PRESS INFORMATION from

The Dairy Group

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Projected dairy loss of 4.1ppl for 2015/16

Ian Powell, Managing Director, The Dairy Group

“Our projected average loss for 2015/16 is 4.1ppl based on our analysis of actual accounts for specialist dairy farms”, says Ian Powell, Managing Director of The Dairy Group. He goes on to say “We have been calculating dairy costs for the past 7 years and we only include specialist dairy farms to avoid the need to apportion costs, which at the very best is an estimate and at worst is inaccurate and misleading.

Our latest analysis (see table) of specialist dairy farm accounts for 2014/15 shows an average profit from the dairy enterprise of 0.2ppl, which was a decline of 0.4ppl on the previous year. The analysis excludes the Single Farm Payment and any non dairy income and includes the value of unpaid family labour, but excludes the rental value of owned land. The cost of replacements is included in the variable and fixed costs.

The Dairy Group : Cost of milk production 2014/15 & forecast 2015/16			
Cows	221	239	
Yield	8033	7987	
Milk sales	1776913	1910155	
Group	**AVERAGE**	**AVERAGE**	**Forecast**
Year end	**2013/14**	**2014/15**	**2015/16**
Dairy costs	**ppl**	**ppl**	**ppl**
Milk sales	32.0	30.7	24.7
Livestock sales	2.3	2.7	2.7
Valuation change	0.5	-0.1	0.0
Total output	**34.8**	**33.3**	**27.4**
Feed	11.0	9.7	8.6
Forage	2.2	2.1	1.8
Vet & med	1.3	1.3	1.3
AI/recording	0.5	0.5	0.5
Sundries	1.8	1.7	1.7
Total Variable Costs	**16.8**	**15.4**	**13.9**
Gross Margin	**18.0**	**17.9**	**13.4**
Wages paid	2.0	2.3	2.3
Power & Mach	7.1	7.1	6.8
Property costs	1.2	1.1	1.0
Administration	1.5	1.6	1.6
Rent & finance	2.4	2.7	2.9
Total overhead costs	**14.2**	**14.8**	**14.6**
Profit before unpaid wages	**3.8**	**3.1**	**-1.2**
Unpaid wages	3.2	2.9	2.9
Profit after unpaid wages	**0.6**	**0.2**	**-4.1**
Total costs	**34.2**	**33.1**	**31.5**

The average production cost has decreased by 1.1ppl from 34.2ppl in 2013/14 to 33.1ppl in 2014/15, which was 0.5ppl higher than the forecast we made a year ago of 32.6ppl. The total output has decreased by 1.5ppl from 34.8ppl to 33.3ppl, due to the 1.3ppl decline in the milk price. The variable costs have decreased by 1.4ppl to 15.4ppl, mainly due to the 1.3ppl decrease in purchased feed cost. The total overhead costs have increased by 0.6ppl to 14.8ppl, due to a 0.3ppl increase in paid wages and a 0.3ppl increase in rent and finance.

Our forecast for 2015/16 is based on the actual position for 2014/15 and then adjusted using our MCi dairy costs data to indicate milk production and feed cost trends so far in 2015/16. We then look at milk price trends based on our market analysis (MPE reports) and other cost movements using the Defra Agricultural Price Indices. The projection for 2015/16 is for a loss of 4.1ppl, even with the average cost of production reducing by 1.6ppl to 31.5ppl, which is insufficient to offset the forecast milk price fall of 6.0ppl. It is very disappointing to report such a poor outlook for our average dairy farmer with milk sales of almost 2 million litres, supplying some of the highest quality milk in the world to some of the richest consumers in the world, but such is the lament of weak sellers of a perishable product in an over supplied market. UK family dairy farmers have previously demonstrated their remarkable resilience to tough trading conditions as shown in 2012/13 when the poor weather resulted in a similar loss of 3.6ppl, when production costs soared to 35.2ppl.

So how are dairy farmers able to sustain such a loss? The average cost covers a very wide range in performance and undoubtedly some dairy farmers will be unable or unwilling to sustain a high loss for very long. Short term losses can be sustained by reducing capital expenditure, by reducing the level of drawings, by increasing borrowing and by using non-dairy income (single farm payment and environmental income) to subsidise the dairy loss. The wide range in production costs also means that there are opportunities for improving performance, but some changes take time to implement and may require capital investment. However, there are other changes that can be made which can be done quickly and cost very little to implement. The single largest cost is purchased feed and there are opportunities to see where savings can be made, which should start with an assessment of forage quality and quantity to see what level of milk production the forage can support and then to look at how supplementary energy and protein can be bought cost effectively. The challenge for every dairy business is to examine their strengths and weaknesses to see where the opportunities are for improving performance."

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