

AgriMatters

AIB supporting the Irish Agricultural Industry



Autumn 2010



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The Beef Market / National Farm Survey Results

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Welcome to the Autumn Edition of Agri Matters



Michael Dowling, Head of Agri Strategy, AIB

In this edition last year we were very much taken up with the difficulties of the agri sector arising from appalling weather conditions, dramatic milk and cereal price reductions and almost two years of exceptionally high input costs. A year later, as we detail in our review of 2010 to date, the picture is totally changed. Better weather, higher output, somewhat lower costs and, crucially, a resounding recovery in cereal and milk prices have combined to transform the scene. As a result, much of the income lost in the past two years should be recouped this year.

As well as the review article referred to above and our usual piece on the current economic scene and outlook, this edition also includes:

- An article by the Teagasc beef research team on profitable suckler beef production;
- A look at the beef market generally;
- Reflections on the National Farm Survey; and,
- Donal Whelton's account of best farming practice as experienced by the Bank's Agri Advisers.

I hope that you will find something of interest in the mix.

As usual, this edition is being produced to coincide with the National Ploughing Championships, the major agricultural event of the year. This year, it's importance is further enhanced by the fact that it is hosting the European, as well as the national, championships. We are all eagerly anticipating what should be a really enjoyable and informative three days. We wish the organisers, competitors and exhibitors every success and look forward to seeing as many of our readers as possible at the AIB stand.

Michael Dowling
Head of Agri Strategy

Our Agri Adviser Team



TADHG BUCKLEY
AIB MALLO



PATRICK BUTTERLY
AIB DROGHEDA



PATRICK O'MEARA
AIB NENAGH



EAMONN O'REILLY
AIB TULLAMORE



DONAL WHELTON
AIB BANDON

Recent Appointment

Eamonn O'Reilly AIB Tullamore



AIB has recently expanded the banks Agri Adviser service with the recruitment of Eamonn O'Reilly. Eamonn joined AIB's Agri Adviser team from AIB Finance and Leasing where he has worked for the past nine years. Based in AIB Tullamore, Eamonn will cover the midlands region, Galway and Mayo. A native of Longford, Eamonn comes from a beef farming background and has a Degree in Agricultural Science. Commenting on his new role Eamonn said: "The agri sector has shown tremendous resilience over the past number of years. I am delighted to join the AIB Agri Adviser team given the positive outlook and potential for Irish farming. I look forward to working with our farming customers and supporting their future development."

National Farm Survey

Since our last edition, Teagasc has issued its report on the 2009 National Farm Survey. The overall outcome – an average 30% drop in family farm incomes compared to 2008 – was not a surprise, as a substantial drop in farm incomes had been signalled in earlier CSO estimates. The outcome for last year indicates that family farm income has declined by about 40% in the two years 2008 and 2009.

Analysis by sector

As is clear from Table 1 below, the income decrease was most pronounced in the case of tillage and dairy farmers and significantly less so in the case of cattle and sheep farmers. The decline in the case of larger scale producers was most severe. For instance, the income drop for the largest scale tillage farmers in the survey was almost 75% (from €116,000) over the three years and about 60% (from €100,000) in the case of the largest dairy producers. Unlike the position in 2008, where the fall in income was heavily influenced by rising costs, the further drop in income in 2009 was mostly due to the collapse in grain and milk prices and, to a lesser but important degree, to the effect on costs and output of the extremely adverse weather conditions. These factors have turned sharply in the opposite direction in 2010, to the extent that family farm income could increase this year by over 30%.

Table 1: National Farm Survey Results 2007-2009

	Family Farm Income (€ 000')			Income per ha (€/ha)			Income per Labour Unit (€ 000')		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Dairying	51	46	24	1134	961	500	34	30	15
Mixed Dairying	31	24	17	647	507	316	23.5	19	12
Cattle Rearing	8	8	6.5	277	260	221	8	8	7
Cattle Other	11	11	9	356	361	301	11	12	10
Sheep	11	10	9.5	316	281	279	11	10.5	10
Tillage	41	19	15	741	335	268	37	18	15
All systems	20	17	12	553	463	323	18	16	11

In terms of income per hectare, dairying remains the most profitable sector but the gap between it and the other sectors narrowed considerably over the three-year period (that gap is, however, likely to have very much widened again this year). By far, the most dramatic decline in income per hectare has, however, come in the tillage sector, which in 2009 had a return per hectare less than the returns in the cattle fattening and sheep sectors. Two years earlier tillage returns were double those in the other two sectors. The decline in income per labour unit is a mirror image of the position in terms of per hectare income.

