



Dairy Review and Outlook

Emma Dillon and Trevor Donnellan

2021 Review & 2022 Outlook

- Domestic and global perspectives
- Production
- Prices
- Inputs
- Dairy enterprise margins



Dairy Review 2021

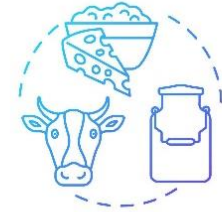
- Global dairy markets

- Slowdown in **supply growth**
- Robust **demand growth**
- Increase in key **international dairy product prices**



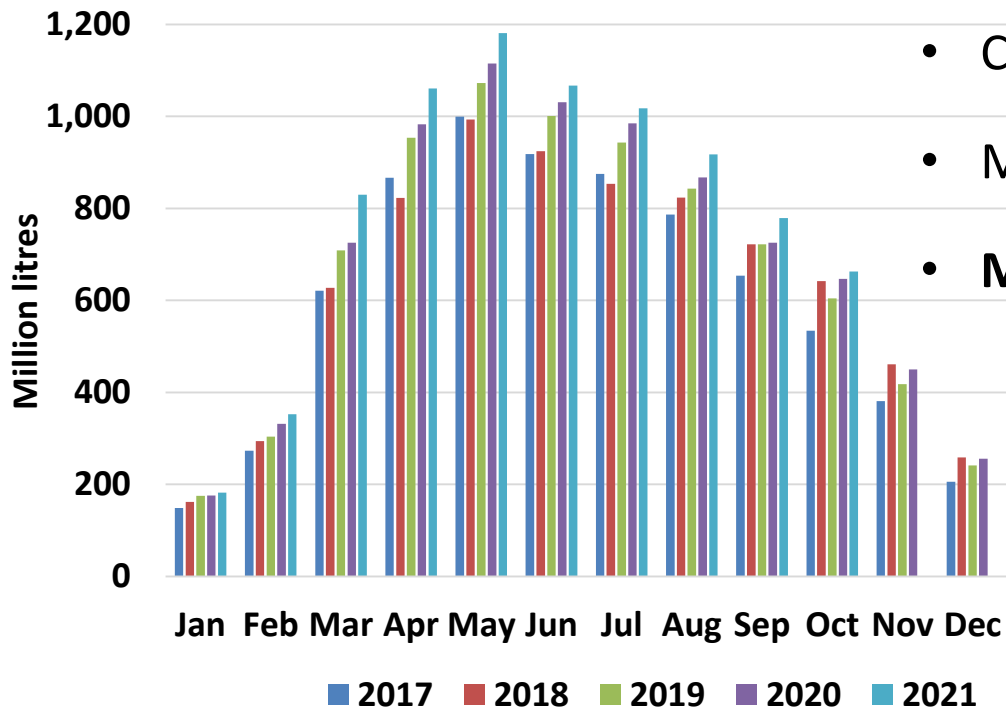
- Irish Dairy sector

- Milk production **growth continued**
- **Irish milk price** rose substantially
- But, production **costs increased significantly**



COW'S MILK CHEESE

Continued growth in Irish Milk Production in 2021



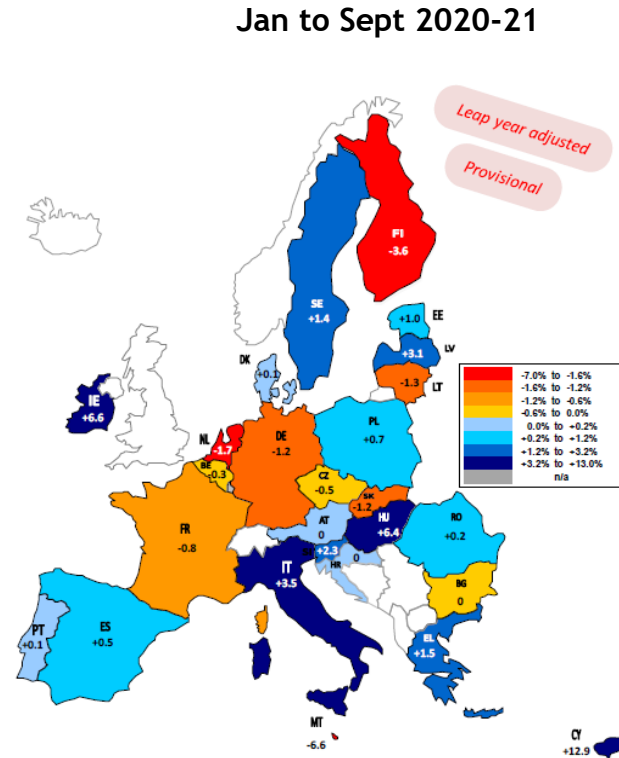
- Continued growth in **dairy herd** \uparrow 2-3%
- Milk **yield** per cow \uparrow 3-4%
- **Milk Production** \uparrow 6% Jan – Oct 2021
 - likely \uparrow 6% for the full year 2021



