Agriculture

2018 Review

2018 was a challenging year overall for the Agri sector. Margins fell in many enterprises driven by increased costs and reduced product prices. Challenging weather conditions including a prolonged summer drought drove higher costs of production on most Irish farms in 2018. The value of Irish food, drink and horticulture exports decreased by 4% to €12.1bn, despite a 2% increase in the overall volume of Irish exports. Brexit remains the key threat for the Irish Agri food sector, with the UK market continuing to be critically important for Irish exporters. 37% (€4.5bn) of Irish food exports in 2018 were to the UK.

Key Trends

- 4% decrease in the value of Irish food and drink exports driven by lower milk and pig prices. Lamb, grain and straw prices all increased while cattle prices were higher year on year in H1 and fell in H2 to lag 2017 levels.
- Continued growth in the volume of beef and milk production. Very strong year on year growth in milk volumes in Q4 helped increase annual Irish milk production by c. 4%, exceeding 7.5 bn litres. The growth in the Irish dairy herd was also the main driver of a 3% increase in the supply of beef cattle in 2018.
- Falls in profit margins for dairy, beef, pig and sheep farmers. Tillage farmers benefitted from higher grain and straw prices and margin per hectare for most tillage farmers rose in 2018. Income from the EU funded basic payment scheme remains particularly critical for beef, sheep and tillage farmers.

Dairy

- Global milk production increased by 2% in 2018, while in Europe supply grew by only 1% as summer drought across Europe reduced yields and increased production costs. Lower than expected rates of production growth allowed the EU to significantly reduce intervention stocks of skim milk powder over the year.
- Costs of production grew on dairy farms in 2018. Drought over the peak milk production months reduced grass growth dramatically, forcing farmers to increase their use of compound feed by almost 40% on average. Areas in the south and east of the country worst impacted by the drought were typically dairy intensive regions where feed usage was much higher than the national average increase.
- Despite the drought, Irish milk supplies increased to >7.5Bn litres during 2018, an increase of 4% year on year on 2017 levels.
- Average Irish milk prices fell by c. 7% to 34 cent per litre, and are likely to have fallen further were it not for the impact of summer drought on European production. Butter remained the main driver of milk price during 2018.
- Teagasc estimate average Irish dairy farmer income for 2018 to have been c. €67,000, a fall of 22% as a result of higher production costs and lower prices.

Beef

- Demand for Irish beef remained resilient during 2018, despite increased supply volumes and the strength of the Euro to Stg. Average beef prices for 2018 varied depending on carcass type and on average were comparable to 2017 prices.
- Cattle supplies rose by 3% (51,000 head) in 2018 but average carcass weight was again lower in 2018 across steers, heifers and cull cows reflecting lower average quality carcasses.
- Irish beef exports in 2018 were valued at €2.5bn and rose by 1% in value with increasing supplies of cattle from the expanding dairy sector the principal source of this extra volume. 52% of 2018 beef exports went to UK destinations, emphasising the importance of continued access to this market for Irish beef producers into the future.
- Live cattle exports were also up 30% (58,000) in 2018 and are considered vital to providing a market for the continued anticipated growth in dairy type livestock in 2019.
- Growth in dairy calf registrations in 2018 of 40,000 just failed to match the dramatic decline in suckler calf registrations of 45,000. The fall in suckler calf registrations is the largest decline in recent years, reflective of the profit margins from the sector, which remain heavily reliant on EU funded Basic Payments.

Pigs

- Average pig prices of c. €1.39 / kg (est.) fell by 13% in 2018. During this time, feed prices increased by €8 / tonne dramatically reducing the margin over feed costs to farmers to c. €0.33 / kg, a 43% decrease in margins from 2017 levels, leaving many pig producers in a loss making situation in 2018.
- Irish pig-meat exports grew by c. 6% in 2018 owing to higher carcass weights and a 1.5% increase in the number of pigs slaughtered to 3.8 million head.
- Falling demand from China, one of Ireland's export markets was a key driver of the fall in pig prices. African Swine Fever is spreading through China and is expected to reduce domestic Chinese pig production in 2019, increasing their pig meat import demand.
- Current profit levels are unsustainable on many Irish and EU pig farms. Margins over feed will need to increase to 50c/kg dead weight for the industry to be sustained.

Tillage

- Tillage farmer margins increased significantly during 2018; driven mainly by an increase in cereal prices of between 30 – 40% depending on the crop in question. This price increase was partially offset by a 20% drop in average yield from 2017 levels as a consequence of the summer drought.
- Teagasc estimate that 78% of cereal farmers had a positive net margin in 2018 with high grain and straw prices compensating for the falls in yield. Spring Barley growers were worst affected by low yields.
- Tillage farmers also worked in partnership with livestock farmers to offset fodder shortages by sowing catch (fodder) crops following early harvest of Winter cereals in Q.3.

Land Sales

- Land Prices (nationally and excluding Dublin) to the end of Q.3 2018 as reported by Sherry Fitzgerald grew by 2% to €9,275 per acre.
- Price increases were highest in the midlands, with all parts of Ireland (excluding the West) showing increases in average land prices from 2017 levels, reflective of the widening gap between high quality arable /grassland and poorer quality marginal grassland.

