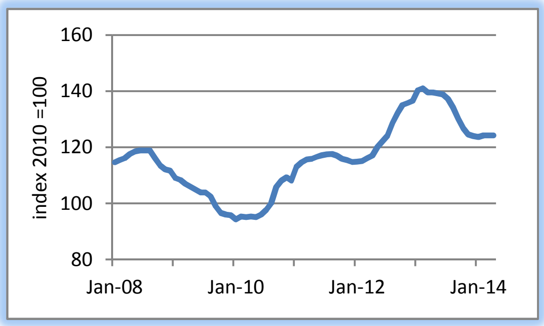
Dairy and beef feed use in 2013 was at extremely high levels. However, mild conditions and improved fodder availability meant that farmers' compound feed use was lower in the early months of 2014 than in the same period in 2013, as illustrated in Figure 4. Dairy and beef feed sales in Q1 of 2014 were back to a level that would be considered normal. While official data have yet to be released, compound cattle feed sales in Q2 of 2014 are also likely to have been lower than in the corresponding period in 2013.

For 2014 as a whole, the expectation is that, on average, bovine feed use will be down by 15 percent or more in volume terms on the elevated 2013 level. There will be some farms where the reduction in usage levels is higher or lower than this national average figure. Dairy farms in southern counties, where normally the reliance on feed would be lower, experienced a large increase in their feed requirements in 2013. In 2014 we would expect this effect to be reversed.

More generally, reduced feed requirements will also contribute to a reduction in concentrate feed bills on beef and sheep farms and this will be reinforced by the lower price of concentrate feed in 2014 in comparison with 2013.

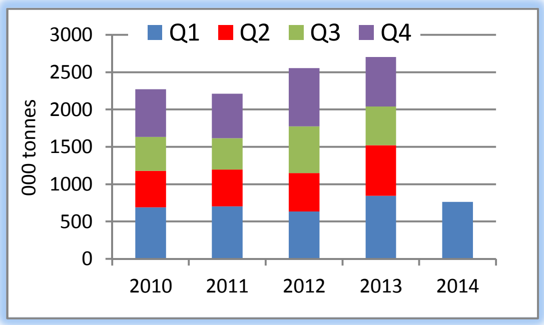
Overall, it is estimated that, on average, expenditure on concentrate feed will decrease by about 25% percent on dairy and cattle farms in 2014 on the previous year's level. The reduction in feed bills on sheep farms in 2014 is likely to be even larger.

Figure 3: Monthly Irish Cattle Feed Prices Index



Source: CSO

Figure 4: Quarterly Irish Cattle Compound Feed Sales

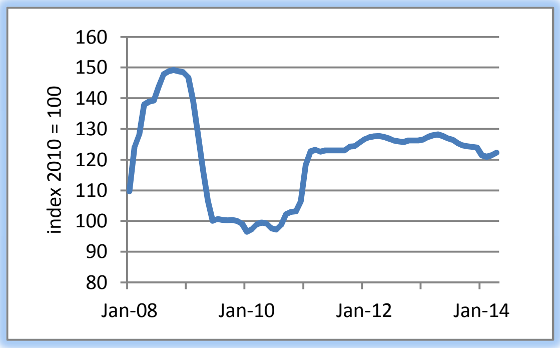


Source: DAFM

2.2 Fertiliser

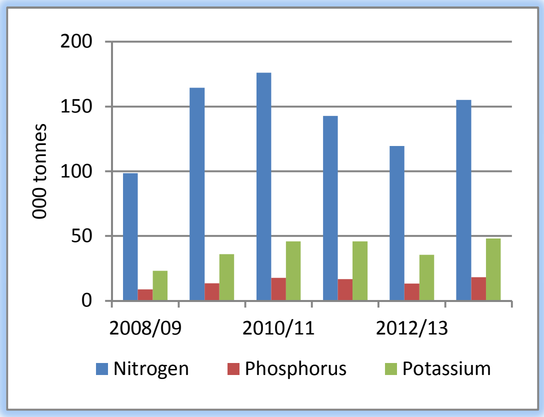
Following a period of price volatility which began in 2008, fertiliser prices have been more stable over the last two years. Fertiliser prices have decreased by between 4 and 8 percent in the first half of 2014 (calendar year) relative to the same period in 2013 as illustrated in Figure 5. Fertiliser sales in the 2012/2013 fertiliser year were high in comparison with other recent years. As of June 2014 sales data are only available for six month of the fertiliser year (October 2013 to March 2014). The available sales data shows fertiliser sales considerably ahead of last year's trend, but in line with 2011/12, as illustrated in Figure 6. Anecdotally, fertiliser sales are said to be down by about 5 percent in 2014, but it is still too early to make any firm judgement on the level of fertiliser sales for the 2013/14 fertiliser year as a whole. However, given the fall in prices, it remains likely that fertiliser bills will decline in 2014 in comparison with 2013.