Source: CSO (2020)

Weaker EU milk production in 2021

- Weaker supply growth than in 2020
 - **marginal growth in EU27** for year to Sept 2021
 - 0.3% expected for full year
- MS growth rates variable
 - Stronger production growth – IRL, ITA
 - Weaker production growth – ESP, POL
 - Contraction in - FR, GER, NL
 - **Herd reduction, yield increases**
 - **Rising costs and environmental pressures**



Change in Milk Production

- key exporters 2021 (calendar year)

Overall weaker production growth in 2021 compared with 2020

| | 2017 | 2018 | 2019 | 2020 | 2021e |
|-------------|----------------|-------|-------|------|-------|
| | Million Tonnes | | | | |
| EU27 | 3.18 | 1.32 | 0.24 | 1.68 | 0.36 |
| NZ | 0.29 | 0.49 | -0.16 | 0.09 | 0.13 |
| US | 1.37 | 0.96 | 0.37 | 2.20 | 1.74 |
| AUS | -0.01 | -0.02 | -0.61 | 0.25 | -0.14 |
| ARG | -0.19 | 0.43 | -0.19 | 0.77 | 0.42 |
| Sum | 4.64 | 3.18 | -0.35 | 4.99 | 2.51 |

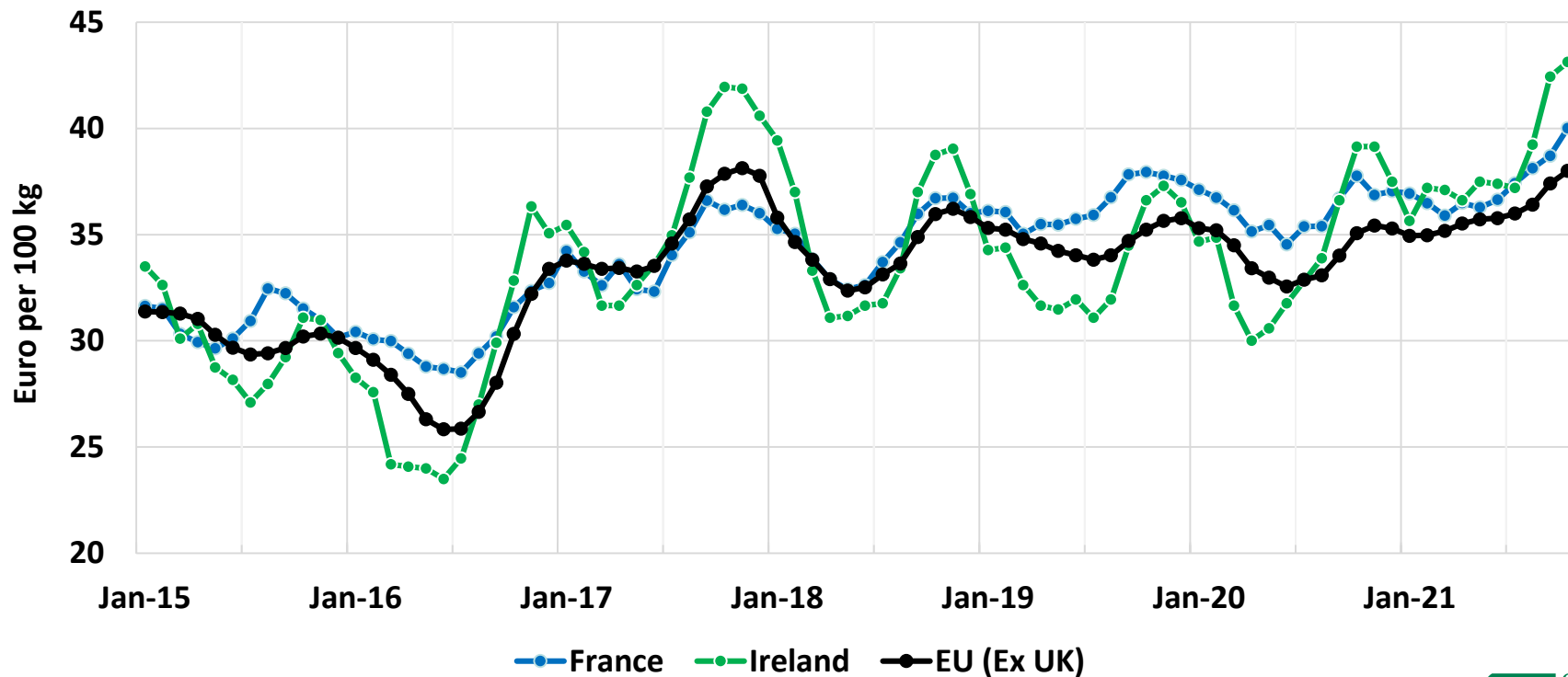
2021 relative to 2020

- EU – weaker growth
- NZ – modest
- US – sustained growth
- AUS – flat
- ARG – sustained growth
- UK (not shown) - flat

