Bank of Ireland Sectors Team Agriculture 2020 Insights / Outlook 2021

February 2021

Bank of Ireland

Classification: Green

Summary: Despite the agri sector operating in the shadow of a no -deal Brexit and a global pandemic, agri commodities and farm incomes were maintained in 2020 demonstrating the sectors resilience.

Agriculture: 2020 Review

Summary

- **Continued growth:** Despite operating in a global pandemic and the loss of the global food service market, Irish agrifood exports were down marginally (-2%), while dairy production increased by 4%, demonstrating the resilience of the sector.
- **Stable commodity prices:** Milk and beef prices remained relatively stable during the year while grain prices were slightly higher.
- **Increased average farm incomes:** As a result of favourable weather and lower feed, fertiliser and energy costs coupled with stable farm-gate prices, average farm incomes increased during the year.
- **Continued investment:** While COVID-19 did result in the postponement of some investments across farms in early summer, activity picked up later in the year. The main driver of investment continues to be dairy development and land purchase. Bank of Ireland continues to actively engage and support farmers with investment plans.

Sector Developments – 2020 Key Numbers

Food & Drink exports (Bord Bia)

down **2%** to **€13bn** vs. 2019

Average Farm incomes (National Farm Survey)

up **6%**

Milk production (CSO)

up **4%** to **8bn** litres

Support payments (Teagasc)

up **1%** from additional COVID-19 support

Fertiliser prices (Teagasc)

down **10%** on 2019 level

Milk Price (CSO)

no change at **34.4c** per litre (incl. VAT)

Key Trends in the Sector:

Little direct COVID-19 impact:

- The sector came into this crisis in a strong state. Food supply and farming was deemed an essential service which saw food supply chains kept open ensuring the business of farming continued.
- As a result, the sector was not impacted directly by COVID-19, there was no uptake in overdraft utilisation rates and there was minimal demand from farmers for payment break requests.

Commodity price drops were limited

- The worst fears of a short-term impact on dairy and beef commodity markets did not materialise. The market remained surprisingly robust and buoyed by strong consumer demand, China's insatiable appetite for imports, along with weaker meat and dairy supply across Europe. Additional Government support programmes in the US boosted global demand while extra Irish Government supports alleviated weaker beef prices.
- The COVID-19 driven reduction in oil and energy prices brought reduced fuel, energy, fertiliser and feed costs to farmers. As a result, the impact on farm cashflows and incomes was limited.

Limited Land sales

- There was reduced activity in the land market during the year due to the postponement of land auctions in H1, along with vendors holding off putting land on the market. However, activity picked up significantly in the autumn. Indications are that average land prices remained stable in 2020 with some parcels where competition was strong seeing significant price increases.

Reduced Farm development

- As limited building material or labour were available for three months in early summer (when traditionally building work takes place on farm) this reduced farm development activity and resulted in routine building maintenance and investment and expansion investment being postponed.

Weak beef sentiment

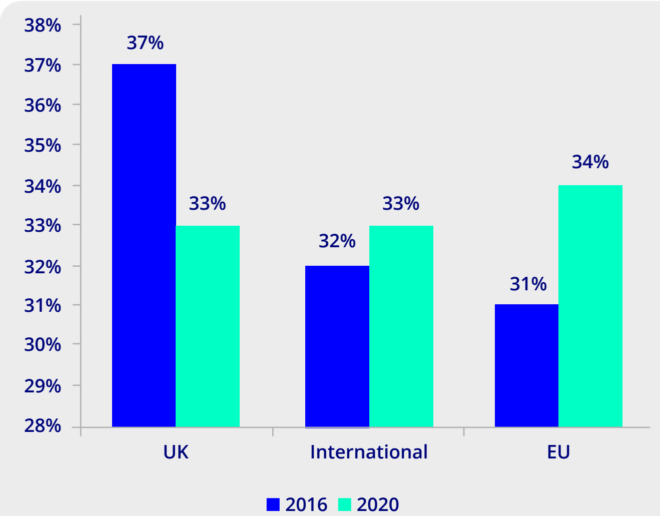
- Despite the drop in cattle throughput at marts and the loss of the food service market, prime beef prices increased marginally to €3.62/kg average over 2020 as supplies of prime cattle tightened. However, there was weaker sentiment amongst beef farmers driven by weak prices, Brexit and COVID-19 uncertainty.