Figure 5: Monthly Price Index of Fertiliser in Ireland



Source: Central Statistics Office (Various Years)

Figure 6: Irish Fertiliser Sales (October to March Only)



Source: DAFM (various years).

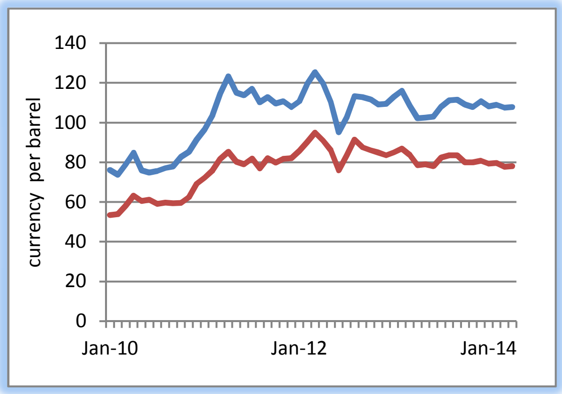
2.3 Energy

As illustrated in Figure 7, the world benchmark Brent crude oil prices, has been relatively stable in both US dollar and euro terms in the first half of 2014, with prices averaging about US$ 107 per barrel and moving over a narrow range. This is a little higher than had been expected and can be attributed to concerns about the security of oil and energy supplies generally due to political unrest in a number of regions. These oil prices are still about 3 percent lower than in the first half of 2013.

Motor fuel prices in the first half of 2014 have been slightly lower than in the same period in 2013 and, barring issues with oil supplies, it looks like fuel prices for 2014 as a whole will be down about 4 percent on the average for 2013.

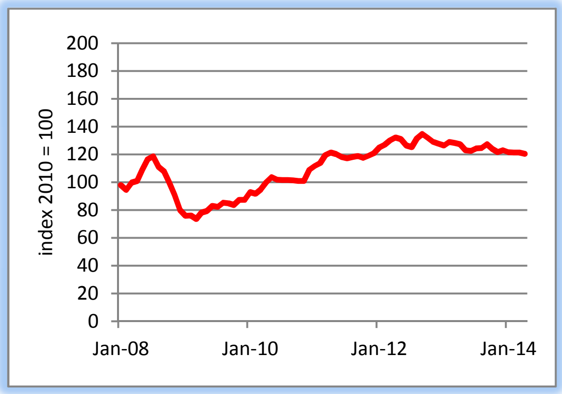
Following a price increase late in 2013, electricity prices in the first half of 2014 have been about 4 percent higher than in same period in 2013 and if prices remain unchanged for the rest of the year, electricity expenditure will probably be about 3 percent higher than in 2013.

Figure 7: Monthly Average Brent Crude oil prices in Euro and US dollar



Source: St Louis Fed.

Figure 8: Price Index of Fuel products in Ireland



Source: Central Statistics Office (Various Years)

3.4 Other Input items

Inflation in the price of veterinary services, plant protection products and other input items looks set to range from 0 and 2 percent in 2014.

3. Value of Agricultural Output

In this section we examine short term developments in international commodity markets, reflecting the implications for output prices and production volumes for the main commodities produced in Irish agriculture.

3.1 Milk

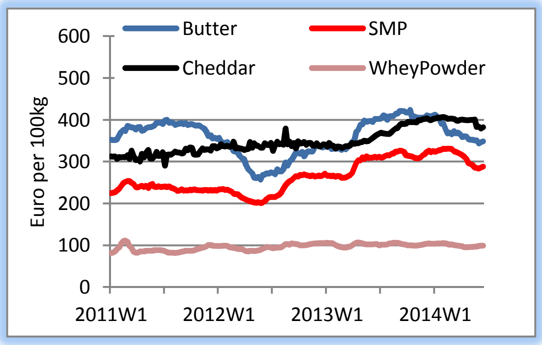
Global and European Union

Extremely high New Zealand (NZ) milk prices have contributed to a further increase in NZ milk production in the 2013/14 season of the order of 9 percent. US production has increased by a more modest 1 percent in the first quarter of 2014, but USDA has forecast stronger growth of close to 2.5 percent for the year as a whole.

Due to a favourable combination of high milk and falling feed prices, there has been a considerable increase in EU milk deliveries in the first half of 2014 in comparison with the same period in 2013 of the order of 6 percent. The additional milk has tended to be channelled towards the production of powders rather than cheese and fresh products.