Source: Eurostat, DCANZ USDA and author estimates

EU milk price variation

Milk Prices 2015 - 2021

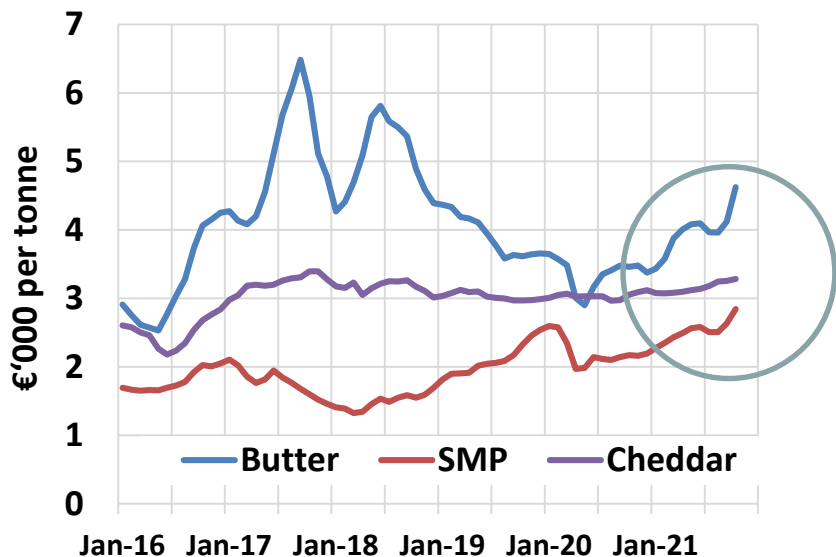


Source: Milk Market Observatory

Teagasc Outlook 2022– December 7th 2021

Dairy Product and Milk Prices 2021

EU Dairy product prices

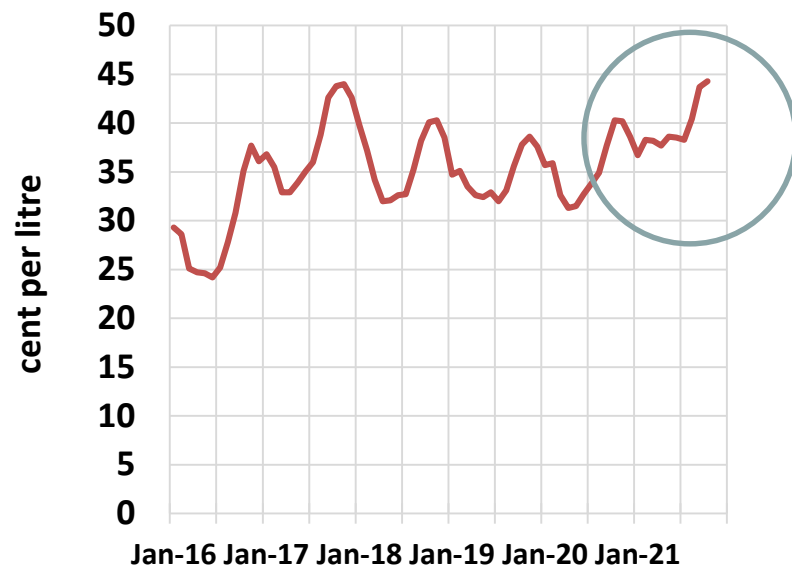


Source: USDA

Strong price increase for Butter, SMP

- More modest increase in Cheddar prices
- WMP and Whey prices also up considerably

Irish producer prices



Source: CSO

Avg. Irish milk price up substantially (16%) in 2021 (vs 2020)

