# Agri Matters

## Supporting the Irish Agricultural Industry

Spring 2017

Launching the new Grass 10 campaign, were (l to r) John O'Doherty, Cork County Local Market Leader, AIB; Professor Gerry Boyle, Director, Teagasc; Minister Michael Creed, Minister for Agriculture, Food and the Marine; Liam Woulfe, Managing Director, Grassland Agro; Jack Kennedy, Dairy Editor, Irish Farmers Journal and Hugh Ryan, FBD.

# Welcome

Anne Finnegan

2016 was a challenging year on a number of fronts for Irish Agriculture. While most sectors experienced a price related downturn, all and all the year didn't pan out as difficult as expected for some of the sectors. Our Market Review article examines each of the sectors in more detail.

The combination of the UK's decision to exit the EU and the election of Donald Trump as President in the United States has heralded the beginning of a new era for trade which will challenge the sector in the years to come. Phelim O'Neill, Markets Specialist with the Irish Farmers Journal, takes a look at the potential impact of Brexit on Irish Agriculture.

Without a doubt increased efficiency will be a necessity as Irish agriculture faces the new trade realities and continued volatility into the future. Tom O'Dwyer, Head of Dairy Knowledge Transfer, Teagasc, discusses the importance of maximising grass growth and utilisation. In addition, Tadhg Buckley, AIB Agri Advisor examines the options that farmers have to build an efficient and resilient business. And as we enter some of the busiest months on farm, Patrick O'Meara, another member of our Agri Advisor team, examines labour efficiency and time management and offers some practical advice.

We hope you find something of interest in this edition. As we are in the midst of the busiest and often most stressful period on Irish farms, we urge all our readers to farm safely.

**Anne Finnegan**
Head of Agri Sector, AIB

Pictured at the launch of the 2017 Irish Grassland Association Dairy Summer Tour sponsored by AIB were (l to r) Jamie Kealy, host farmer; Bernard Ging, President, Irish Grassland Association, Cathal Moran, host farmer and Patrick O'Meara, Agri Advisor, AIB. This year's tour will focus on milk production on leased land when it visits two grass based dairy farms in Kilkenny and Carlow on Tuesday July 25th. Further information is available at irishgrassland.com

# **Brexit** and **Irish** Agriculture

Phelim O'Neill, Markets Specialist with the Irish Farmers Journal, assesses the potential impact of Brexit on Irish Agriculture.

Phelim O'Neill

**Now that the UK are in the process of leaving the EU, it is time for Irish Agriculture to take stock. Overall, there is no doubt the Irish economy is nowhere near as dependent on the UK as when we joined the Common Market, but it remains a significant export market, especially for agriculture. Even within agriculture some sectors are more exposed than others, and it is how well these sectors cope with the UK outside the EU that will determine the future success of the Irish rural economy.**

Overall Irish agriculture has well diversified markets as we export to 180 countries around the world. The growth of China in particular has been dramatic in recent years and it is now our second most important export market for dairy and pigmeat. However, even with this rapid growth, the UK remains the number one destination for both dairy and pigmeat, taking around a third of our total production. Within dairy, the UK is a huge market for cheddar cheese, taking around 60% of Ireland's total production.

For sheepmeat, the exposure is still significant with the UK taking a quarter of our production. However, of all the agricultural commodities, by far the biggest exposure to the UK market is in the beef sector which in 2016 exported 50% of its total exports to the UK, worth in excess of €1bn to the Irish economy. When Ireland joined the then Common Market back in 1973, the UK took 85% of our beef exports, mainly in the form of carcase beef and live cattle. During our mutual membership of the EU, Ireland has managed to diversify its markets for beef but the UK still remains our number one destination.

Irish agriculture faces a once in a lifetime challenge to deal with the fall out of our largest trading partner in agriculture and food withdrawing from the single market. At an Irish Farmers Journal / AIB Conference, aptly themed "Navigating Global Trade" in January, the EU Agriculture Commissioner Phil Hogan told delegates that Ireland's lot lay with their twenty six remaining colleagues and that there was a case to be made to reflect Ireland's unique exposure to the UK market. This should not be a special pleading for Ireland rather a highlighting of how a continuing EU member would be adversely affected by another member deciding to leave.

The impact of Brexit on Irish agriculture has also been considered by the Joint Committee for Agriculture in the Oireachtas who published a report with thirty four recommendations. Among these was the challenge for the EU itself, highlighting the communication challenge for remaining members to communicate the benefits of the EU as Brexit is evidence of disconnect. The report also recommends that the Brexit negotiations should not be used by the EU to punish or reward the UK. The report is calling for objective criteria to be used in negotiations and recognises that this will be a challenge.