Continued strong growth in dairy

- There continued to be strong appetite for expansion amongst dairy farmers to include new entrants, dairy conversions and funding additional units for existing farmers. Milk price was equivalent to 2019 at 34c per litre (CSO). Milk production continued to grow and was up 4% to just over 8bn litres in 2020. (CSO)

Brexit and market diversification

The success of the diversification strategy of the Irish food and drink industry can be seen in export figures for 2020 and in how they have shifted since the Brexit referendum in 2016 (Bord Bia). In 2016, the value of food and drink exports was €1.8bn less than it was in 2020 and has grown as a direct result of dairy quota removal in 2015.



Source: Bord Bia

2021 Agri Sector Outlook

2021 Key numbers

4.3%
Projected rise in food prices (IMF) in 2021

3%
Domestic milk supply growth in 2021

75%
Self-sufficiency of UK beef market in 2021

31-32c/L
Average base milk price in 2021 incl. VAT

€3.65-€3.85/kg
Average beef price in 2021

€1.55-€1.60/kg
Average pig price in 2021

Robust outlook:
- The sector continues to prove its resilience especially to wider economic shocks. Overall, the long term outlook remains positive due to continued population growth and our ability to produce high quality premium products that are globally competitive.
- COVID-19: While weather will remain a significant driver of farm incomes, the increased costs and complexity of Irish exports to the UK along with the speed at which COVID-19 restrictions are lifted and a vaccine rolled out will all be critical to commodity price developments during the year.
- Brexit: The UK will remain the largest single destination for Irish food and drink exports in 2021 and beyond thanks to its geographical proximity, shared language, tastes and culture and its need to import one third of its food needs.
- The sector remains lowly geared and has been deleveraging over the last decade.

Investment activity:
- Due to the postponement of activity and investment in 2020 there is likely to be pent up demand for 2021.
- Increased land transactions are likely this year provided restrictions are lifted in time for the busy summer auction market along with innovative methods of holding land sales auctions.
- With the risk of a potential hard Brexit gone, it is expected that sentiment and appetite for investment will increase across all farm sectors.
- The expansion and investment on existing dairy farms looks set to be sustained along with continued conversion of land to dairy farming.
- Increased environmental and climate regulations will see an increased requirement for investment in areas such as slurry storage, animal housing and low emission slurry equipment.

Dairy
- Dairy continues to be the main driver of growth in the sector. Production volumes are expected to increase 3% in 2021 due to increased cow numbers and yields.
- Indications are of stable milk price outlook for the medium term as evidenced by a number of fixed milk price schemes offered to farmers by processors at base price levels of between 31c-33c. The outlook for 2021 is that milk prices will average 32c/l (Incl. VAT) as global supply and demand are expected to be in balance in 2021.
- Demand is currently buoyed by Government aid programs (particularly in the US) and as these unwind, the economic impact of COVID-19 may weigh on dairy demand.
- Some certainty has emerged following the new EU-UK trade deal, but uncertainty remains in the areas of supply chain, export administration and product displacement risk as the UK seeks to become more self-sufficient.
- Nonetheless, 2021 offers the prospect of strong, continued growth – albeit at lower levels than seen in the last few years. Processors have COVID-19 contingency plans in place to ensure continuity of processing over peak in 2021.