- >40 cent per litre (act. fat/protein)
- Note: issue of fixed price contracts

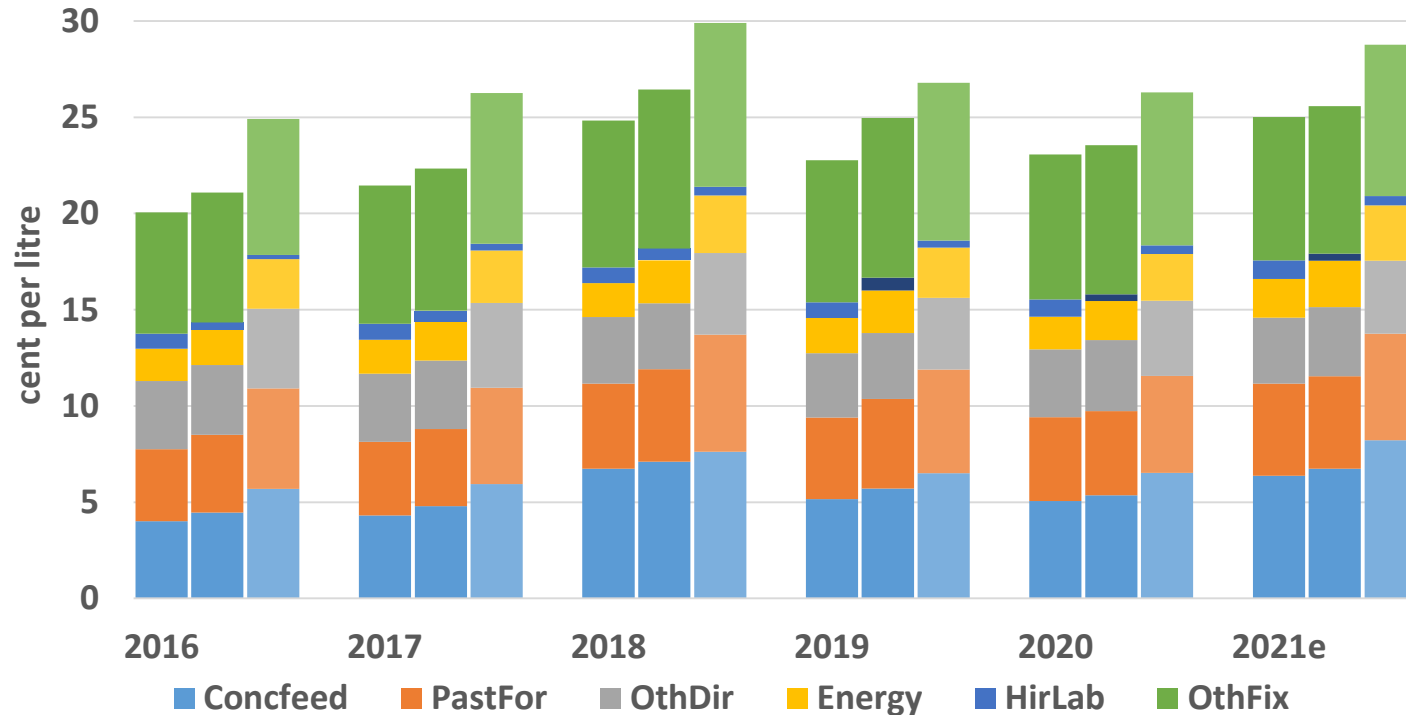
Dairy enterprise analysis



Milk Production Range of Costs per Litre

Top, Middle and Bottom groupings 2016-2021e

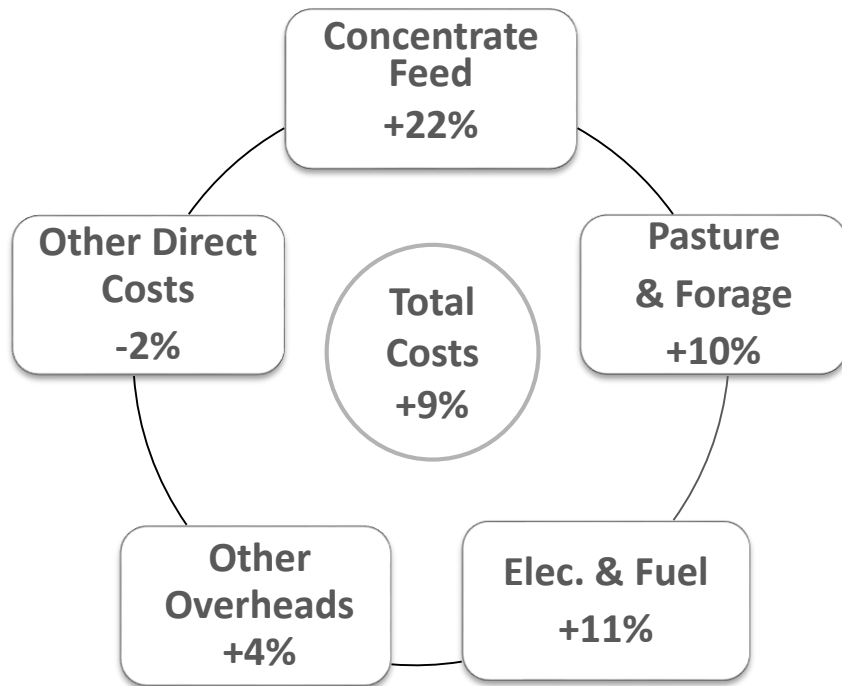
