

The Dairy Group

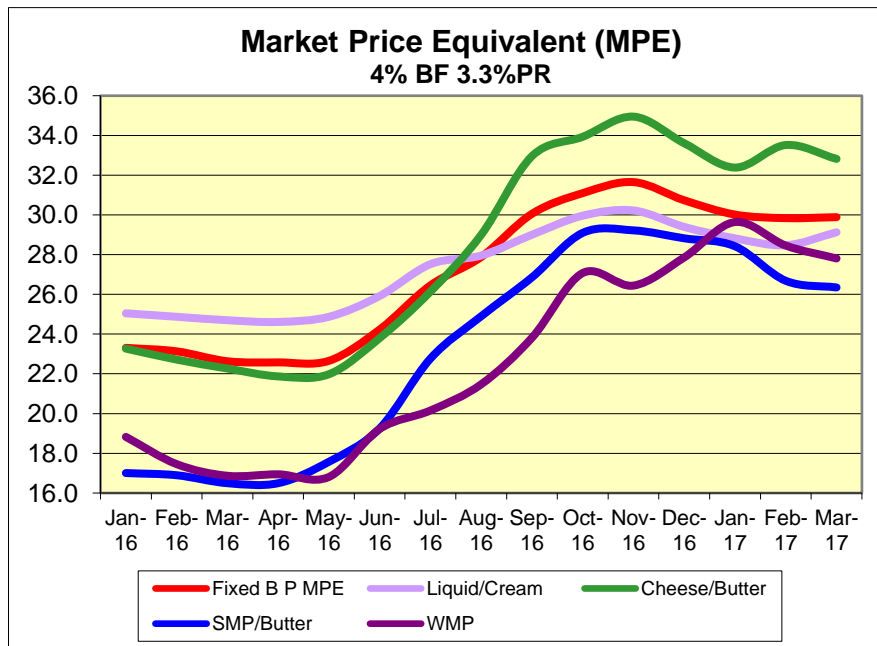
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Dairy Market and Cost Outlook

Ian Powell, Managing Director

Despite UK milk production falling by 800 million litres over the past year, the dairy markets have started to falter at an average market price equivalent (MPE) of 30ppl, which is the average value the milk processor can achieve from the market. This means the average UK milk price should be around 28ppl. There are a few milk buyers paying farmers around 30ppl, but there are far too many still paying 26 to 28ppl. The latest average UK milk price was 27.5ppl in Feb17, with a 12 month rolling milk price of just 23.3ppl.



Whilst the milk price has improved there remains a great deal of uncertainty going forward, which is a reminder that there is little control over milk price, with some retailer aligned contracts also paying below 28ppl. However, you do have control over your costs and this should remain the focus for every dairy business. Too many farms don't know their cost of production, which is a vital first step for improving efficiency. Our forecast for the next 12 months is for the average production cost to increase by 2.3ppl to 32.5ppl. Compared with 12 months ago, dairy compound prices have risen by 19% and the cost of the key straight feeds have increased significantly with soya +19%, rapeseed meal +27% and wheat +34%. We forecast the increased feed cost will add 1.7ppl to the cost of production in the next 12 months. It is not only rising feed cost which will add to the production cost increase, with the price of red diesel up by 49% on a year ago to 56 ppl and whilst a smaller component of dairy production costs it will still add 0.25ppl to the annual cost, but will also result in other fuel related price increases including contractors and fertiliser.

EDITORIAL

Welcome to the April edition of our newsletter. The dry weather has provided an excellent start to the 2017 forage year, with some early grazing & high quality silage options available. The newsletter has two articles covering feed cost and making top quality silage.

It is disappointing that milk price increases have faltered so the focus (as always) has to be on cost of production, especially with feed & fuel cost increasing. Our Top 25% cost of production is 5.4ppl below the average. How do you compare?

The 'In brief' section has 4 important topics including milk forecasting, risk management, the new 'small dairy farmers scheme' & Countryside Stewardship.

If you would like to discuss any of the topics featured in this newsletter further, please speak to your consultant or ring the office on 01823 444488.

Christine Pedersen

To receive this newsletter by email in future please email: newsletter@thedairygroup.co.uk

	Forecast average	Forecast Top 25%
Year end	2017/18	2017/18
Dairy costs	ppl	ppl
Milk sales	27.0	28.0
Livestock sales	2.7	2.7
Valuation change	0.0	0.0
Total output	29.7	30.7
Feed	10.0	8.0
Forage	1.6	1.5
Vet & med	1.2	1.1
AI/recording	0.5	0.5
Sundries	1.9	1.6
Total Variable Costs	15.2	12.7
Gross Margin	14.5	18.0
Wages paid	2.4	2.4
Power & Mach	6.9	5.9
Property costs	1.1	0.9
Administration	1.7	1.5
Rent & finance	2.3	1.9
Total overhead costs	14.4	12.6
Profit before unpaid wages	0.1	5.4
Unpaid family wages	2.9	1.8
Profit after unpaid wages	-2.8	3.6
Total costs	32.5	27.1

The table on the left, shows the forecast average cost of production for 2017/18 and clearly being average is not good enough! The AHDB Evidence Report (March 2017) indicates that the gap in production costs between the top and bottom 25% has narrowed, however our figures forecast a total cost of production of 27.1 ppl for the Top 25%, 5.4 ppl lower than average. You should be aware of the difference between 'Total cost of production' and 'Comparable Farm Costs', with the latter excluding rent & finance, which can add up to 5ppl.