As illustrated in Figure 9, EU dairy product prices began the year at extremely elevated levels, but have been on the decline as the year has progressed. Even in this short six month period, milk prices have been quite volatile in some EU MS. Recent stability in prices may be a sign that the correction in dairy commodity prices has run its course.

Figure 9: European Dairy Product Prices



Source: European Milk Market Observatory

EU exports of dairy products have increased in volume terms in the first half of 2014, in part reflecting increased product availability. Import demand from China, Russia and North Africa has also been strong.

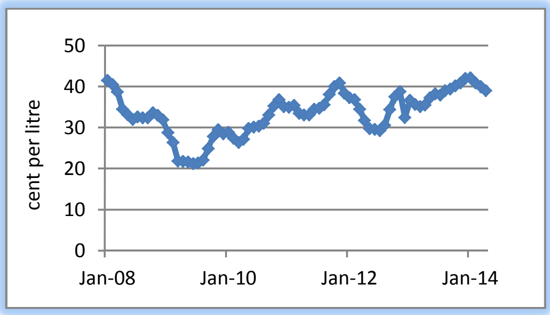
Ireland

The 2013/14 quota year ended with a superlevy as Irish milk production was 0.94 percent over quota. The new production season 2014/15, the final year of milk quotas, has begun with production trending strongly upwards on the same period in 2013. April 2014 production was up 22 percent on the albeit depressed April 2013 figure, with May 2014 production 10 percent ahead of May 2013.

Milk prices, production costs and weather conditions currently look like they will favour increased milk production in 2014/15, but with no quota increase available to Ireland, the risk of a significant superlevy must be considered high. Efforts were made by the Irish Government and other dairy stakeholders to seek an accommodation within the confines of the so called “Milk Package” that would allow for some increase in Irish milk production 2014/15, via an upward adjustment to the Irish butterfat reference level. However, as of the middle of July 2014, no deal to address an impending Irish superlevy had been reached.

The annual average milk price in 2013 was 39.5c (actual fat, vat inclusive), with monthly prices peaking at more than 45c in November 2013. As illustrated in Figure 10, in line with the downturn in international dairy prices, Irish milk prices have fallen as 2014 has progressed. However, as a result of the buoyant position at the start of the year, Irish farm-gate milk prices have still averaged about 7 percent higher in the first half of 2014 compared to the corresponding period in 2013.

Figure 10: Irish Farm Gate Milk Prices (vat incl.)



Source: CSO.
Note: Actual fat (VAT inclusive).

Despite strong production growth in regions which are key dairy exporters (such as the EU, New Zealand and US), milk prices are expected to stabilise in Q3 of 2014, due to continuing strong import demand from China. Given the seasonal supply profile for Irish milk, it is likely that the annual average farm-gate milk price for 2014 should be close to that achieved in 2013.

The cost of production should show a decrease on the extremely elevated level (average of 27.4 cent per litre) recorded in 2013. With lower feed requirements, lower feed prices and cheaper fertiliser, a decrease in costs of 2 cent per litre or more in 2014 should materialise.

Despite the downward trend in EU dairy market prices in 2014, it seems certain that profitability in the Irish dairy sector will increase in 2014, by about 2 cents per litre, due predominantly to the effect of lower costs. However, it is important to emphasise that the extent of the increase in profitability will be farm specific, with some farms doing better than others, largely as a consequence of the varying impact which the difficult weather conditions of 2012/13 had on production costs.

3.2 Beef

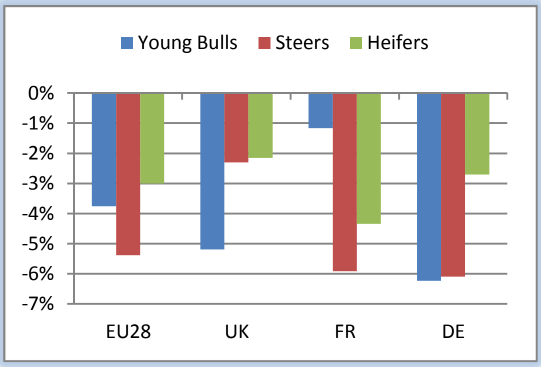
European Union 28

The supply of beef in the EU was expected to expand in 2014, with the outlook for finished cattle prices in Ireland and the EU contingent on the evolution of EU consumer demand for beef. As of July 2014, continuing weak demand has led to a depressed market for cattle within the EU.

Through the first half of 2014 slaughtering in EU15 Member States has generally been lower than in 2013 – there are exceptions, such as Ireland, where production has increased strongly – while production in Member States in central and eastern Europe has expanded strongly. The contraction in production in many EU15 markets has not been associated with an improvement in prices due to the on-going weakness of consumer demand for beef. This weak consumer demand reflects the sluggish recovery in economic growth in the EU. EU28 prices for young bulls (R3) in the first half of 2014 are on average 4 percent lower than for the same period in 2013 (see Figure 11).