On future Ireland – UK relations, the report recommends that Ireland has to strike a balance between support of the UK while also maintaining close co-operation with the remaining 26 other EU countries. It doesn't call for an advantage because of our unique trading relationship with the UK but rather says we don't want to be placed at a unique disadvantage. The recent House of Lords report is noted but as a bilateral arrangement with the UK won't be possible, the report suggests Ireland should look for Irish derogations within an EU – UK agreement.

The report recognises the preference for a swift trade agreement between the EU and UK and suggests Ireland encourage other EU countries to facilitate an extension of negotiation time beyond the two years as is expected to be required. WTO tariffs are feared and the suggestions from Food and Drink Industry Ireland (FDII) on market activity and exploration of the Irish food industry being able to upscale to produce part of what is currently imported from the UK, was adopted by the report.

The issue of Brexit is dominating the thinking of the entire agricultural sector including Government and the committee. However, there is a further issue that will impact on Irish agriculture in coming years and that is the Common Agricultural Policy (CAP) after 2020. A consultation is taking place on how it might be shaped which is open until May 2nd. The Commissioner has already identified the importance of farmers as the boots on the ground that can deliver the environmental and sustainable goals that the Commission has in place for Agriculture. He is also adamant that he wants new blood in farming and the consultation suggests various options from which respondents are invited to choose as well as the opportunity to explain ideas in response to more open ended questions.

Agriculture in Ireland has become accustomed to challenges that threaten its existence from BSE, through Foot and Mouth, then Dioxins and more recently the horsemeat incident. Throughout these it has demonstrated great resilience and now it is faced with another huge challenge. It is not something the sector would have chosen but now it is here it becomes another challenge.

With proper Government and EU support the sector can respond and emerge even stronger with a further diversified customer portfolio. After all, few places in the world are more suited to sustainable agriculture from a climate and access to an abundance of water perspective, than Ireland.

# Review and Outlook

2016 proved to be a somewhat challenging year, with prices down across most farming sectors. However, some sectors did experience some price recovery towards year end.

## Dairy

The downward pressure on global dairy commodity prices that began in 2015 and accelerated in the second half of that year was felt in earnest on Irish dairy farms in 2016. Average Irish milk price was back 7% to 26 cent per litre (standard fat and protein). In terms of milk price, it was a year of two halves with the upturn in global dairy prices being felt in the second half of the year. Milk production was up by approximately 7% supported by good grass growing conditions throughout the season in most parts of the country. The net effect was an estimated reduction in average dairy farm income of 16% to €52,000. (Source: Teagasc).

The recovery in global dairy prices in 2016 was a result of a supply response to low prices in the main exporting regions. New Zealand production was back 2.6% June to January 2017 compared to 2015/2016 while Australian production was back 8.2% July to January 2017 compared to 2015/2016. EU milk production was marginally up by 0.4% in 2016 compared to 2015. Increased demand for fats supported a strong increase in EU butter prices and similarly both domestic and international demand for cheese resulted in an increased cheese price. The result has been a recovery in global dairy commodity prices as seen in the FAO Dairy Price Index (Figure 1) in March 2017 which was 46% higher than the corresponding period in 2016.

**Figure 1: FAO Dairy Price Index**

Production in the United States was up by almost 2% in 2016 on the back of increased demand across most product categories fuelled in the main by lower prices. US exports, while not significant in the context of total production, were up 4%.

The stabilisation of dairy prices has continued into 2017 and supplies on the international market are adequate for the level of demand. However, of the seven GDT auction events held to date in 2017, four were up and three were down, indicating the fragility of the recovery. Similarly, the FAO Dairy Price Index in March was down 4.4 points (2.3%) from February, reflecting some softening in global markets. As the year unfolds, the extent to which increased supply resulting from higher prices; continued increases in US supply; and the accumulated stocks of SMP in the EU, could weigh on the market.

For now, the recovery in milk price appears fragile with some downside risk which could only be mitigated by the emergence of strong demand by key global importers.

Relatively low feed prices will continue to support dairy farmer margins, in the main production regions, at current milk prices. As long as oil prices remain at relatively lower levels, key oil producing countries in the Middle East and Africa will struggle to increase demand. The Dutch sector, a principal growth centre for increased EU milk output post quota, will reduce the dairy herd by about 100,000 head this year to meet required phosphate levels. It is unclear what proportion will be culled from production and what will be exported.