Beef
- As a result of the favourable outcome in EU UK trade negotiations, it is anticipated that beef demand should strengthen somewhat as the year progresses.
- Cattle prices will be influenced to a large degree by the demand for Irish beef in the UK and the extent that foodservice across Europe opens up to drive demand.
- There was an element of stock building in the UK prior to year-end and this could dampen demand in the early part of 2021.
- The non-tariff costs (estimated at 10c-12c/kg) associated with Brexit may limit the extent of the increase in prices.
- Meat factories have upgraded their processes and procedures around COVID-19 to reduce the likelihood of further outbreaks.

CAP
- Payments to farmers totalled almost €1.8 billion including Basic Farm Payment, Rural Development and Forestry Payments in 2020. The reform of the Common Agricultural Policy (CAP) is entering its final stages that will set out EU payments to farmers from 2023 to 2027.
- The current CAP has been extended from the end of 2020 to the end of 2022. This gives farmer's certainty as direct payments will continue at the same level to at least 2023.
- Under the proposed CAP, 20-30% of farmer's direct payments look likely to be set aside for eco-schemes. There will be continued convergence with the aim to have every farmer getting a minimum of 75% of the national average payment- up from 60% at present. Direct payments look set to be capped at €100,000. The overall CAP framework is expected to be signed off in the first half of 2021.

Pigs
- Feed prices are expected to rise on the back of increasing grain and protein prices which will likely impact margins.
- Irish pig price is forecast to be back from 173c/kg in 2020 to a more moderate 1.58c/kg this year which will see the Irish pig sector experience more moderate profit margins in 2021.
- The level of China's import of pigmeat from the EU will have an important influence on the Irish pig price. It is widely expected that China may struggle to get back to pre ASF (African Swine Fever) production levels over the short to medium term.
- Supply is expected to tighten across the EU following the discovery of ASF in wild boars in Germany late last year. As a result, it was banned from supplying China and German pig producer prices have fallen.
- Irish pigmeat production is expected to stabilise for 2021 reflecting a more cautious approach from producers as the European region continues to be impacted by COVID-19 and African Swine Fever (ASF) related events.

Tillage
- Global grain prices continue to strengthen and are up significantly on this time last year. The drivers of the current rally include high demand, including from China and worries about supplies. However, political interventions, particularly from large grain exporting countries such as Russia and the Ukraine are adding to the worry. If other countries follow Russia and implement measures (higher export taxes) to curb exports, global grain prices are likely to continue at an elevated level into the year.
- Whilst current sentiment looks to be fairly bullish, weather and growing conditions in key grain exporting regions will become critical in deciding the evolution of grain prices.
- Fertiliser prices are strengthening on the back of the positive grain markets.
- A new €10m scheme that will see farmers paid €250/ha for straw incorporation this year is expected to be rolled out later in the year. This would take out 15% of the straw harvest which should bolster straw prices in the coming years.
- Winter cereal areas for harvest 2021 are estimated to be similar to harvest 2019. Crops have generally been planted in good conditions and there are relatively few establishment problems reported.
- Malting barley price for harvest 2021 has been recently offered at €200/t green. This provides a further indication of strength to feed grains.

Bank of Ireland
- In Bank of Ireland, we recognise that we have an opportunity to support our customers and to enable Irish farmers and rural communities to thrive.
- Our stability, proven track record and investment in people with agricultural expertise, provide us with a strong platform to meet the funding requirements of Irish farmers and agri-businesses.
- We understand the farming cycle, agri commodity price volatility and the regular need to invest to maintain growth and profitability in this dynamic sector. We have a strong appetite to support progressive, innovative and efficient farmers.

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Eoin joined Bank of Ireland in 2020 as Head of Agri, from the Irish Farmers Journal, where he served as Agribusiness Editor upon joining the paper in 2014 and served as Deputy Editor from 2017 until his departure. He also has extensive experience in Irish and international Agri business, including 5 years as Managing Director of Target Fertilisers. Eoin holds a Masters in Agricultural Science from UCD along with MBA from Smurfit School of Business.

Sources: Teagasc, CSO, Department of Agriculture (DAFM), Bord Bia, Euromonitor, European Commission, IBEQ, MATIF, LIFFE, IMF, World Bank, FAO.