The outlook for the remainder of the year is for EU production to grow modestly and demand for beef to remain stable. With a stable to expanding supply of beef and demand continuing to be weak, EU cattle prices in 2014 are not expected to recover to the levels observed in 2013.

Figure 11: EU Prime Cattle Prices (R3) 2014 vs. 2013



Source: DG Agri.

Ireland

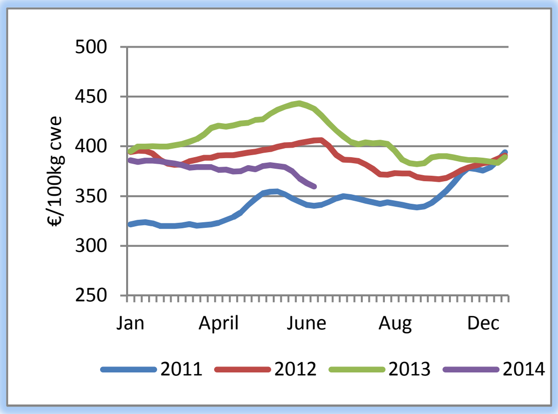
Finished cattle prices In Ireland in the first half of 2014 have been significantly lower than prices in the first half of 2013 (see Figure 12). R3 Steer prices are 10 percent lower and Young Bull R3 prices 16 percent lower than during the same period in 2013. The lower prices in 2014 have given rise to considerable controversy, but largely reflect lower prices across the EU markets to which Irish beef is exported and the large increase in the Irish supply of finished cattle observed in the first half of 2014. Overall, disposals in the first 6 months of the year were 14 percent higher than in 2013, and with increased average slaughter weights, total production of beef has increased by 17 percent.

With prime cattle throughput and associated meat production increasing by 17 percent thus far in 2014, the volume of beef output at a national level in Ireland will be up in 2014. It is, however, unlikely that the increase in cattle slaughtered to date in 2014 will be maintained over the rest of 2014. Animal Identification and Movement System (AIMS) data at the end of Q1 2014 indicates that the surge in Irish cattle available for slaughter experienced through the first 6 months of 2014 will begin to abate. Overall, Irish cattle slaughter by year's end is unlikely to be more than 10 percent higher than in 2013.

Lower finished cattle prices across the EU have to date been reflected in lower calf prices. In Ireland calf prices have been 5 percent lower than in 2013. With lower prices, Irish live exports of calves are more competitive and have continued the recovery (in volume terms) that began in 2013. Irish live exports of calves are likely to be over 10 percent higher than in 2013. Overall, total exports of live cattle for the year to date are over 12 percent ahead of 2013.

Irish weanling prices have, in contrast to finished cattle and calf prices, maintained their value in 2014 as compared to 2013. Prices for the first 6 months of 2014 are marginally higher than in 2013.

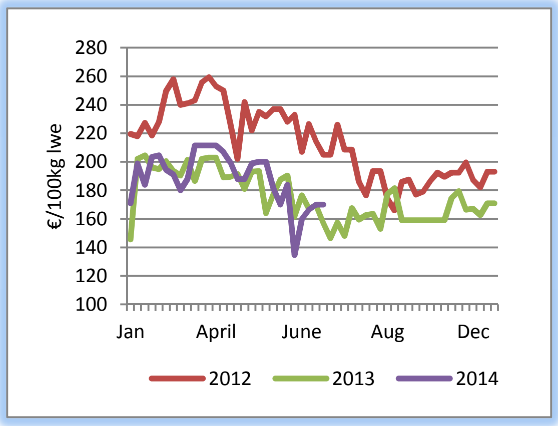
Figure 12: Weekly Irish R3 Steer Prices



Source: DG Agri.

Given that almost half of all cattle throughput occurs in the first 6 months of the year and considering the depressed beef prices over the first half of 2014, it looks like 2014 will be a poor year for finished cattle prices overall. If cattle prices remain at close to current levels for the remainder of 2014, average prices for the year will end close to 10 percent lower than in 2013. In contrast, as illustrated in Figure 13 and Figure 14, average weanling and calf prices in Ireland are likely (given the evolution of prices for the year to date) to end the year only slightly lower than in 2013.