Cost of production analysis can be used to highlight strengths and weakness and more importantly identify opportunities for potential cost savings and as a basis to look at alternative production systems. Most accounting year ends are 31st March so now is the ideal time to compare your costs with the Top 25%. Our consultants can help you with the analysis rather than putting it off for another year.

Ian works with clients across southern England

and can be contacted on 07831 617952.



Reducing Feed Costs

David Donaldson, National Dairy Nutrition Specialist

Milk yield from forage is a key component of lower production costs, in fact, the latest AHDB Evidence Report indicates that the top 25% of herds achieved 19% more yield from forage than the bottom 25%. As the previous article highlights, feed costs have risen on the back of increased raw material prices so taking action to increase milk from forage will mitigate the impact of increased concentrate costs.

The most recent MCi dairy herd costings results show that the average annual milk yield from forage has increased to around 2,700 litres per cow but the top performing herds are achieving 4,000 litres or more from forage. Increasing milk from forage includes grazing as well as conserved forage and relates to both **quality** and **quantity**.

Improving grazing management and increasing the proportion of grazed grass in the dairy cow's diet is one of the most cost effective ways to improve profitability. The prime purpose of grazing is to present cows with a consistent supply of quality forage; and rotational or paddock grazing is the most effective way of achieving this.

Providing sufficient, high quality forage during the periods when cows are buffer fed or housed is key to maximising milk from conserved forage and reducing the level of concentrate feeding required. The main measure of forage quality is digestibility or "D value". This is reported on your forage analysis and the average for grass silage in the UK is 68 – 70. Excellent forage will have a "D value" of over 75 – these extra 5 units of digestibility will give you an extra 2.5 litres of milk or let you feed 2 kg/head/day less concentrate, saving around £60 per cow per year. Harvest date is the critical determinant of quality for both grass silage and whole crop so the decisions you make now set the tone for performance for the next 12 months. Whilst cutting date has traditionally been seen as a trade-off between quality and quantity, research shows that in a normal growing year, total yields from two silage cuts are similar but the D value is improved with earlier cutting.

Independent advice should be sought to formulate rations to meet nutritional requirements depending on milk yield, stage of lactation, etc. Buying dairy compound at competitive prices through a buying group is a proven way to reduce input costs without compromising feed quality. Clients of The Dairy Group who purchase compounds through one of the nine independent feed sourcing groups we run across the country typically save between 7-10% for compound feeds.

Recently there has been some press about increasing levels of copper toxicity in dairy cows and whilst we revised the mineral specifications for the range of minerals available through The Dairy Group Sourcing last year in line with the new regulations, it does remind us not to be complacent about mineral nutrition. Dairy producers should review their mineral policy at least annually with their nutritionist. The mineral policy should include all dairy cows i.e. milking cows at all stages of lactation, dry cows and transition cows as well as youngstock which may be overlooked unless

they show clinical signs of deficiencies. The mineral review should take into account the supply of minerals from all sources and their interaction with each other. In most cases more than 90% of mineral supply is via the feed so reviewing forage and feed mineral supply is the first step. For more information please contact David.

David has 30 years of ruminant nutrition experience and can be contacted on 07471 890888.



Top quality silage best practice

Nigel Hardie, Consultant

As I write this article, a few producers in some areas are taking advantage of a “weather window” to grab very early, high D-value first cut silage but the majority will be waiting for grass crops to “bulk up” and will be aiming for an early May cutting date. Here is our best practice advice for top quality silage:

- Analyse grass prior to cutting for dry matter, protein, sugars and nitrates to provide useful information on which to base harvesting and management decisions.
- Mow when dry (no rain or dew) and spread grass as wide as possible or rake out to wilt rapidly - aim for 30% dry matter in 12 - 24 hrs to concentrate the sugars and promote faster fermentation. Higher dry matter grass (>35% DM) tends to be more difficult to consolidate and is vulnerable to aerobic spoilage so can be difficult to manage in large clamps where it takes more than a week to cross the face.
- Harvesting – set up machinery correctly to avoid ground contact (reducing the risk of soil/organic manure contamination) and to ensure that grass is chopped at the desired length.
- Additives - use of an inoculant will drop the pH faster, resulting in more efficient fermentation, reduced spoilage and potential improvements to silage intakes and animal performance. Some additives have enzymes that help to break down fibre, releasing additional sugar. This can be an advantage in wet silage where sugar levels are low. Sugar helps fuel the bacteria to produce lactic faster and drop the pH quickly. Using an inoculant containing *Lactobacillus buchneri* (or a specific antimicrobial) to counter yeast activity may help control spoilage where heating and moulding are an ongoing problem with drier silage.
- Ensiling - attention to detail is critical; Lactic acid fermentation (the type of fermentation necessary to make good quality silage) will not start until all air has been removed from the clamp and no more is getting in. Clamp walls should be sealed by lining with plastic sheets that can be overlapped with the top plastic sheets.
- Grass should be clamped quickly and evenly, rolled in thin layers (6” max) and rolled right from the start of the process. Good consolidation is vital to ensure good stability during storage and the feeding period and two tractors rolling the clamp may be necessary depending on the harvest rate. Clamp shoulders are often poorly consolidated and lead to frustration when feeding out.
- Sheet each night, even if it means a few less loads per day to allow the lactic acid fermentation to begin but don't roll the following morning as this encourages air penetration.
- Once the clamp is full, seal quickly and thoroughly. Ideally use a thin oxygen barrier sheet on top to create an air tight clamp and reduce waste. Seal the clamp with two top sheets of conventional black plastic. Weight the sheets adequately to ensure they stay in close contact with the silage.