Many farms have production costs that differ from the average!



Cost Pressures in 2021

Costs per litre 2021e

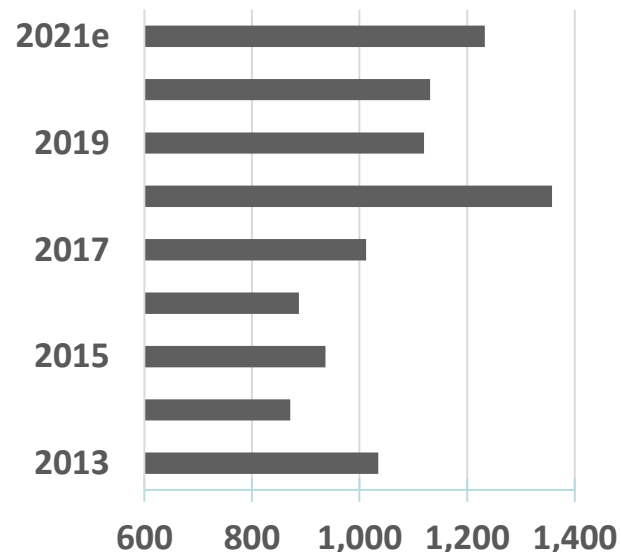
Expenditure change relative to 2020



Source: Teagasc NFS data and Authors' estimate for 2021

* Assume average increase in production (6%)