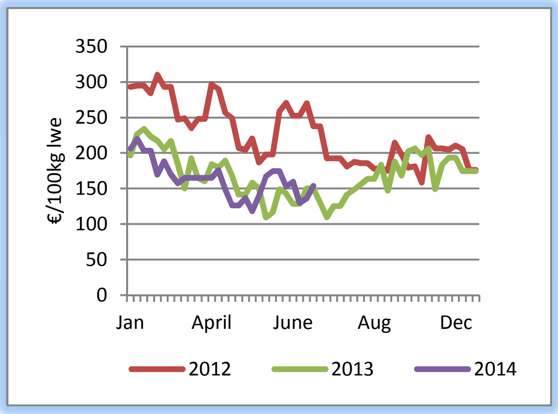
Figure 13: Weekly Irish Weanling Prices



Source: DG Agri.

Costs of production on all grassland enterprises are likely to be considerably lower in 2014 than in 2013. Lower feed and fertiliser usage, together with lower prices of these and other inputs, should see costs of production decline.

Figure 14: Weekly Irish Calf Prices



Source: DG Agri.

It is likely that margins on single sucking enterprises (particularly those selling weanlings and store cattle) will improve relative to those in 2013. The improvements in margins on cattle finishing farms will be dependent on the extent to which finished cattle prices remain at their current levels through the second half of 2014. Some tightening of the supply of finished cattle and recovery in demand from export markets is likely to prevent further significant price declines. It is likely, however, that margins on the average cattle finishing enterprise will decline in 2014 as compared to 2013, but that the decline in output value will be offset by lower costs of production.

3.3 Sheep

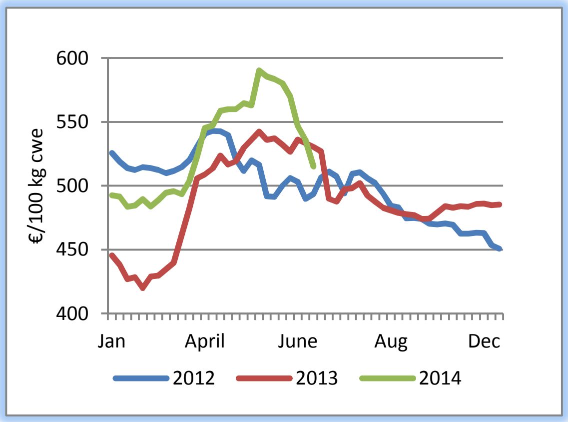
European Union 28

The EU lamb market differs from the EU beef market in that it has always been a deficit market where imports of frozen lamb, and more recently chilled lamb, from New Zealand and Australia play an important role.

The long term decline in lamb production in most EU Member States has continued, while EU consumption of lamb has been maintained (in contrast to developments on beef markets). The indigenous EU supply and demand balance has had a positive impact on EU lamb prices and this has been reinforced by lower shipments of New Zealand lamb to the EU. Increasingly, New Zealand production is being shipped to growing markets in China, with Australian exports to the EU only partially filling the gap left by lower New Zealand shipments. As a result, for the first 6 months of

2014, EU heavy lamb prices have on average been 9 percent higher than in 2013, as illustrated in Figure 15.

Figure 15: Weekly EU Heavy Lamb Prices



Source: DG Agri.

The normal seasonal pattern is for prices to be generally lower in the second half of the year, but assuming EU prices on average for July through December fall no lower than €500/100kg, the average annual EU lamb price for 2014 will be over 5 percent higher than 2013.

Ireland

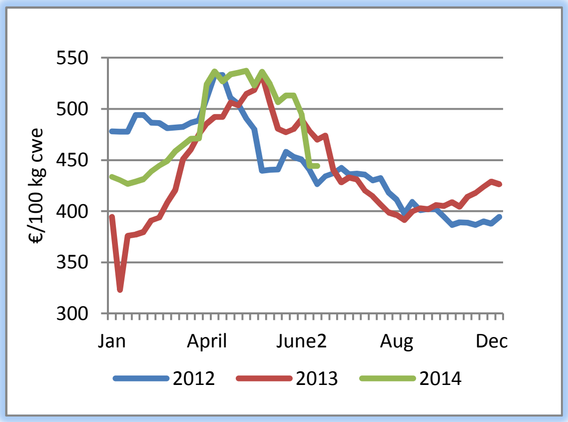
Higher EU prices (particularly UK prices) have been reflected in higher Irish lamb prices in 2014. Irish prices for the first 6 months of 2014 have averaged 6 percent higher than for the equivalent period in 2013, as illustrated in Figure 16.

Total throughput of lambs and sheep for slaughter has been running at close to 4 percent below the levels observed in 2013. The production impact of lower numbers of lambs delivered for slaughter has been offset by somewhat heavier slaughter weights with total sheep meat production for the year to date largely unchanged from 2013.

Reduced throughput at factories reflects the decline in breeding sheep numbers recorded in the June 2013 CSO Livestock Survey (which indicated that the recent expansion of the national breeding flock had petered out. The volume of lambs and other sheep slaughtered as of July 2014, do not indicate any increase in culling of breeding stock in 2014. Thus, the volume of sheep meat production is likely to remain stable for at least the short run.

