

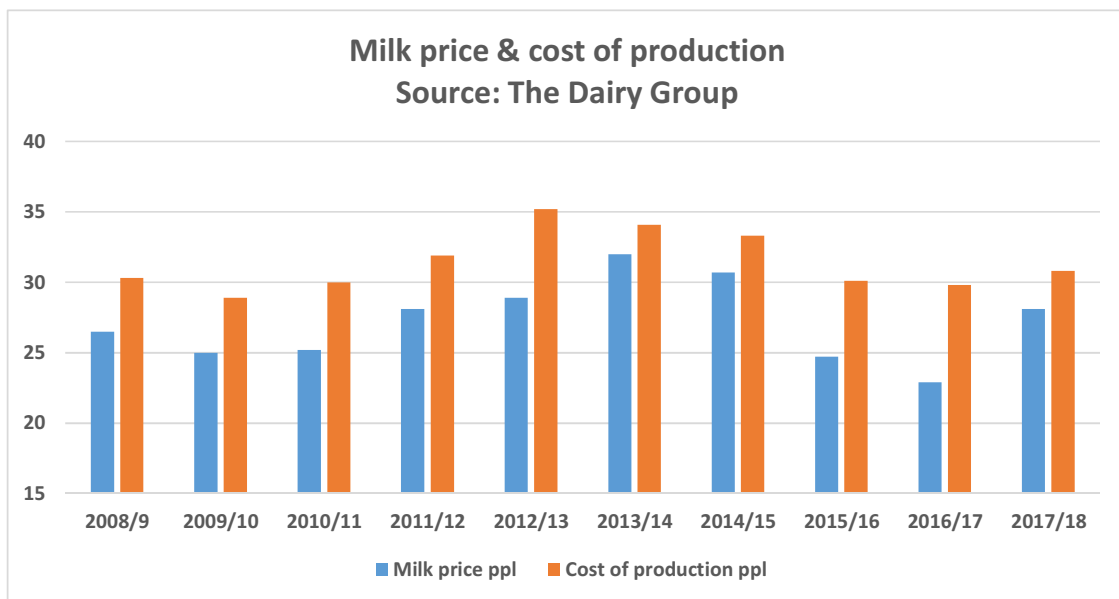
PRESS INFORMATION from *The Dairy Group*

16th July 2018

Milk buyers need to recognise the impact of exceptional weather on dairy costs

Ian Powell, Managing Director, The Dairy Group

“The last time exceptional weather impacted on UK milk production was in 2012 when a very wet summer resulted in reduced milk yields, reduced forage quality and maize yields up to 50% lower than normal. At the time we knew that dairy costs would increase, but it was not until September 2013, when sufficient accounts data could be analysed, that the true impact could be established. Our analysis indicated that in 2012/13 the cost of production increased by 3.3ppl (10%) to 35.2ppl, with a knock on effect to the following year (due to reduced milk yield & reduced forage stocks) with an average cost of 34.1ppl.



Whilst 2018 is completely different to 2012, the very wet spring, followed by a hot dry summer is expected to have a significant impact on the cost of milk production due to the lack of grazed grass, the reduced forage yields, the need to make or buy forage crops, the increased use and price of purchased feed and the high cost of straw. The impact of the dry weather on the maize crop has yet to be quantified, but we must assume a reduced yield. So we could wait 15 months to have accounts data to quantify the impact on dairy costs in the current year or we can use recent history as an indicator. We are currently in the process

of analysing dairy accounts data for 2017/18, which indicates that the average cost of production has increased by 1ppl to 30.8ppl. Based on what happened in the previous exceptional weather event of 2012 we might anticipate the cost of production increasing by 3.1ppl (10%) to 34.5ppl in 2018/19 with a knock on effect to the following year of 33.9ppl in 2019/20.

Whilst milk production was rolling at 14.7 billion litres in the year to 31st May 2018, AHDB report that the weekly milk output fell 1.9% in the week ending 7th July. Milk buyers need to recognise the impact on dairy costs of exceptional weather events. The decline in milk production is only one element of the impact with the increased costs to farmers to be experienced over the next 12 months. Cost trackers reflect the change in prices, but do not reflect the reduction in physical output from land and livestock.

Notes

The Dairy Group cost of production data is compiled from actual farm accounts for specialist dairy farms, with an average herd size of 204 cows yielding 7,965 litres per cow.

Year	Milk price ppl	Cost of production ppl
2008/9	26.5	30.3
2009/10	25.0	28.9
2010/11	25.2	30.0
2011/12	28.1	31.9
2012/13	28.9	35.2
2013/14	32.0	34.1
2014/15	30.7	33.3
2015/16	24.7	30.1
2016/17	22.9	29.8
2017/18	28.1	30.8
Average	27.2	31.4
Source : The Dairy Group		

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