Prime Grassland – Year on Year Performance, Q3 2018

Source: Sherry Fitzgerald Research

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Agriculture

2019 Outlook

The first half of 2019 is likely to be pivotal in the determination of medium term incomes for Irish farmers. The outcome of Brexit negotiations will outline the way in which Ireland will trade with the UK in future. Any outcome other than continued access to the UK market in a similar fashion to the current position will present significant challenges for Irish farmers and food producers. Brexit aside and assuming a normalisation of recent weather patterns, incomes are expected to increase on dairy and beef farms, while it is likely to be the 2nd half of the year before pig farmers' return to profitability. Tillage farmers remain dependent on international grain markets, forecast to fall from current levels in advance of Harvest 2019.

Dairy

- Milk production supply growth across the main global dairy exporting markets (EU, United States and New Zealand) is forecast to be modest in 2019. Favourable continued weather conditions in NZ is a risk to this view, however, higher grain prices have lowered profit margins for US milk producers. European dairy farmers outside of Ireland have limited expansion potential in H1 2019 owing to high culling rates in 2018. Demand for dairy commodities should remain relatively steady during 2019, but Irish farm gate prices remain ahead of current market returns.
- Profit margins are forecast to grow on Irish dairy farms in 2019. With milk prices expected to remain stable, margins are set to increase based on lower feed and fertiliser usage, and a return to more typical grazing conditions than were experienced in 2018.
- Irish annual milk production is set to grow by up to 6% during 2019, driven by increases in the amount of land devoted to dairy production and the output per hectare farmed. Conversions of current dry-stock and tillage farms to dairy will continue to be a feature of the sector given its relative profitability and lower reliance on the EU funded Basic Payment.

Beef

- The growth of the Irish dairy herd has strengthened beef supplies in recent years and Irish beef supplies are expected to again increase modestly by 1% on 2018 levels. Conversely, UK beef production is expected to fall by 2% 2019.
- Global demand for beef continues to grow and while > 50% of Irish beef exported during 2019 is likely to remain destined for the UK market, Irish exporters remain focused on diversifying markets in Asia and Europe.
- Suckler cow numbers in Ireland are likely to decline further in 2019.
- Despite the current support available for suckler farmers via the Beef Data Genomics Scheme, profitability remains a challenge. The Beef Environmental Efficiency Pilot scheme announced in the most recent budget is expected to support suckler farmers with payments of c. €40 per weanling in 2019. This payment level is unlikely to reverse the recent trend of a reduction in the national suckler cow herd.

Pigs

- Supplies of finished pigs are set to stabilise across the EU in 2019 While US pig-meat production will again grow in 2019, the US / China trade war will impact access to the Chinese markets for US exports. This will present an opportunity for EU producers.
- China is the largest importer of pig-meat in the world and while it had a reduced import requirement in 2018, the impact of African Swine Flu will reduce domestic supplies in 2019 and provide a much needed boost in export opportunities and pig prices to EU pig suppliers.
- Irish pig supplies are expected to continue to rise by c. 2% in 2019. Irish pig meat exports will likely continue to be UK dominated, where we compete with Dutch, Danish and Spanish supplies all of whom are also Euro based. Food price inflation in the UK for higher value proteins, e.g. beef and lamb may stimulate additional demand for pig-meat.
- Feed prices are the other main determinant of pig farmer margins and based on current expectations, it will be H2 2019 before pig feed prices fall to more normal levels. Margins over feed costs are likely to remain challenging on most Irish pig farms during H1 2019.

Tillage

- In December 2018, the International Grains Council forecasted the 2018 / 2019 global grain harvest at 2,079 million tonnes, a decrease of 24 million tonnes year on year. Winter wheat plantings have increased, however, across the EU, Russia and the US, a reversion to normal grain yields in 2019 would see harvest expectations revised upwards.
- Irish grain growers are likely to see their costs of production increase and margins fall based on a forecasted 20% reduction in grain prices and a reversion to normal weather conditions and grain yields.
- Weather events throughout the grain growing season will determine how realistic these harvest forecasts are, with long term viability and sustainability of the tillage sector in Ireland also reliant on the continued availability of glycophospate and pesticides to maintain crop quality through the growing season and at harvest time.

Other Sector News

- Challenging weather conditions throughout 2018 prompted many farmers to postpone planned farm development projects. Despite the uncertainty of Brexit, farmers are now planning to complete these projects in 2019. Farm development finance applications are weighted towards the growth of the dairy sector. TAMS grant aid remains a feature of most projects, with Bank of Ireland providing both bridging loans (repayable from grant and VAT refunds) and longer term loans to fund these development projects.
- Bank of Ireland remains optimistic about the prospects for the Irish agricultural sector. The growth of the dairy sector experienced since quota abolition in 2015 is set to continue. Challenges remain, including the threat of a hard Brexit and our dependence on the high value UK market for many of our key commodity exports. Ireland remains heavily self-sufficient in beef and dairy products in particular and producers will continue to be exposed to international commodity markets that will remain cyclical and volatile. Our stability, proven track record and investment in people with agricultural know how, provide us with a strong platform to support existing and new customers through these cycles and continue to meet the funding and investment requirements of Irish farmers and agri-businesses.

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Sources: Irish Farmers Journal Teagasc, Rabobank, Bord Bia, Sherry Fitzgerald, John Fitzgerald, Agri Development Manager