With Irish lamb prices for the year to date ahead of prices in 2013, and supply and demand conditions on EU and global sheep meat markets continuing to remain tight, Irish sheep prices are likely to remain at least at or slightly above their 2013 levels for the remainder of 2014. Assuming that average Irish prices for the second half of 2013 are over €420/100kg, lamb prices for 2014 will be up by 5 percent on their 2013 levels.

Figure 16: Weekly Irish Lamb Prices



Source: DG Agri.

With higher output prices in 2014, some recovery in the volume of output per hectare (due to the milder winter and spring), and considerable decreases in the costs of production on mid-season lowland lamb enterprises (due to lower input prices and usage levels) the profitability of sheep production is forecast to rebound strongly in 2014 from the low levels experienced in 2013.

3.4 Cereals

Global

As outlined by the International Grains Council, in June and the European Commission in July, it is expected that global cereal production will decrease in 2014/15 by about 31 million tonnes compared to the previous year, which represents a decline of about 2 per cent. This decrease in overall production is mainly explained by an expected smaller wheat harvest in the US due to drought conditions. However, this level of production would still represent the second highest level of production ever recorded and based on estimates would exceed world demand by about 3 per cent and result in a slight increase of 12 million tonnes in carry-out stocks.

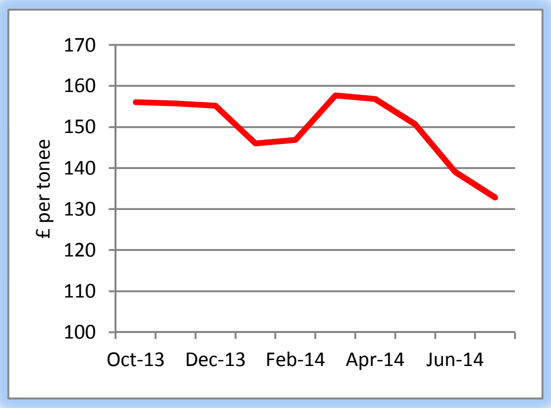
European Union 28

The current forecast for the EU cereal harvest in 2014 indicates a production level of about 303 million tonnes, which is slightly above 2013 and also higher than the five year average (European Commission, July 2014). This is due to an increase in total cereal area (of circa 1 per cent) in the EU-28 and projected yield improvements relative to 2013. Projected yield improvements are based on crops experiencing a relatively mild growing season (especially for Winter crops), sufficient humidity and rare frost impact. There still remains a large degree of uncertainty regarding the impact of climatic conditions on Summer crops within the EU-28.

In terms of EU production in 2014/15, it is expected that there will be an increase in use of cereals for animal feed purposes, within the EU itself and a continuation of the good pace of exports which has been witnessed over the past 12 months. Overall, it is expected that supply will still slightly outstrip demand and result in a further increase in ending stocks.

With growth in production exceeding the forecast growth in use, cereal prices in 2014 are expected to decline relative to 2013. The current LIFFE futures contract price for feed wheat (November 2014 delivery) is approximately £133 per tonne and has declined from over £155 per tonne in December 2013.

Figure 17: LIFFE Wheat Futures Prices: Nov '14

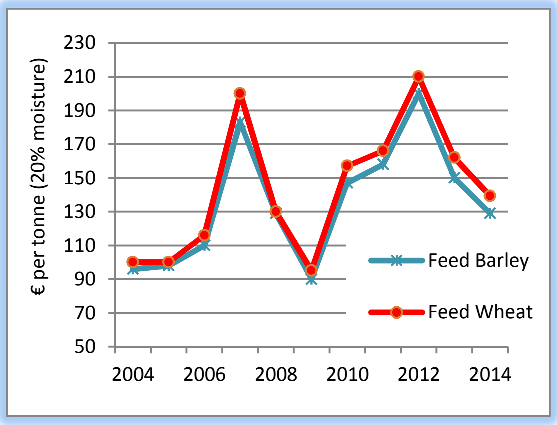


Source: HGCA

Ireland

While the EU-28 is forecast to increase total production levels, there is a mixed story in terms of forecast yields for Winter and Spring crops across the EU. The forecast for Ireland is no different, with yield projections indicating that Winter crops may benefit more from the 2014 growing season weather conditions. Current forecasts for 2014 Winter wheat yields in Ireland are for a slight increase in tonnes per hectare relative to 2013, whereas 2014 Spring barley yields are forecast to decline slightly relative to 2013. It is important to remember that 2013 yields were well above average for the major cereal crops grown in Ireland, so the forecast yields in 2014 would still represent yield levels which are above the average for recent years.