As the fall in milk and grain prices was the main cause of the income decline since 2007, the south and east of the country was more severely affected than Connacht and the Border counties. Nevertheless, all regions were affected and, despite some narrowing of the gap, farm incomes in the last mentioned two areas continue to lag behind those in the rest of the country.

The income of full-time farmers at €24,000 was 45% down on 2007, but at €26,000 the income of full-time dairy farmers was down by 50% and that of full-time tillage farmers down by two-thirds at €23,000. Part-time farming incomes (€6,600) were down on average by close to 20%, but by 50% (to about €10,000) in the tillage sector and by 85% (to only about €3,000) in dairying.

Off-farm income

The percentage of farms in receipt of some form of off-farm income in 2009, at 79%, was similar to earlier years. The percentage of farms where either the farmer or spouse had an off-farm job varied from 50% on specialist dairy farms to 57% on tillage farms. The percentage of farmers with off-farm employment was lowest in the dairy sector (13%) and highest in the cattle rearing sector (41%). These figures were slightly down on 2008.

Direct payments

The figures once again underline the critical importance of direct payments in both the value of gross output and family farm income. They show that the ratio of these payments to gross output at 35% in 2009 was up compared to 2008 (31%) and that, last year, direct payments accounted for about 140% of family farm income compared to about 100% in 2008.

The level of direct payments is relatively stable while farm income, particularly over the past three years, is volatile. Comparing direct payment levels with farm incomes in any one year can, therefore, give a distorted picture. For that reason, we have compared direct payments and family farm income on the basis of the average of the National Farm Survey results for the three years 2007 to 2009.

From these comparisons, it is clear that direct payments are important (i) in all farm systems, varying from 50% of income on dairy farms to 180% on suckler farms; (ii) on all farm sizes, varying from 180% on smaller farms to 80%-90% on larger ones; and (iii) in all regions, varying from 81% in Cork and Kerry to 156% in the Border counties. Table 2 gives a sectoral breakdown of average farm income and direct payments in the 2007-2009 period and of the relationship between the two.

From the table below, it is clear that the Single Farm Payment (SFP) is by far the most important direct payment. In the sheep sector, the SFP accounts for 55% of total direct payments. In all other sectors, it accounts for between 60% and 85%. The predominance of the SFP is evident not just in terms of farming system but also in terms of farm size, full-time or part-time farming and regionally. Even in the Border counties and Connacht, where REPS and the DAS are of relatively greater importance than elsewhere, the SFP accounts for between 55% and 60% of total payments. This underlines the critical importance of the negotiations to take place over the next couple of years on the post 2013 CAP, which will centre very much on the future of the SFP.

On-farm investment

Teagasc estimates that gross on-farm investment on Irish farms in 2009 was €662 million (down from €2 billion in 2008 and €1.4 billion in 2007). Average gross new investment per farm was about €6,500, which was only about one-third of the 2008 level. Net new investment (gross investment less capital sales and grants) was about €1,500 per farm, down from over €15,000 in 2008. The biggest gross investments were on large scale dairy farms, but here also the level involved in 2009 at some €40,000 was only about one third of the 2008 level of investment. The change in the investment situation was, to some extent, a function of the reduced income position but, to a much greater extent, was due to the ending of investment under the farm waste management scheme and the phasing in of the payment of grants under that scheme.