## Beef

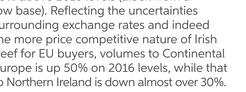
Despite reporting similar contributions to overall Irish agri-food exports (€2.38bn), 2016 proved a more challenging year for beef producers, with beef price progressively in decline through much of the second half of the year (Figure 2), owing largely to increased supplies and the uncertainties surrounding exchange rates. Although there was some uplift toward year end, at €3.97/kg (incl. VAT) R3 steer prices for the year as a whole were some 5.3% below 2015 levels. Overall incomes on beef farms were mitigated to some extent by reduced input prices (in particular feed & fertiliser) and indeed payments relating to the Beef Data and Genomics Programme.

The declining beef price, in an otherwise relatively stable EU market, eroded any price premium held. Irish beef prices, from a price position of 43c/kg above the EU average mid-June, have been running below the EU average since October. Prices have been somewhat static through 2017, and at €3.96/kg (mid March) are running 2% below 2016 levels YTD. The UK remains one of the most lucrative markets in the EU, with an approximate 28c/kg Irish-UK beef price differential presently, equivalent to approximately €100 for a 350kg carcase.

The overall outlook for the Irish beef sector in 2017 is unfortunately somewhat challenging. Wet weather conditions and slower grass growth has already delayed turnout on many farms, meaning increased input expenditure. Although firming in recent weeks, downward price pressure is likely as increased supplies come to market (expectations are that there will be an additional 100,000 plus head finished in 2017 versus 2016) and the uncertainty surrounding Brexit remains. As ever, the impact at individual farm level will be heavily influenced by underlying levels of competitiveness and on-farm efficiency, not to mention the prevailing weather conditions to come.

In terms of mitigating increased supplies, at least to some extent, the news that Ireland has gained increased international market access to Turkey and elsewhere is certainly welcome. To date (mid March), volumes of live cattle exports are running 33% above 2016 levels (albeit from a low base). Reflecting the uncertainties surrounding exchange rates and indeed the more price competitive nature of Irish beef for EU buyers, volumes to Continental Europe is up 50% on 2016 levels, while that to Northern Ireland is down almost over 30%.

**Figure 2: Selected European Cattle Prices**



## Sheep

In recent years the sheep sector has experienced consecutive increases in market returns. That said, although returns were largely similar to 2016, it was largely a consequence of reduced input expenditure as the price trend through 2016 was very similar to that of beef. Sheep price progressively declined through the second half of 2016 from a peak of almost €6/kg entering April to €4.65/kg at year end – a differential of €1.35/kg or almost €30 per head on a 22kg carcase. Increased EU supplies (+2%); reduced domestic consumption (-5%); and changing currency environments were in part contributory factors.

Continuing typical seasonal trends, prices have increased in Q1 with tighter supplies available, although at just below €5/kg currently (mid March) prices are running over 10% below 2016 levels. Assuming similar input expenditure, market returns on sheep farms are likely to be below 2016 levels, although receipt of the new Sheep Welfare Scheme payment may mitigate to some extent.

## Pigs

After a challenging year in 2015 for the pig sector, 2016 was certainly a year of two halves. Prices remained somewhat static during the first half of the year but they started to rise from May onwards and finished the year almost 14% higher. For the year as a whole, while prices were only up an average of 3%, it was this price increase combined with a slightly lower feed price that helped bring the sector back into profitability in the second half of the year. While Margin Over Feed (MOF) only averaged 43c/kg for the year, it was up 14% on 2015 levels but still below the industry standard of 50c/kg for profitable production. To date (mid March), the current price of €1.70c/kg is over 20% above the 2016 price.

Overall, last year pig disposals were on a par with 2015 levels and reflect the increasing numbers born alive and the improving health status of the Irish herd in recent years. While throughput at export plants increased by 2%, (up over 15% in the past four years), this is in contrast to live exports to Northern Ireland which continued their downward trend and fell by an estimated 100,000 head in 2016.

Looking ahead to 2017, feed prices are likely to remain relatively stable until the second half of the year and this combined with a relatively stable pig price, should help ensure that pig farmers are able to recoup some of the losses they experienced during 2015 and 2016. Production levels are expected to remain relatively stable in Ireland however, early indications suggest market prospects in 2017 are mixed due to a forecast recovery of supply in key producing countries.

## Cereals

According to the International Grains Council world cereal production (excluding rice) for 2016/2017, at 2,100 million tonnes, is an historic high. The good cereal harvest in the Northern hemisphere has been complimented by an excellent harvest in the southern hemisphere.