Figure 18: Irish Farm Gate Cereal Prices



Source: Teagasc, National Farm Survey Data & Author estimate for 2014

Our forecast is that Irish wheat and barley prices are likely to decline by about 10 per cent relative to the harvest prices received in 2013.

Overall, keeping in mind that actual harvest yields may not be consistent with modelled forecast yields, it is projected that improved yields in 2014, coupled with input price reductions, will not negate the impact of declining output prices on cereal farm profitability.

3.5 Pigs

A period of particularly high production costs in 2013 was not accompanied by an offsetting increase in pig prices, which left producers in a loss making situation. Prospects for 2014 looked good at the outset of the year, with feed prices falling and pig prices finally reflecting the cost of production. However, some of the developments internationally over the first half of 2014 have not unfolded entirely as expected. There have been some setbacks, but the short term outlook remains reasonably positive.

Global

Chinese import demand continues to be an important driver of international trade in pigmeat. Disease outbreaks in the US, Porcine Epidemic Diarrhoea virus (PEDv), will depress US production by as much as 3 to 4 percent in the short term and as a consequence its export capacity has fallen. Disease outbreak has also been a problem in Eastern Europe where the discovery of African Swine Fever (ASF) has led to a complete ban on EU pigmeat exports to Russia. This had led the EU to lodge a case against Russia with the World Trade Organization (WTO).

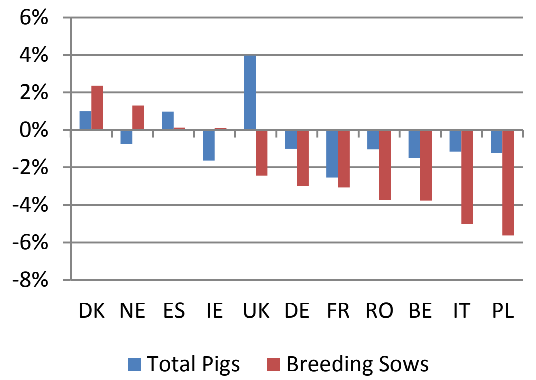
European Union 28

At the close of 2013 EU pig prices were averaging about €1.60/kg deadweight (dw). After the normal seasonal decline in EU pig prices in January, prices took an unanticipated further decline due to the closure of the valuable Russian export market, which normally accounts for about one third of EU pigmeat exports. Poland and Germany were particularly affected by the closure of the Russian market to EU pigmeat, with prices falling sharply from February to March by 13 percent and 8 percent respectively .

The Eurostat December 2013 pig census showed a year on year decline in total pig numbers in most Member States, with Denmark and the UK being notable exceptions, as shown in Figure 19. The data also indicate a general decreasing trend in sow numbers in most of the key pig producing countries of the EU. Of the major producers, only Denmark and Spain recorded an increase in breeding sow numbers. suggesting that finished pig availability in the EU over the short term will be lower than in 2013.

So far in 2014 there has been a reduction in pig slaughtering in both Germany and Denmark, with slaughtering of pigs up slightly in the Netherlands and Great Britain. However, the overall decline in EU pigmeat production has been limited by an increase in slaughter weight.

Figure 19: Total Pig and Breeding Sows in selected EU MS, December 2013 v 2012



Source: Eurostat

With lower EU production, and with demand for pig meat in the EU continuing its slow recovery towards pre recession levels, the outlook for 2014 should be positive in terms of price development for producers. In the short term consumption levels have been boosted by mild weather conditions and an early barbeque season. This is reflected in the fact that prices recovered in April, May and June and in the key German market have now reached €1.75/kg dw.

Table 1: YTD Pig Disposals 2013 and 2014

	2013	2014	change
Country	million head		%
DE	27.441	26.743	-2.5%
DK	8.913	8.605	-3.5%
NL	7.536	7.695	2.1%
GB	4.458	4.493	0.8%

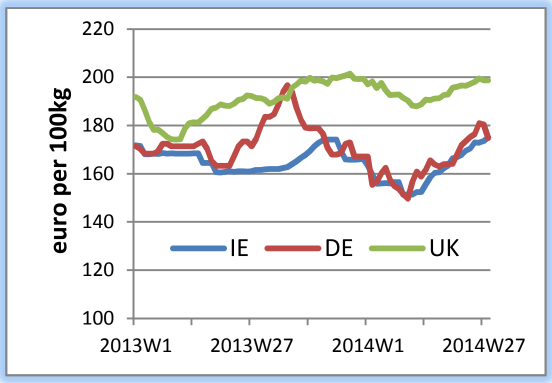
Based on 28 wks of production
Source: BPEX

Ireland

Figure 20 illustrates pig price developments. Irish pig prices rose through the latter half of 2013 and at the outset of 2014 they were still about 4c per kg below prices at the beginning of 2013. The impact of the closure of the Russian market and the resulting decline in continental European pig prices had a less pronounced impact on the Irish market, with pig prices falling by about 3 percent between February and March 2014. On a year to date basis Irish pig prices are down by about 4 percent on the corresponding period in 2013.