Table 2 : Direct Payments and Family Farm Income (FFI) (Average 2007-2009)

	Dairying	Mixed Dairying	Cattle Rearing	Cattle Other	Sheep	Tillage	All
	€	€	€	€	€	€	€
FFI	40144	24027	7335	10404	9988	25079	16216
SFP	15264	17092	7873	11056	8610	21095	11728
REPS	2397	2976	2634	2466	3817	3156	2791
DAS(i)	1861	1985	2096	1743	2509	354	1893
All Direct Payments	20215	22169	13225	15666	15533	24880	16939
As % of FFI							
SFP	38	71	107	106	86	84	72
REPS	6	12	36	24	38	12.5	17
DAS(i)	5	8	29	17	25	1.5	12
All Direct Payments	50	92	180	151	156	99	104

(i) = Disadvantaged Areas Compensatory Allowances

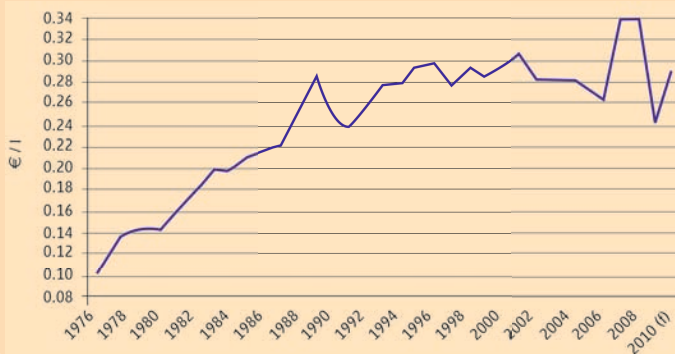
The year to date

After two very difficult years, 2010 has seen a return to normal agricultural conditions. As a result, much of the 40% income loss of the 2008-2009 period will be recouped this year. Almost all sectors are having a normal or better than normal year.

The biggest problems last year were in the grain and milk sectors where the consequences of dramatic price reductions were aggravated by the fall-out from unusually adverse weather conditions. These two sectors are leading the rebound this year.

As expected from the recovery, which began in the second half of last year, milk prices have jumped considerably from spring onwards. The price for the year is likely to average just under 30c/litre, which, with the exception of prices in 2007/2008, would be close to the highest levels experienced since milk quotas were introduced in 1984 (see Figure 1). After a sluggish start, production has responded strongly to the increased prices, to the extent that deliveries over the year as a whole may be up about 5%. This combined with higher prices should see the value of milk output increase by up to 35% this year.

Figure 1: Manufacturing Milk Price €/l (including VAT)



Source: CSO & AIB Forecast

Cattle prices, which have lagged behind 2009 levels for most of the year to date, are now (mid-August) outstripping last year. The prices of R and U grade steers and heifers and cow prices are particularly strong. The overall position for the year should be on a par with last year. Cattle slaughterings have been very heavy to date and, while some decrease relative to last year can be expected in the remaining months, we would estimate that, when the increase in live exports is also taken into account, output over the whole year should be up by more than 5% and the value of output by a similar percentage.

Pigmeat prices also lagged behind 2009 levels earlier in the year but, since early July, have moved sharply ahead and should maintain an increasing advantage for the remaining months. The Irish representative price (including VAT, but excluding bonuses) should average about €1.42/kg, an increase of about 2% on last year. Output will be up by about 7.5% due to the increase in supplies as herds destocked in the dioxin crisis of late 2007 have come back into production.

Sheep throughput is down again this year but the decline may taper off somewhat in the second half. Nevertheless, output will be down by over 10%. Prices are, however, ahead by over 15% and may end up averaging over €4.40/kg (VAT included), which would be the second highest annual average price this decade. Profitability in the sector will be further enhanced by payments to lowland sheep farmers under the new grassland sheep scheme.

Even a few months ago the outlook for grain prices looked bleak enough. With global stocks high and production, forecast to be well up to normal, only a marginal improvement on last year's difficult position was expected. Prospects, however, changed dramatically over the summer as exceptionally hot weather and drought played havoc with the harvest in Russia and neighbouring countries. Current estimates are that, for instance, Russian grain production may be down almost 40m tonnes to 60m tonnes and the authorities there have banned exports. This has given a huge fillip to grain prices. In Ireland, for instance, green barley has been marketed at up to €155/tonne, which is about 50% ahead of last year. With acreage and yields down, the level of output will be lower than in 2009 but overall value should be up. As is clear from Figure 2, this year's price levels are well ahead of prices in most of the last 15 years.