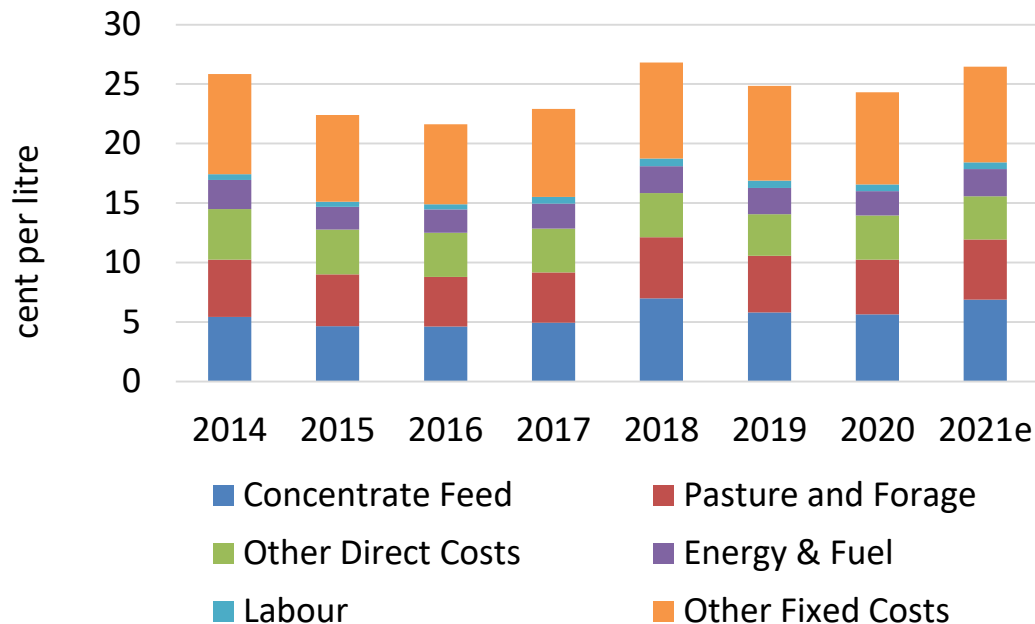
Average Dairy compound feed use (kg per head)



- 2021e Feed use up 9% to 1,231 kg per cow
- Farm specific drivers e.g. location

Substantial increase in 2021 input costs - higher feed, fertiliser and fuel prices

Average Cost of Milk Production per Litre



- **Average** costs 26.5 cpl in 2021
 - up from 24.3 cpl in 2020
 - Concentrate costs 6.9 cpl
 - Pasture and forage 5.1 cpl
- But, net margin up 31% to 15.1 cpl