2016 was another challenging year for Irish tillage farmers which saw both yields and prices lower resulting in negative margins for many farmers, on average minus €100 / hectare according to Teagasc. Unfortunately, the negative market returns in 2016 come on the back of three consecutive low margin years (2013 - 2015) where grain prices have been strongly influenced by large global harvests, resulting in increased global stocks.

The increasing stocks to use ratio over the last number of years will continue to weigh on market prices and it will likely take some time for supply to unwind before more favourable prices are to be received.

# More Grass = More Profit

Tom O'Dwyer, Head of Dairy Knowledge Transfer, Teagasc, discusses the importance of maximising grass growth and utilisation.

Tom O'Dwyer

**The Food Wise 2025 strategy has set ambitious targets for Irish agriculture, including an explicit target relating to grass utilisation on all livestock farms. Specifically, it targets an increase in grass utilisation of 2 tonnes dry matter per hectare (DM/Ha). While it makes sense to increase the utilisation of our biggest natural resource, achievement of the target will not be straight forward. In fact, significant changes will be required in how farmers manage and use grass if this target is to be achieved.**

## Current position

The most successful milk and meat production systems are those that optimise milk and meat production from grazed grass. In effect, such systems achieve a high proportion of milk production or lifetime average daily gain from grazed grass. Estimates of grass utilised on typical dairy, beef and sheep farms across the country indicate that there is plenty of scope for improvement. A small minority of livestock farmers are achieving 10 grazings per paddock per year and utilising 10 tonnes grass DM/Ha, but most livestock farmers are "well off the pace". If some farmers can achieve the target, the question then becomes "how to achieve 10 tDM/Ha utilised?"

## How to achieve 10 grazings and 10 tDM/Ha utilised

While there is a huge variation in grass utilisation between farms, one thing is very clear from recent analysis of farm data: high levels of grass production (and utilisation) can be achieved irrespective of location. The variation depends largely on management ability and practices and those farmers achieving high levels of grass utilisation tend to be focussing on managing soil fertility, developing appropriate grazing infrastructure, reseeding unproductive swards, incorporating clover and improving their grassland management decision making.

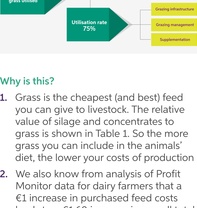
## What impact will increased grass utilisation have on farm profitability?

A recent analysis of Teagasc National Farm Survey data suggests that each additional tonne of grass DM eaten is worth €181/ha on dairy farms and €105/ha on drystock farms.

If we take a typical dairy farm of 53 hectares, then increasing grass utilised by 1 tDM/Ha would be worth €9,600 per year. For a typical drystock farm of 33 hectares, the same improvement would be worth €3,500 per year.

There is potential to grow over 13 tonnes of grass dry matter per hectare on most livestock farms. Utilising a high proportion of this grass by grazing animals will keep feed costs low. Low overall production costs are one of the best ways to overcome milk price volatility and combat low product prices.

Figure 3: Achieving 10t grass DM/ha utilised




## Why is this?

1. Grass is the cheapest (and best) feed you can give to livestock. The relative value of silage and concentrates to grass is shown in Table 1. So the more grass you can include in the animals' diet, the lower your costs of production
2. We also know from analysis of Profit Monitor data for dairy farmers that a €1 increase in purchased feed costs leads to a €1.60 increase in overall total costs. This is primarily due to greater infrastructure and mechanisation costs associated with higher supplementation systems. Once the animals are outside eating grass there are reduced costs associated with housing, feeding, slurry spreading etc. We can expect that the same applies to drystock systems
3. Finally, animals tend to perform better when grass makes up a large part of their diet. For example, milk production for spring calving cows from February to April is significantly improved once grass is included in the diet.

**Table 1: Relative values of different feeds**

| Feed | Cost per 1,000 UFL (units of energy) € | Relative to grass |
|---|---|---|
| Grass | 78 | 1 |
| Grass silage (1st cut) | 198 | 2.5 |
| Grass silage (2nd cut) | 223 | 2.9 |
| Maize silage | 171 | 2.2 |
| Concentrate (€240/t) | 263 | 3.4 |
| Concentrate (€270/t) | 295 | 3.8 |
| Concentrate (€310/t) | 328 | 4.2 |

## What investments are required to improve grass utilisation?

While the previous section has highlighted the reasons why a focus on grass utilisation can lead to improved farm performance and profitability that is not to suggest that an increased focus on grassland management comes without costs. Investment will be required in soil fertility (P and K fertiliser, lime), drainage and infrastructure including paddocks, roadways and water. For many farmers, an investment will also be required in up-skilling themselves to better manage and utilise grass on their farms. Many farmers are not in the habit of making these types of investments, or if they are the level of investment is not prioritised, is insufficient or is only made when cash is available.