Figure 2: Cereal Price Index 2000 = 100



Source: CSO & AIB Forecast

On the costs side, fertiliser and feed prices will, on average, be lower than in recent years, even allowing for increases in the price of both inputs in the second half of the year. Energy and contracting costs are estimated to have increased through the year. The cumulative effect of these cost movements, combined with costs associated with heavier concentrate usage earlier in the year, should result in a marginal decline in expenditure on inputs in 2010 compared to 2009.

Putting all those estimates together, and assuming no major weather or other upheaval in the next few months, we would anticipate that aggregate farm income will have increased by up to 30% in the year as a whole. Thus, much – but not all – of the lost income of the past two years will have been recovered this year.



Pictured at the National Charolais Show with the Overall Commercial Champion is Lauren McMahon for her father David with Anne Finnegan, AIB, class sponsor.

Dates for your Diary

October 14-15: Teagasc Grasses for the Future, Conference and Workshop – Silversprings Hotel, Cork

October 19: Teagasc National Pig Conference – Horse and Jockey Hotel, Thurles

October 20: Teagasc National Pig Conference – Crystal Hotel, Cavan

October 20: Irish Farmers Journal Women and Agriculture Awards – Lyrath Hotel, Kilkenny

November 17: Teagasc National Dairy Conference – Charleville Park Hotel, Charleville

November 18: Teagasc National Dairy Conference – Mullingar Park Hotel, Mullingar

The beef market

Despite the cuts in support prices and the disappearance of intervention, with parallel increases in direct aids that have resulted from CAP reforms since 1992, the beef market has proven to be very resilient. Prices in 1995, when the McSharry reforms were fully implemented, were towards the top of the range of prices that had applied over the previous 20 years. Between then and 2002, prices fell by between 20% and 30% but thereafter rose gradually up to 2007 and then jumped the following year. Figure 3 clearly illustrates the price trend over the past 15 years. While prices fell somewhat last year, they were still the second highest in that period and prices this year should, on average, reach 2009 levels.

Figure 3: Irish Cattle Prices 1995-2009



Source: Bord Bia

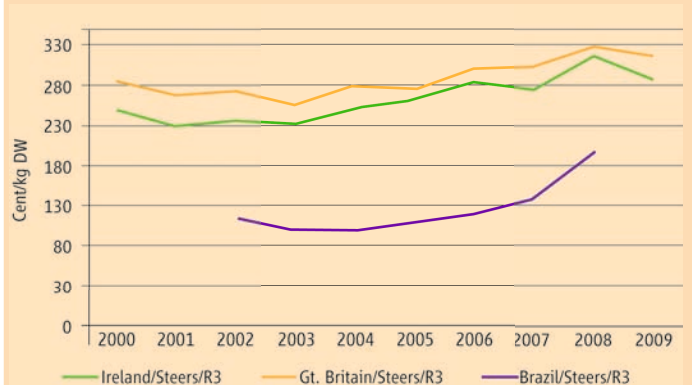
Figure 4 shows that, while the relationship between Irish and British prices was fairly constant over the past decade, world prices (as illustrated by the position in Brazil) have moved closer to EU price levels.

The level of direct payments changed dramatically over the 15-year period. Averaged across all beef production, direct payments prior to McSharry were equivalent to about 25c/kg. After that reform they rose to about 85c/kg and, since the full implementation of the Agenda 2000 changes in 2002, direct payments in the beef sector have been the equivalent of almost 140c/kg. Overall returns from beef production have, therefore, increased significantly over the longer period but there has been a slightly higher rate of increase in the cost of farm inputs and a very much greater rate of increase in fertiliser and energy costs.

The latter points indicate that beef production, traditionally a low margin business, remains so, despite the improved returns (this point is further borne out in the article on the National Farm Survey results – see page 3). Nevertheless, even though a likely increase in feed costs over the next few months will adversely affect profitability, the medium to longer term outlook for the market is promising. The deficit in the EU beef market is approaching 0.5 million tonnes. Demand is rising as economies pull out of recession, especially in the developing world. World prices should gradually move closer to EU levels and the grain crisis in Russia may lead to a drop in livestock production there and a consequent increase in demand for imports. Furthermore, the article by the Teagasc beef research team elsewhere in this issue (see page 6) shows what can be done on-farm to enhance that outlook further.

