promar matters

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WELCOME

James Dunn, Managing Director of Promar International

Welcome to the June edition of Promar Matters. The sun has finally come out and it's great to see crops and cattle starting to thrive.

This month we discuss the early considerations that an increased milk price may have had on dairy farmer profits for the financial year ending March 2018. With further milk price stability now expected, the key focus should still be that of production efficiency as feed and other overhead costs, particularly oil prices, continue to rise. There is also the issue of reducing the debt burden that previous, more challenging, years have created.

We also consider the impact of a potential reduction in the number of dairy herd replacements in the GB herd, brought about by the switch to using beef semen when dairy gross margins were under pressure two years ago. Keeping a continual stream of high quality replacements should form the basis of all dairy farm business policy, as Nigel Davies points out.

Please enjoy the read and get in touch if you require more information.

NEWS IN BRIEF

- Rising oil prices - In the last month the price of Brent Crude has been near to $80 a barrel, compared to a low of below $50 a barrel in May 2017. Tightening of supply and increased prices will impact many input costs and will potentially result in feedstocks being diverted to the production of biofuels
- Soybean price - The Chicago Board of Trade (CBOT) soybean price has risen for the eighth consecutive month, bringing average prices up by 41% over the year. However, futures prices suggest that prices are set to fall over coming months, so producers will need to apply a combination of strategies to secure the best feed costs

GETTING HERD POPULATION BALANCE BACK ON TRACK

Industry insight suggests that some herds could experience a population imbalance in the coming months.

Producers should therefore take steps to ensure that a sufficient number of milkers are maintained so that milk production does not suffer.

Nigel Davies, Promar's National Consultancy Manager, explains that a combination of youngstock shortages, and increased culling rates, are the precursors of the potential imbalance.

"One of the observations of the AHDB Milk Forecasting Forum earlier this year, which used data provided by AHDB/Genus (see graph), was that national milk production from January 2018 to April 2019 would be adversely affected due to historic insemination decisions made during times of lower milk prices," says Nigel.

"We're now seeing the full impact of this in terms of youngstock numbers coming into the national herd," he adds.

"What's more, when set against the trend of a higher rolling 12-month culling rate that we've seen in the most recent Milkminder sample. This raises the question as to whether some herds will be able to maintain the growth in herd size that they've recently achieved, or even maintain their existing herd size over the next 12 months."

The March 2018 Milkminder matched dataset indicates that over the last 12 months, the average stay of each animal in the herd has fallen by 68 days, when compared to March 2017, to just over 3 years and 7 months.

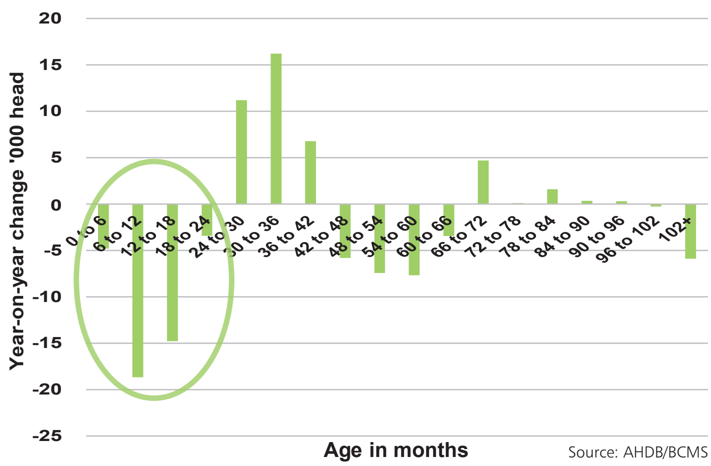
"To further emphasise this, while recognising that the impact of disease and compulsory culling for some individual businesses has been severe, recent budget work with some of our less affected clients has indicated that the outcome could also be significant for them, with a likely imbalance between the expected number of animals leaving and joining the herd," says Nigel.

He advises that such a dramatic change in herd demographics requires close investigation to understand why the additional culls were made over the last 12 months.

"With the aid of tools such as Milkminder, drilling down and mapping out the reason why each individual cow has left the herd can be very revealing and help inform and develop effective plans to reduce future losses.

"And the other part of the equation of course is having a clearly defined and consistent breeding policy that ensures a reliable flow of sufficient future replacements."