More farmers need to prioritise investment in the areas listed and also look at such investments in the same way as they would an investment in a building or a new machine – as a medium to long term investment and structured accordingly.

Interestingly, the return to the farmer from making these types of investment are very positive. More farmers are going to have to prioritise investments in these areas of high return.

**Table 2: Potential return on investments for four potential investments on a dairy farm**

| Investment | Cost | Impact | Annual Return, % |
|---|---|---|---|
| Increase soil P & K levels | 20 kg P & 50 kg K = €90 | + 1.5 t grass DM/Ha/year | 152 |
| Reseed full farm in eight year cycle | €650/ha | + 1.5 t grass DM/Ha/year | 96 |
| Improve grazing infrastructure | €1,000/ha for roads, fencing, water | + 1.0 t grass DM/Ha/year | 58 |
| Increase supplementation to increase milk yield/cow | €280/t DM concentrates | + 0.8 litres milk/ kg concentrates | 3.2 |

Source: Moorepark 2013: Irish Dairying, Harvesting the Potential, p. 13.

## What is Teagasc doing?

Teagasc has recently launched a four year campaign (2017 – 2020) to increase grass utilisation on Irish livestock farms (dairy, beef and sheep). This campaign – titled 'Grass10: Grassland Excellence for Irish Livestock' has the objective of achieving 10t grass DM/ha/year utilised and 10 grazings/paddock/year. The Grass10 campaign will feature activities in four broad areas: (1) delivering best practice; (2) building capacity; (3) building awareness; and (4) setting standards.

Teagasc recognises that the collaboration of a number of organisations in the Irish agri-food industry is required to achieve the Grass10 objectives. We are delighted to have AIB on board as partners on this campaign and we look forward to working with AIB colleagues to develop and deliver grassland messages to Irish livestock farmers over the next four years. The campaign is also supported by the Department of Agriculture, Food and the Marine; FBD Trust; Grassland Agro and the Irish Farmers Journal.

# Controlling the Controllables

Tadhg Buckley, AIB Agri Advisor, examines some of the options available to help build an efficient and resilient farm business.

Tadhg Buckley

**The last few years have been somewhat of a roller-coaster for Irish farmers, with no sector immune from the effects of volatile prices. As we look to 2017 and beyond, it is likely that this trend will continue, presenting both challenges and opportunities.**

While there are some aspects of a changing economic environment we can plan for, there are many uncertainties that we can't. Take for example Brexit, which as noted by Phelim O'Neill on page 1, will throw up challenges for farmers and add a level of uncertainty for some time to come. While all will experience outcomes arising from Brexit, the most efficient operators will be impacted least. Realistically therefore, to counteract unknown eventualities, farmers should continually focus on improving on-farm efficiencies and elements within their direct control.

But what specifically can you do to help build a more efficient and resilient farming business? Below are a few suggestions:

### 1) Have a simple system

The more efficient or high performing farms tend to be built around a simple system, driven by defined core objectives such as maximising grazed grass. The farm does not deviate from the system due to short-term changes in market conditions. A more simplified farm system allows more attention to detail as it reduces other distractions, making it easier to manage as scale increases.

### 2) Focus on process more than outcome

With output prices as volatile as they have been in recent years, it is questionable whether any form of profit targets should be used in measuring financial performance. Would it be of more benefit to utilise cost categories such as variable costs or the overall break-even price of the business when setting business goals? The implementation of good farm practices will inevitably lead to a more efficient and profitable business.

### 3) Efficiency insulates best against volatility

There are a number of mechanisms that can help a farmer deal with volatility which mainly revolve around the use of fixed prices (e.g. fixed price milk schemes/ forward selling grain) or fixed input prices. However, by far the best insulator to volatility is high efficiency. This was proven by the recent dairy industry downturn which has had a lesser financial impact on Ireland than our EU counterparts. This is heavily linked to the improvement in cost competitiveness by Irish dairy farmers.

### 4) Invest wisely and in assets that deliver most for your business

For sustainable farm businesses it is vital that priority is given at all times to investing in appreciating assets, such as stock and grassland infrastructure, over depreciating assets such as buildings and machinery. Appreciating assets are also those that generate the cash to fund investment in depreciating assets (which are also a requirement) therefore investment should be ranked in that order.