The main uncertainty about the future of the market relates to whether there will be a WTO agreement or, somewhat more immediately, an agreement in the Mercosur negotiations. The latter, in particular, poses a real threat to the stability of the European market. If this were to lead to a very substantial rise in the imports of high quality cuts, the returns from the most profitable part of the market could be badly hit. The negotiations are, however, still at an early stage. It is possible that the outcome could require any increased import quantity to be spread across the whole range of beef qualities and exporters to meet the same conditions as currently apply to imports from Brazil. If so, a Mercosur agreement, while not welcome, could be tolerable.

Figure 4: World Cattle Prices 2000-2009



Source: Bord Bia

The other uncertainty relates to the income side and arises from the fact that the CAP arrangements to apply for the period from 2013 will have to be renegotiated over the next couple of years. The future of the Single Farm Payment, a critical element in beef farmer incomes, will be decided in that negotiation. The overall funding for these payments, its distribution among Member States, and the basis on which it will be distributed among farmers will be major elements in the negotiations. Clearly, it will not be easy to preserve the position that Ireland or any other Member State currently has. There are, however, a number of positive elements that we can look to. There is a large majority of Member States in favour of maintaining a realistic Single Farm Payment system: nobody wishes to see our extensive grass-based system undermined and Ireland has traditionally always achieved reasonably satisfactory results from EU agricultural negotiations. At the end of the day, the result is likely to be that, while the level of payments may or may not be exactly the same as before or not calculated as in the past, Irish beef producers will continue to benefit from a substantial Single Farm Payment in the years ahead.



Pictured at the launch of the AIB Macra na Feirme Club of the Year Competition (L to R) were Michael Gowing, Macra na Feirme National President, Rosemary O'Leary, Seandum Macra, Cork and Patrick Butterly, AIB Agri Adviser.



Profitable suckler beef production – the key factors

Paul Crosson (on left), Mark McGee and William Minchin
Livestock Systems Research Department, Animal & Grassland Research and Innovation
Centre, Teagasc, Grange

Principles of profitable suckler beef production

Given the relationship between profitability and output for suckler beef systems, high stocking rates, excellent animal performance levels and carcasses/weanlings that meet the requirements of high-priced markets are essential to maximise profitability. Furthermore, these output targets must be met at least cost. For Irish farming conditions, this means maximising the proportion of grazed grass in the annual feed budget.

Maximising output value

Output value is driven by:

1. **Stocking rate.** The key driver of output on suckler beef farms is stocking rate. This has been shown by an analysis of the Teagasc eProfit Monitor (financial recording programme used by Teagasc client farmers), the Teagasc National Farm Survey (a wider survey of over 500 cattle farmers nationally) and Teagasc Grange research herds. Where the level of production efficiency is maintained, increasing stocking rate will lead to a direct increase in farm profitability.
2. **Calving rate.** The reproductive efficiency of suckler beef production systems is critical and can be ascertained by the calving interval and pregnancy rate. These parameters can be expressed in terms of the calving rate or number of calves per cow put to the bull per year. A high level of reproductive performance is a critical element of profitable suckler beef production.
3. **Liveweight per day of age.** Achieving high target lifetime daily gains is important as it ensures beef output is high for a given age at slaughter. At a fixed stocking rate, age at slaughter will also determine the number of cattle finished. To achieve target liveweight performance levels, the suckler cow must have adequate milk yield, both the cow and sire must produce offspring with high growth potential, and liveweight gain at grass and during finishing periods must be high.
4. **Beef price.** While beef price is largely outside of farmers' control, there is some capacity to increase output value by improving carcass grades, particularly since the introduction of the Quality Payment Scheme. Carcass conformation score is somewhat influenced by feeding regime but is primarily related to breed type. Therefore, the genetics of the dam and, particularly, the sire with respect to merit for carcass conformation is a critical element of the breeding programme. Carcass fatness is also influenced by genetics but is primarily determined by the feeding regime and, therefore, farmers can have much greater control over this aspect of carcass grade in the short-term.