GB dairy herd (Oct-17 v Oct-16)



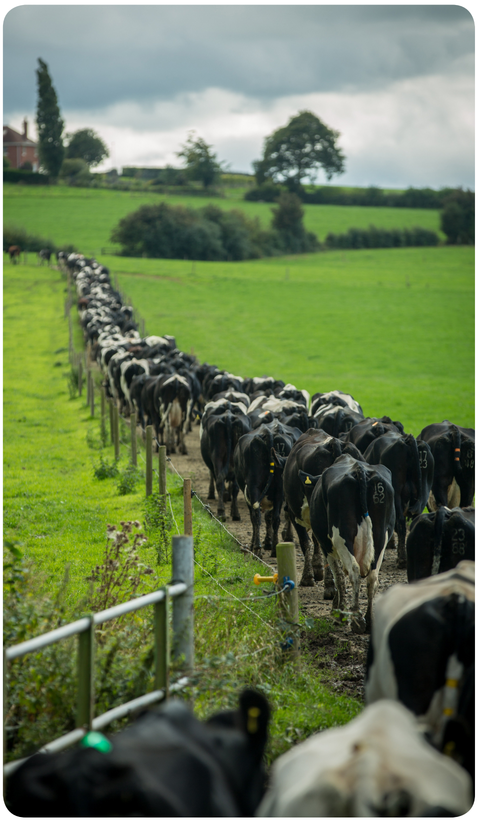
Source: AHDB/BCMS

UPTURN IN MILK PRICE SUPPORTS EXPECTED £85,000 IMPROVEMENT IN PROFITS

Very early consideration of the outcome for Promar's national sample of Farm Business Accounts (FBA) for the year-ending (y/e) March 2018, suggests that an upturn in milk price and improved technical performance is likely to contribute towards farm profits increasing by approximately £85,000 for the average farmer compared to y/e March 2017.

Reporting on the data, Nigel Davies, Promar's National Consultancy Manager, explains that this figure reinforces the effect positive market conditions can have on profits.

"Last autumn, we predicted an increase in profit for the average dairy farm for y/e March 2018 of in excess of £50,000 over and above the £43,404 reported as achieved by the average in the sample in 2017.



"Although the fully audited results for the whole FBA sample won't be available until later this year, individual clients are starting to receive their reports now and our recently available Milkminder matched sample data for March 2018, shows that the rolling milk price has increased by 4.98ppl over the period.

"This is significant, and if replicated for the average farm in the FBA sample, would imply the generation of an extra £83,789 of income in the last financial year, if the level of milk produced remained the same as y/e 2017.

"Combined with the average Milkminder herd increasing yield per cow by 241 litres and keeping nearly five additional cows, these FBA farms could also be expected to add a further £26,263 to income if they replicated the same increase in volume of milk they produced as the Milkminder sample."

However, Promar's Head of Data Tim Harper, notes that it has not all been positive news. "The Milkminder matched sample indicates that average concentrate prices have increased year-on-year by £16/ tonne, this along with feed rates increasing by 0.01 kg/litre up to March 2018 will have diluted margins by circa £10,400."

Farm overheads and other non-feed costs have also come under pressure in the 12 months to March 2018. "If the average Retail Price Index (RPI) is applied to these costs in the FBA sample, then an additional average cost of £10,771 can be added for the financial y/e March 2018."

It is important to note that this is just a projection at this stage and that despite the expected improvement in profit of £85,000, Tim provides caution on two key points. "This forecast outcome follows two relatively poor years in 2016 and 2017, which farmers will no doubt still be feeling the effects of.

"Additionally, the total cash requirement of these businesses in 2017 for loan commitments, capital expenditure and drawings was £168,616, which far exceeds the expected increase in profit. So although producers should have something to show for this increase, it will not be enough to meet these ongoing cash commitments."

Looking ahead, he adds that market conditions beyond the producers control are likely to have an impact on profit levels in the year-ending March 2019. "The rolling milk price is likely to stabilise over the next few months, however overhead and other costs are likely to continue to increase at a faster rate in the financial y/e 2019.

"For example, oil prices have risen by 25% since March 2017, and this is likely to be sustained. The net impact of this is that at this early stage of the year, we would foresee that in 2019, profits may not reach the higher levels seen during y/e March 2018 but shouldn't return to the lows seen in 2016 and 2017."

Therefore, accurate budgeting for the financial outcome for businesses in March 2019 is important. "Given that overhead costs are likely to increase this year, but milk prices should remain stable, one thing that producers could look to do differently when budgeting, is to focus on their costs and associated actions first, rather than sales.

"Clearly understanding your current position in terms of cash and using up-to date and accurate data such as FBA to forecast will be vital to reduce the potential impact of future market conditions."

KEY DATES

Promar will be attending the Great Yorkshire Show, 10-12 July. Don't forget to come and see us if you're at the show.

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