## Can financial planning and measurement play a role?

The performance range among farms within and across farm systems, no different from any other business sector, varies considerably as noted by Tom O'Dwyer in relation to grass growth and utilisation on page 4. While certainly an influence, the variance in performance or profitability cannot be explained by size, land type or location in isolation. The technical and managerial capacities of the individual farmer is of fundamental importance to farm productivity and performance.

While it is often accepted that farmers need to be efficient at grassland management, breeding, crop management and other on-farm practices, financial management and planning tends to receive less focus and attention on many farms despite its benefits, some of which are detailed below:

- **Know where you stand and benchmark your business against previous years and peers**
  Financial planning and measurement enables you to establish the financial strengths of your farm business; the competitive position of your business relative to your peers; and allows you to identify what specific areas require increased attention on your farm. Financial measurement also allows you the capacity to constantly monitor the progress of the business and to take proactive actions to mitigate challenges or maximise opportunities. Resources like the Profit Monitor allow you to easily compare your performance with that of your peers

- **Evaluate investment opportunities**
  Without proper financial information it is very difficult to evaluate investment opportunities relating to the existing farming operation. It is also vital that a differentiation is made between whether the proposed investment is value for money and whether the business can actually afford to do the investment or not over the long term.

## Conclusion

A resilient business is a lower cost highly efficient operation. In the volatile times we live in, improving on-farm efficiency and competitiveness is essential to managing risk and surviving the income cycles.

# Economic Outlook

**The Irish economy continues to grow at a strong pace. Recent GDP figures from the CSO show that GDP rose by 5.2% in 2016 and although influenced by the presence of large multi-national firms, Ireland remained the best performing economy in the EU in 2016.**

The underlying GDP data showed that consumer spending rose by a very healthy 3% in 2016 and despite some negative Brexit vote related impacts, the agricultural, forestry and fishing sector grew by a strong 6.2% in 2016. Construction output was also up by 11.4%, while there was a strong increase in services sector output last year.

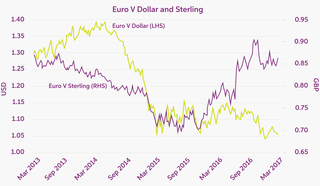
In terms of the labour market, data for the fourth quarter of 2016, were staggeringly strong and reminiscent of figures from the Celtic Tiger era. Employment rose by 16,700 over the previous quarter to give an increase of 65,000 for the year as a whole, equating to a rise of 3.3%.

This strong job growth is making major inroads into the level of unemployment, which fell by 40,000 to 151,700 over the course of last year. The jobless rate dropped to 6.9% by December, down from 8.9% at the end of 2015. This is the lowest level since mid-2008 and it has continued to fall since then, coming in at 6.6% in February this year. On the basis of these trends, the unemployment rate should drop below 6% over the course of 2017.

Meanwhile in terms of the property sector, housing completions rose by 18% year-on-year in 2016. However, this still only equates to 14,932 new properties, well below the estimated demand of 25,000-30,000 per annum. We would envisage completions totalling around 19,000 this year, and it is likely to be 2018/19 before housing output rises to 25,000 units or above.

Looking to 2017, data for Q1 point to a continued positive trend. For example, retail sales jumped by 2.2% in January and while this partly reflects seasonal factors around car sales, the core (ex-autos) measure increased by 1.5% in the month.

**Figure 4: Relative performance of the Euro against the US Dollar and Sterling**




Source: Thomson Datastream

Leading indicators of activity, such as the Purchasing Managers Indices (PMI), have also been a source of encouragement in the New Year. The services sector index has been particularly strong, while the construction index also remains high. The manufacturing PMI remains at a solid level, suggesting the sector has generally maintained the improved momentum seen at the end of last year. The ESRI/KBC measure of consumer sentiment has held up very well, despite the UK vote for Brexit and other political uncertainties both at home and abroad.

**The jobless rate dropped to 6.9% by December, down from 8.9% at the end of 2015. This is the lowest level since mid-2008**

Other indicators also point to continuing strong growth in early 2017. Tax receipts were up by 4.1% year-on-year in February, continuing their encouraging start to the year. VAT receipts were particularly strong, suggesting a solid performance by the consumer side of the economy.

We anticipate that the Irish economy will continue to grow at a solid pace over the next couple of years, in the region of 3-3.5% (Table 3). The economy will be supported by the steadily improving labour market, further recovery in construction, more expansionary fiscal policies, low interest rates and improved growth in the global economy.