Nigel provides dairy herd and business management consultancy to clients across the North of England and South of Scotland and can be contacted on 07710 898983.

News in Brief.....

Milk Forecasting – Accurate milk forecasting is becoming increasingly important as some milk buyers have introduced or are introducing bonuses for accurate forecasts or penalties for inaccurate forecasts. With slim dairy margins it is important to try to achieve every bonus that is available. Whilst bonuses or penalties are specific to individual milk contracts, penalties may be up to 3 ppl for +/- 25% variation from forecast. Our consultants can help with milk forecasting using MCi which also provides valuable information on forecast milk sales and feed costs which are essential for forward budgeting. Most buyers now require quarterly milk forecasts so a system like MCi provides an effective way of using all the relevant data to make regular forecasting easier and more accurate.

Risk Management - The Dairy Group has been awarded a contract to deliver one-to-one farm consultancy on risk management. AHDB Dairy are running risk management workshops in England as part of a Defra initiative to help

you identify, understand and focus on risk areas in your business. You can find details of the workshops on the AHDB web site and at the workshops you will be able to sign up for fully funded, one-to-one consultancy from a business advisor experienced in risk management on farm. The programme is designed to produce an action plan for managing risks to your business.

Small Dairy Farmers Scheme - a fund of £8.5 million has been made available to support small dairy farmers in England. The scheme will provide a one-off payment to eligible farmers who choose to apply. Eligible farmers produced up to 1,000,000 litres during the period 1 April 2015 to 31 March 2016, and are still active in cows' milk production. Contact your consultant for more information.

Countryside Stewardship - Natural England are writing to all farmers and land managers who have a HLS and ELS agreement expiring this year, inviting them to apply for Countryside Stewardship (CS). The deadline for requesting Higher Tier (HT) application packs has now passed (12 April) and any HT initial applications must be submitted by 5 May 2017. Mid-Tier (MT) application packs must be requested by 31 July and applications must be submitted in full, by 30 September 2017. MT is a competitive scheme and successful applicants will be offered a 5 year agreement to start 1st Jan 2018 (the Government has confirmed that they will fund the full 5 years of schemes agreed for 1st Jan 2018). Land management and capital options are available. Your consultant can help to develop a competitive application that addresses the high priority options for your region.

MSc Thesis - congratulations to Becky Tavernor who has recently completed an MSc degree. For her thesis Becky carried out a study looking at whether pedometers could be used in conjunction with parlour data as an early alert for clinical mastitis. Having studied a herd of 360 Holstein Friesian cows for 12 months, the answer in this specific situation was "yes" as the study showed that in the 2 days before a case of clinical mastitis the number of steps increased, total lying time decreased and total standing time increased. Maybe pedometer data could be made more use of in the early detection of clinical mastitis cases?

Ian Ohnstad gains prestigious RASE award – Congratulations to Ian Ohnstad, Milking Technology Specialist with The Dairy Group who was recently awarded an Associate of The Royal Agricultural Society at a reception at the House of Lords. The award was in recognition of his distinguished achievement in the agricultural industry.



Ian has worked as a dairy specialist for more than 28 years, working both within the UK and overseas. He is the Chairman of the British Mastitis Conference and a Board member of the National Mastitis Council in the USA as well as a Director of The Dairy Group. In addition to his work with dairy farmers, this award also recognises his contribution to research and development in the dairy sector and his ongoing commitment to knowledge transfer and training.

Future Events – The Dairy Group is a silver sponsor of The Total Dairy Seminar 2017 and will also be sponsoring and presenting at the 2017 NMR RABDF Gold Cup Open Day that will be held at Pilsdon Dairy Farm, Pilsdon, Bridport, Dorset, DT6 5NY on 28th June by kind permission of the 2016 Gold Cup winner Simon Bugler. The theme of the open day being 'Identifying marginal gains and shaping your future'.

The Dairy Group consultants work across the UK providing a wide range of dairy business advice. Please contact our Head Office at Taunton or visit our website for further information or to contact our consultants:-

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