Efficient production

Maximising the quantity of grazed grass in the annual feed budget is critical to achieving the levels of cost efficiency required to meet the financial targets set for the Grange Derrypatrick Herd (described below). Grazed grass accounts for approximately 60% of the annual feed budget in the Derrypatrick Herd. Mean turnout date is mid-March and mean housing date is early November. The quantity of concentrates fed is low. The objective is to ensure that the output targets outlined previously in terms of herd reproductive and liveweight performance levels are achieved at least cost. This is accomplished by:

1. Calving the herd in spring, to synchronise herd feed requirements with the grazing season.
2. Grass budgeting to identify, and respond promptly to, shortages or surpluses.
3. A planned closing strategy to ensure adequate grass is available at turnout in spring.

4. High levels of grassland management to achieve a high proportion of total lifetime gain from grazed grass. The focus of pasture management must be to maintain grazed swards with a high nutritive value through maintaining a high proportion of green leaf in the sward. Pre-grazing herbage mass (pasture cover) is a major factor affecting pasture leaf content. Table 3 outlines target pasture covers for beef production systems.

Table 3: Target Pasture Covers for Beef Cattle

	Pre-grazing yield (kg DM/ha)	Post-grazing yield (kg DM/ha)	Average pasture cover (kg DM/ha)
Early spring (Feb – Apr)	1000-1500	100-200	400-600
Late spring to summer (May – Jun)	1300-1800	200-400	500-800
Mid-Summer to autumn (Aug – Oct)	1600-2500	350-450	700-900
Early winter (Oct – housing)	1200-1800	0-100	700-800

Derrypatrick herd

The principles described in the previous section are presently applied in Grange in its Derrypatrick herd. This herd was established in January 2009 for research demonstration purposes and currently consists of 111 first-calving cows (and calves), of known genetic merit (SBV), comprising 4 breed types:

- 1) Limousin × Holstein-Friesian (LM × FR)
- 2) Limousin × Simmental (LM × SI)
- 3) Charolais × Limousin (CH × LM)
- 4) Charolais × Simmental (CH × SI)

The Limousin × Holstein-Friesian was chosen as a benchmark breed, because this is the optimum 'cow type' in all breed comparisons carried out at Grange to date. The cow breed types represent about two-thirds of the suckler cow types in the country and also represent the main replacement strategies available to suckler beef farmers. The male progeny will be produced as bulls at ~18 months of age and heifers at ~20 months of age. Target carcass weights are ~310 kg for heifers and ~390 kg for bulls.

Breeding:

- Overall conception rate for the 2009 season was 94% (134 heifers, 126 in-calf) with a mean calving date in 2010 of March 12. Calving performance is indicated in Table 4.
- The 2010 breeding season began on Monday, April 26.
- 88% of the herd were artificially inseminated (AI).
- AI was used up to June 16, 2010, followed by two BB stock bulls to mop up. The stock bulls were removed on July 15.

The breeds (sires) being used this year are Limousin (NIU and ORO), Simmental (KFY and HCJ) and Belgian Blue (AVD) with the breeding policy indicated in Table 4.

Table 4: 2010 Breeding Policy for the Derrypatrick Herd

Cow breed type	Maternal Sire	% of dams served	Terminal Sire	% of dams served
LM x FR	-	0	Belgian Blue	100
LM x SI	Simmental	50	Belgian Blue	50
LM x CH	Limousin	50	Belgian Blue	50
CH x SI	Simmental	50	Belgian Blue	50

Source: Livestock Systems Research Department, Teagasc, Grange.

Table 5: Performance to Date for the Derrypatrick Herd

Cow breed type	Cow live weight (kg)	Cow body condition score (1-5)	Calf average daily gain (g)	Calf weight (kg)
LM x FR	612	2.9	1182	210
LM x CH	632	3.1	900	169
LM x SI	629	3.1	1000	185
CH x SI	665	3.1	1020	188

Source: Livestock Systems Research Department, Teagasc, Grange.

Table 5 shows the performance to date for 2010. In terms of cow liveweight, CH x SI cows are heaviest and LM x FR cows are lightest. The LM x CH and LM x SI are intermediate. The progeny of the LM x FR have the highest daily gain to date. The LM x CH have the lowest daily gains with the LM x SI and the CH x SI intermediate. These results highlight the importance of dam milk yield for suckler beef production systems.