Brexit remains a serious event risk for the Irish economy. There is however little sign yet, that the uncertainty around Brexit and the sharp fall in the value of sterling (Figure 4) is having a significant effect on the Irish economy, though some sectors are being impacted. Much will depend on the nature of the exit deal reached between the UK and EU.

**Table 3: Economic Forecasts – Ireland**
Annual % Change Unless Otherwise Stated

| | 2015 | 2016 | 2017 (f) | 2018 (f) |
|---|---|---|---|---|
| Real GDP | 26.3 | 5.2 | 3.5 | 3.0 |
| Real GNP | 18.7 | 9.0 | 3.5 | 3.0 |
| Consumer Spending | 4.5 | 3.0 | 3.0 | 2.5 |
| Government Spending | 1.1 | 5.3 | 1.5 | 1.5 |
| Fixed Investment | 32.7 | 45.5 | 6.0 | 5.5 |
| Exports | 34.4 | 2.4 | 4.0 | 4.0 |
| Imports | 21.7 | 10.3 | 4.0 | 4.0 |
| HICP Inflation (%) | 0.0 | -0.2 | 0.5 | 0.8 |
| Unemployment (%) | 9.5 | 7.9 | 6.5 | 5.8 |
| General Govt. Deficit (as % of GDP) | -1.8 | -0.9 | -0.5 | -0.3 |

(f) = forecast Source: CSO, AIB Economic Research Unit Forecasts

# Labour Efficiency

Patrick O'Meara, AIB Agri Advisor, discusses labour efficiency and the role of hired labour.

Patrick O'Meara

**The landscape of farming in Ireland continues to change. Farms are getting bigger, herd size is increasing but the number of full time farmers is decreasing. As such, issues such as time and workload are becoming increasingly important for Irish farmers.**

A key consideration for some farmers, particularly larger scaled operations or those considering expansion will be around justifying, recruiting, developing and holding on to good quality staff. As the national unemployment rate continues to fall, employers will have to compete for a declining resource - labour. This competition will be on a number of fronts: wages, work environment, personal development, flexibility, convenience and future opportunities.

However, before you consider employing labour, perhaps there are things you can do now to achieve a more labour efficient farm. This in turn should lead to a better quality of life, possibly higher margins, more enjoyable work and a safer environment.

### 1) Set your farm up to reduce workload

- **Can you simplify your system?** No matter what sector you are involved in, there is room to simplify your existing farm operation. While it will be sector specific, in general by having less groups of animals, reducing the range of farm enterprises, simplifying the feeding regime or entering into arrangements with other farmers (e.g. contract rearing) you can reduce the number of tasks on the farm and in turn your workload
- **Consider more use of contractors for certain jobs:** You should consider your busiest times on the farm, the time hungry jobs and ask yourself would it be cost effective to employ a contractor to do some of the jobs? On most farms, contractors are generally used for silage harvesting, spreading (some) slurry and hedge cutting but in some instances it could be beneficial to get a contractor or local farmer to help spread fertiliser, draw feed / grain, mow and draw bales of silage / hay and other similar jobs
- **Put proper infrastructure in place:** Set the farm up so that routine jobs are easily achieved by one person. Ensure you have adequate cattle/sheep handling facilities, adequate water, roadways and fencing which will make handling and moving animals a lot more time efficient
- **Can you justify farming the marginal acres?** Most farmers will have a piece of ground that is questionable whether or not they should be farming it. This can be from a location point of view, the quality of the land or the quality of the infrastructure in place on it. It is important to ask if this piece of land is generating a return for the time and effort involved.

### 2) Identify the periods when you are busiest and try to eliminate certain tasks

In general, spring is the busiest period on farms and can place pressure on farms and the farmer. Farm tasks should be reviewed to determine if they could be reduced, postponed or completed by somebody else to allow you to concentrate and give sufficient time to key tasks such as calving, lambing or sowing crops. Examples of these tasks can include completing hedge cutting in autumn, get feed/ fertiliser delivered to your yard, complete maintenance work over the winter months and ensure farm development work is completed well in advance of the spring.

### 3) Work smarter, not harder

Taking the time to manage and prioritise your workload can have a significant impact on how efficient you are. There are some people who always seem to be on top of their workload, while others with a similar workload struggle to achieve the same level of output. Simple practices such as completing a 'to do list'; prioritising tasks; completing jobs at the first attempt; foreseeing issues coming down the track; seeking assistance on tasks that require two people (or are more efficient with two people) can be used to improve work output and save time.