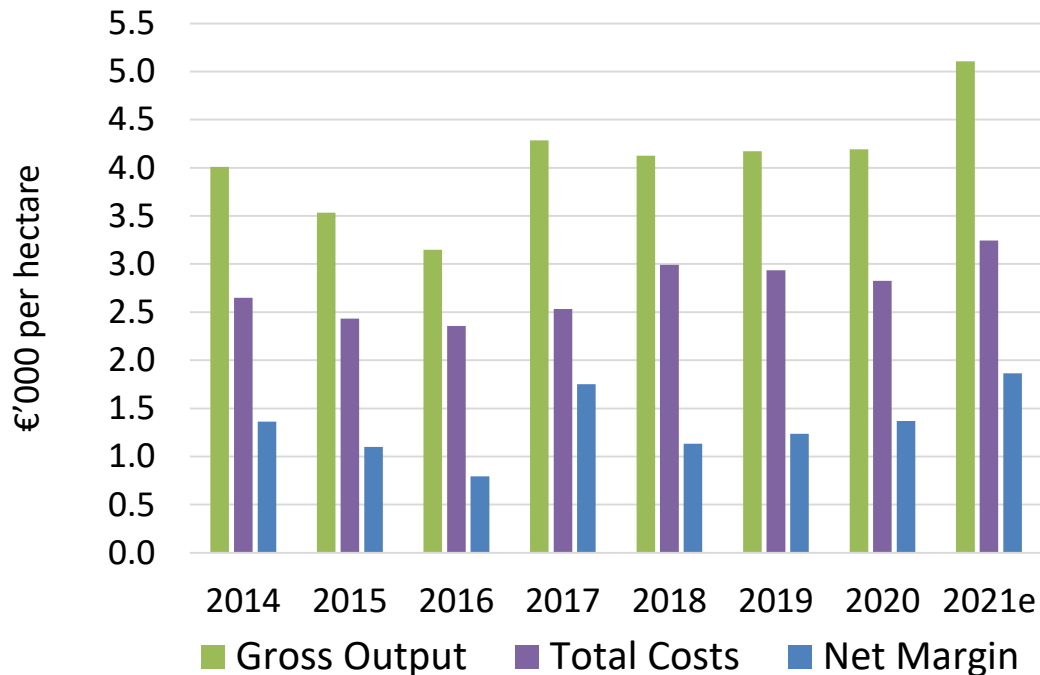


Source: Teagasc NFS data and Authors' estimate for 2021

Teagasc Outlook 2022– December 7th 2021

However, average net margin up substantially in 2021

Average net margin per ha. €1,863 in 2021



Gross output per ha ↑22%

Total costs per ha ↑15%

Net margin per ha ↑37%

Source: Teagasc NFS data and Authors' estimate for 2021

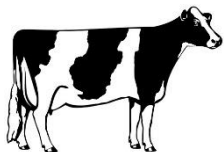
2021 Dairy Summary



6% increase in milk production



9% increase in total costs per litre (26.5c)



2-3% increase in dairy cow population



31% increase in net margin per litre (15.1c)



3-4% increase in milk yield per cow



37% increase in net margin per hectare (€1,863)



16% increase in milk price



Dairy Outlook 2022

Dairy Outlook 2022



- **Global dairy markets**

- Outlook is quite uncertain – particularly on the demand side
- Modest supply growth expected across main exporters
- Market prices are currently very high
- Prices to ease back if demand growth slows
- International Dairy prices for 2022 to average similar to 2021

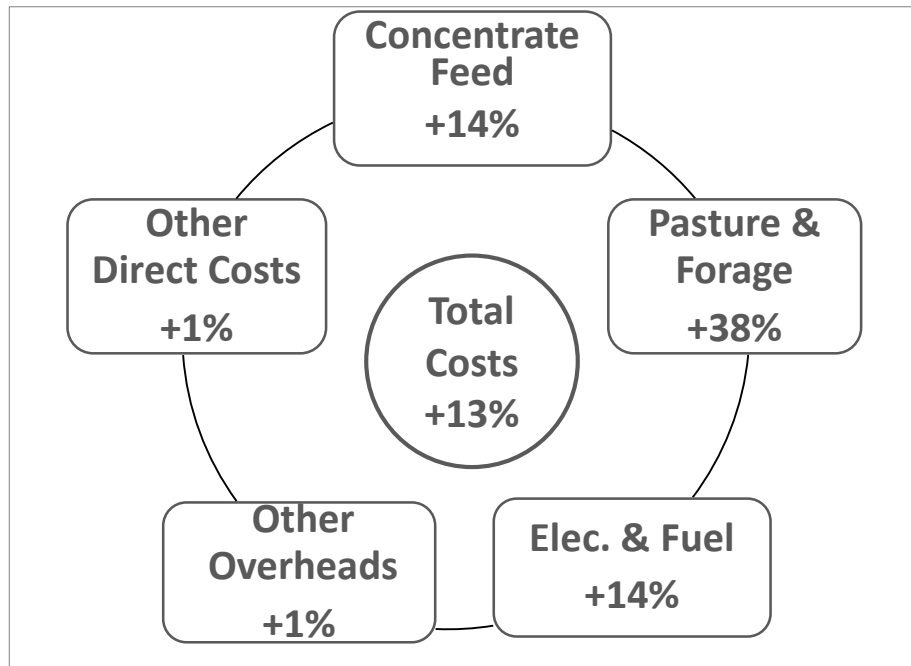
- **Irish dairy sector outlook**

- Production volume forecast +2%
- Irish milk price in line with 2021 average
- 40cpl (actual constituents vat incl.) in 2022
- Production costs to increase substantially