Irish pig feed prices began to decline in the second half of 2013. That decrease continued into the first half of 2014. By mid 2014 pig feed prices were about 40 euro per tonne (circa 10 percent) lower than in the corresponding period in 2013.

Figure 20: Finished Pig Prices IE, DE and UK



Source: BPEX

The December 2013 CSO pig numbers showed a modest increase in the Irish pig breeding herd, but a reduction in the total number of pigs relative to the previous year. Table 2 details Irish pig disposals on a year to date basis for 2012 to 2014. By mid 2014, Irish pig disposals were running behind the corresponding figure for 2013 by about 0.7 percent.

Table 2: YTD Slaughter and Live Export of Irish Pigs from 2012 to 2014

Year	Irish Licensed Export Plants	Exports to Northern Ireland	% Exports of Total
	million head		%
2012	1.518	0.319	17%
2013	1.498	0.307	17%
2014	1.508	0.284	16%

Based on 28 wks. of production
Source: BPEX & DARDNI

Overall, pig prices are lower so far in 2014, as are pig feed costs. It remains to be seen whether pig prices can improve in the second half of the year. The outlook does seem positive due to the more limited availability of pigs in the EU in 2014. Pig prices are likely to rise in the third quarter, but it is not yet clear whether the average price for 2014 as a whole can reach the level achieved in 2013.

4. Outlook for Farm Gross Margin

At the mid point of 2014 assessing the outcome for margins across the various grassland enterprises for the year as a whole is conditioned by the fall in feed, fertiliser and energy related production costs that will benefit dairy, beef and sheep farms in particular. This cost reduction is due in part to the fact that the fodder crisis has disipated, but also due to a more general easing of prices in grain markets and in the international fertiliser market.

Whether the fall in production costs translates into improved profitability across the grassland enterprises depends on output price developments. It looks like sheep prices in 2014 will be higher than in 2013, ensuring a strong rebound in the margins earned from lamb production. The average annual milk price will be close to that recorded in 2013 and with lower costs, it is likely that dairy margins will improve over those earned in 2013.

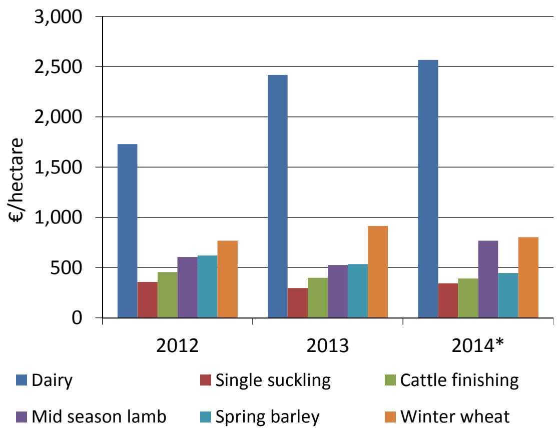
Turning to beef, the outlook for 2014 is more mixed. Prices for younger cattle are likely to only decline marginally in 2014 relative to their 2013 price level, with lower production costs, margins on single suckling enterprises, particularly those selling weanling and/or store cattle, are likely to improve, relative to 2013.

Finished cattle prices in 2014 are forecast to be as much as 10 percent lower than in 2013. As a result, it is likely that margins for cattle finishing systems will be slightly lower than the 2013 level. The significant fall in the costs of production are forecast to largely offset the large fall in output value due to lower finished cattle prices.

For Irish cereal producers, the improved global harvest will result in an output price drop in 2014 relative to 2013. The price reduction looks like being of the order of 10 per cent, 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 slight increase in yields for the wheat crop relative to 2013, but barley yields are expected to be on a par or slightly less than those achieved in 2013. Cereal production costs per hectare should be lower in 2014 in comparison with the previous year. Overall, gross and net margins for winter wheat and spring barley are likely to be lower in 2014, as cereal price reductions outweigh cost reductions on most farms.

In 2014 Irish pig producers should see a reduction in their feed costs of close to 10 percent. In 2014, in the year to June, pig prices are down 5 percent, indicating that margins over feed have improved, but the evolution of pig prices over the rest of year will determine whether margins for the full year surpass those of 2013.

Figure 21: Gross margins per hectare: 2012, 2103 and 2014 forecast



Source: Historical years Teagasc National Farm Survey and Authors' estimates for 2014
Note: 2014 values represent a forecast