### Hired Labour

If on review, you decide that you do need to employ additional labour you must realise that you need to invest significant time and resources to develop and train new staff. Challenge yourself to ensure your farm really needs hired labour and can afford it.

Hired labour is a relatively new phenomenon on Irish farms, where here-to-fore labour was traditionally provided by family members. Holding on to hired labour will be more difficult and as a result you will need to develop them, give them responsibility and show your appreciation for their efforts. To make things easier for both parties:

- Decide and outline the key roles that a new staff member is going to complete;
- Develop a protocol for these key roles (particularly routine jobs) – it is important that you follow the same protocol;
- Have a weekly meeting (or more often if required) to agree on key priorities and workload for the coming week; and,
- Develop the staff member so that they can work on their own and that you are not constantly checking on their work.

With farm scale and size increasing, it is important to look at options on farm that can help reduce workload, particularly during busy periods. Simple practices such as completing to do lists and prioritising tasks can help ensure that the most important items get the attention they deserve. On some farms, hired labour will have a role to play and it is important that both parties are aware of their roles and responsibilities.

Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. AIB and AIB Bank are registered business names of Allied Irish Banks, p.l.c.

Registered Office: Bankcentre, Ballsbridge, Dublin 4. Registered in Ireland: Registered No. 24173. © Allied Irish Banks, p.l.c. 2017. All rights reserved in the copyright of the newsletter.

The content of this newsletter is expressed in broad terms and is limited to general information purposes only. Readers should always seek professional advice to address issues arising in specific contexts and not seek to rely on the information in this newsletter which does not constitute any form of advice or recommendation by AIB Bank. AIB Bank neither accepts nor assumes any responsibility in relation to the contents of this newsletter and excludes all warranties, undertakings and representations (either express or implied) to the fullest extent permitted under applicable law.

# FIND OUT ALL THE WAYS WE'RE BACKING FARMERS

## CONTACT OUR DEDICATED AGRI TEAM

**Anne Finnegan**,
Head of Agri Sector
Call: 01 6411974
Email: anne.m.finnegan@aib.ie
AIB Bankcentre

**Noreen Lacey**,
National Agri Business
Development Manager
Call: 086 3817533
Email: noreen.p.lacey@aib.ie
AIB High St, Kilkenny

**John Farrell**,
Agri Sector Team
Call: 01 6414001
Email: john.a.farrell@aib.ie
AIB Bankcentre

**Shane Whelan**,
Agri Sector Team
Call: 01 6411437
Email: shane.g.whelan@aib.ie
AIB Bankcentre

**Tadhg Buckley**,
Agri Advisor Team Leader
Call: 086 1706528
Email: tadhg.g.buckley@aib.ie
AIB Mallow

**Donal Whelton**,
Agri Advisor
Call: 086 4146550
Email: donal.j.whelton@aib.ie
AIB Bandon

**Bryan Doocey**,
Agri Advisor
Call: 086 8221313
Email: bryan.p.doocey@aib.ie
AIB 66 South Mall, Cork

**Shane McCarthy**,
Agri Sector Specialist
Call: 086 0081317
Email: shane.p.mccarthy@aib.ie
AIB 66 South Mall, Cork

**Patrick O'Meara**,
Agri Advisor Team Leader
Call: 086 0229247
Email: patrick.j.o'meara@aib.ie
AIB Nenagh

**Liam Phelan**,
Agri Advisor
Call: 086 0231700
Email: liam.p.phelan@aib.ie
AIB Wicklow

**Diarmuid Donnellan**,
Agri Advisor
Call: 086 4621355
Email: diarmuid.p.donnellan@aib.ie
AIB O'Connell St, Limerick

**Chris Nolan**,
Agri Sector Specialist
Call: 086 0080272
Email: chris.p.nolan@aib.ie
AIB High St, Kilkenny

**Eamonn O'Reilly**,
Agri Advisor Team Leader
Call: 087 2517806
Email: eamonn.m.o'reilly@aib.ie
AIB Mullingar

**Patrick Butterly**,
Agri Advisor
Call: 086 3831576
Email: patrick.p.butterly@aib.ie
AIB Ardee

**Barry Hyland**,
Agri Advisor
Call: 086 3831661
Email: barry.l.hyland@aib.ie
AIB Cavan

**Mark Glennon**,
Agri Sector Specialist
Call: 01 7725767
Email: mark.a.glennon@aib.ie
AIB Mullingar

## WE'RE BACKING BRAVE

**#backedbyAIB**

Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.