Dairy input costs to rise further in 2022

Costs per litre 2022f

Expenditure change relative to 2021



- Feed Use per litre to increase due to high fertiliser price
- Fertiliser price up 120% (but huge uncertainty)
 - Usage likely to fall – assuming 15% on average
 - Focus on containing costs but pressure on margins
- Average cost CPL closer to 30c in 2022f

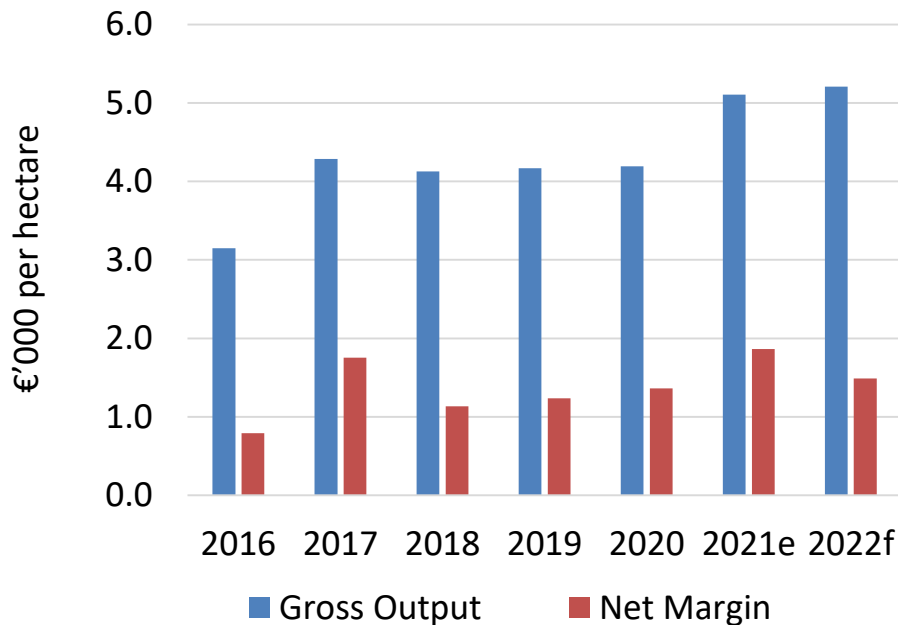
Source: Teagasc NFS data and Authors' forecast for 2022

* Assume average increase in production (2%)

Teagasc Outlook 2022– December 7th, 2021

Reduction in net margin forecast for 2022

2022f Average net margin per ha. €1,487



Source: Teagasc NFS data and Authors' forecast for 2022



- Normal weather assumed
- Production to ↑2%
- Gross output per ha ↑2%
- But, net margin per ha ↓20%

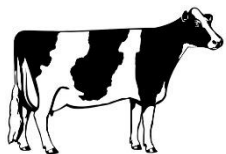
2022 Dairy Summary



2% increase in milk production



13% increase in costs per litre (29.8c)



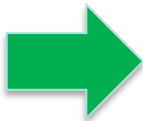
3% increase in dairy cow population



22% drop in net margin per litre (11.8c)



Stable milk price (40c)



20% drop in net margin per hectare (€1,487)



Summary

- 2021 - strong rally in dairy commodity and milk prices
 - Upward trend in Irish milk price
 - Rising input prices as the year progressed (an issue for 2022)
 - Significant increase in net margin and farm income
- 2022 forecast – considerable uncertainty
 - Stable international dairy product price environment (averaging over the year)
 - Irish milk price stable with slight increase in production
 - Input price inflation - higher feed, fertiliser and fuel expenditure
 - Substantial drop in net margin per ha and per litre