The Derrypatrick herd at Grange is open to farmer group visits. For more information contact one of the authors (paul.crosson@teagasc.ie, mark.mcgee@teagasc.ie, william.minchin@teagasc.ie) or contact 046 9061100. www.agresearch.teagasc.ie/grange/researchfarms/sucklerdemo/updates/.

Economic outlook

In 2008, the Irish economy entered recession for the first time since the early 1980s, with GDP declining by 3.5%. This was followed by a contraction of 7.6% in 2009. The recession has been broad based with the economy hit on all fronts, though the biggest fall in output has been seen in fixed investment as a result of the sharp contraction in construction activity. The pace of the downturn in GDP was at its most intense in late 2008 to mid 2009 with the deceleration in output easing considerably since then.

Indeed, data for Q1-2010 show that the economy has emerged from its two-year recession. GDP rose by 2.7% on a seasonally adjusted basis in the first three months of the year, underpinned by a strong rebound in the industrial sector and a recovery in both goods and services exports. Lead indicators of activity suggest that the rebound will continue as the competitiveness of the traded sector improves further. On the domestic front, there are also signs of improvement, with new car sales up by 44% year-on-year in the first half of the year, aided by an attractive car scrappage scheme. The downturn in non-auto retail sales also seems to have bottomed out, with consumer confidence now well off the lows seen in mid 2008. However, largely as a result of carryover effects from 2009 and the continuing contraction in Government spending and fixed investment, it will be 2011 before the economy returns to a solid growth path. Thus, GDP is expected to be broadly flat in 2010.

The main negative factors holding back the economy this year should abate appreciably in 2011. The housing sector, in particular, will have reached very low levels of activity by the end of this year and should no longer be a major drag on the economy. Fiscal policy is also expected to be somewhat less contractionary in 2011. Meanwhile, the recovery in developed economies should have gained strength. Hence, the economy is expected to grow by 2.5% next year, with the recovery in activity picking up pace beyond that.

Although the Irish economy has emerged from recession, it still faces considerable downside risks, including renewed weakening of the global economy. The International Monetary Fund (IMF) is optimistic about global growth prospects next year but there are fears of a double-dip recession in developed economies, especially if the fiscal tightening now underway in many countries proves overly aggressive. The medium-term prospects for the Irish economy, however, remain favourable.

Labour market conditions have weakened in Ireland since the recession began. Employment fell by 1.1% in 2008 and 8.2% last year and is expected to decline by a further 3.5% in 2010. About half the job losses are in construction, reflecting the scale of the downturn in this sector. While the labour force has also contracted, the unemployment rate had risen to 13.8% by August 2010 from below 5% in 2007. The unemployment rate could now be close to a peak and is expected to top out at around 14%.

However, while the economy has emerged from recession, the number employed is expected to remain virtually unchanged next year, with an anticipated upturn in the labour market lagging the general economic recovery.

Much progress is being made in terms of improving Irish competitiveness. The average rate of inflation in 2009 (CPI basis) was -4.5% with a -1.1% rate predicted for this year. Lower interest rates, weak economic activity, a strengthening of the exchange rate, increased competitive pressures, declining wages, and lower energy and food prices have all contributed to the decline in prices. The fall in Irish prices has been much more pronounced than in other countries, most notably the UK.

Table 6: Economic Forecast – Ireland

Annual % Change Unless Otherwise Stated				
	2008	2009	2010	2011
Real GDP	-3.5	-7.6	0.0	2.5
Real GNP	-3.5	-10.7	-2.5	1.5
Consumer Spending	-1.5	-7.0	0.0	1.5
Government Spending	2.2	-4.4	-4.5	-2.0
Fixed Investment	-16.8	-31.0	-25.0	-5.5
Exports	-0.8	-4.1	4.2	4.5
Imports	-2.9	-9.2	0.0	2.5
CPI (%)	4.1	-4.5	-1.1	1.5
Unemployment (%)	6.3	11.8	13.3	13.5
General Govt Balance (as % of GDP)	-7.3	-14.6	-11.9	-10.6

Source: AIB Economic Research Unit



Best practices in Irish farming for profitable production

Donal Whelton, Agri Adviser at AIB, outlines some of best practices that he encounters, which lead to less stressful and more profitable farming.

Farmers by the very nature of their profession are very skilled people. In any day they may have to use talents relating to animal and crop breeding, agricultural science and technology, and financial management to name but a few. This can involve utilising advances in breeding techniques to best advantage; applying new knowledge, for example, on grass budgeting/milk recording; or managing the financial, banking and tax complexities of the modern farm. In this article I discuss some of the tools available to Irish farmers that can contribute towards profitable production.

Animal breeding

The Irish Cattle Breeding Federation (ICBF) has established a database to support the cattle breeding decisions of Irish dairy and beef farmers, the main objective of which is increased farm profit. It is supported by the Economic Breeding Index, (EBI) in the dairy sector, which allows farmers to fine tune their animal breeding decisions to ensure that they have the most profitable cows for their particular system.

The level of milk recording in Ireland is low compared to other major milk producing countries and this is hindering genetic progress here. Of course, milk recording is also vital for everyday farm management including management of somatic cell count (SCC) on an individual cow basis. Genomic selection is a further advance where the breeding value of young bulls can be predicted much earlier in life with greater accuracy. There is certainly an increased role for genetic improvement to be played here, given that it is estimated that, of the 268,000 dairy heifers born in 2009, only 56% were sired by an AI bull. Some farmers have changed over to crossbreeding, using either Jersey or Norwegian Red breeds, which can give genetic improvement for milk production and also improve reproductive efficiency. With the introduction of the beef grading system it can be argued that the future for the suckler breeding herd now depends on increasing its genetic quality to produce higher quality weanlings and finished cattle.

Grass budgeting

The most profitable dairy and beef farmers have become more focused in utilising their most valuable resource – grass. Undertaking a grass budget on a weekly basis ensures that the farmer achieves high levels of performance over the grazing season by ensuring that animals are offered good quality grass from March to October. It also allows fertiliser and concentrate usage to be controlled by ensuring that these inputs are used only when actually required. Grazed grass is the cheapest feed and maximising the amount of grazed grass in the annual feed budget, while also providing sufficient silage of appropriate digestibility for the winter, is central to profitable production. In addition, investing in a reseed programme of perhaps 10%-15% of the farm annually ensures better quality pasture, with higher dry matter content.

Financial control

The difficult farming year in 2009 highlighted the importance of farmers preparing a cashflow budget. This is the best way to avoid surprises, when money will not be available in the farm account, and it allows the farmer

and the bank plan better for the months ahead. In addition, the first steps in improving efficiency are to identify where there are problems in the system. Many farmers find that the simplest way to do this is to complete a financial performance analysis on their farm, e.g. profit monitor, and use the information it highlights. Profit monitors, for example, are an excellent benchmark, allowing farmers to compare their farms to some of the best farms in the country. In a similar way pig producers can avail of the Teagasc PigSys programme to assess and benchmark their herd performance and production costs against the top quartile of producers. In tillage production significant differences between farmers can be attributed to variations in yields achieved and in costs of production. Where input costs are not significantly different between farms, the variation in profitability may be attributed to differences in fixed costs and/or in levels of machinery investment.

Farm discussion groups

A farm discussion group can provide an excellent forum for farmers to discuss, for example:

- Their targets - where they are compared to where they want to be;
- Their 5-year business plans; and,
- Their profit monitors in order to see how their key variables compare with others in the group, i.e. costs in cent/litre, profit per hectare etc.

Overall, a good discussion group should help sharpen decision making, stimulate new ideas and help in the spreading of new information.

While there is no magic formula for profitable farming and plans may have to change throughout the course of any year due to unforeseeable circumstances, there are tools to enable a farmer to make better and more informed decisions. Some of these are outlined above. Using them should hopefully lead to less stressful and more profitable farming.



Pictured receiving a gold medal for the Overall Simmental Champion at the AIB National Livestock Show from Minister for Agriculture, Fisheries and Food Mr. Brendan Smith T.D. is Garrett Behan with his bull Banwy T Rex. Pictured also is Eddie Buckley, Regional Director AIB Midlands.

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