

## The Andersons Centre – Latest News Update

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### Dairy Profitability

Dairy profitability could improve for the 2010-11 milk year. But for a fairly typical farm, the returns from producing milk are still marginal – it still requires support payments to bring about a reasonable level of business surplus. These are the messages from the latest figures produced for Andersons' model dairy business 'Friesian Farm'. The data was prepared for the forthcoming Dairy Event and Livestock Show due to be held at Stoneleigh on the 16th and 17th September.

To recap, Friesian Farm produces 1.125 million litres from 150 cows and their replacements. It has year-round calving and receives a small premium from a liquid contract. It runs to around 100 Ha (of which 40 Ha are rented on a FBT). The proprietor provides labour along with one full time worker (plus casual/relief). The table below shows the 2008-09 milk year results and estimates for the next two years.

#### **FRIESIAN FARM**

<i>ppl</i>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Milk	26.2	23.8	24.0
Culls & Calves	2.0	2.2	2.0
<b>Output</b>	<b>28.2</b>	<b>26.0</b>	<b>26.0</b>
Costs (incl. drawings)	26.5	27.3	25.9
<b>Surplus from Production</b>	<b>1.7</b>	<b>(1.3)</b>	<b>0.1</b>
SPS (and ELS)	2.4	2.5	2.4
<b>Surplus after SP</b>	<b>4.1</b>	<b>1.2</b>	<b>2.5</b>

Source: Andersons

At this point last year, the surplus from production for the current, 2009-10 milk year was forecast to be zero. In fact, as the table shows, things look like turning out worse than that, because of the sharp fall in milk prices seen since the turn of the year. In addition, costs are expected to rise on average compared to the 2008-09 year. Although feed looks like being cheaper this coming winter, this spring's fertiliser has been more expensive than historically. Overheads go up for 2008-09 as Friesian Farm is investing £80,000 in water separation and slurry storage to comply with NVZ regulations, adding to the cost of production through depreciation and higher interest charges.

Looking to the future, it is difficult to factor in with much certainty a recovery in milk prices. It will probably require a return to strong global economic growth, and the £/€ exchange rate would have to remain close to current levels. Therefore only a minimal improvement is shown for the next milk year. On a more positive note, variable costs are forecast to reduce. The winter of 2010-11 is quite some time away, but on current market trends it looks likely that feed prices will be lower than for the coming winter. The big reduction in costs will come if current fertiliser values are maintained until Feb/Mar next year.

*All this brings milk production marginally back into profit for 2010-11. However, support is still required to give a realistic return to the business. Last year we said the UK dairy industry was in the balance, and profitability needed to return to the sector if the inexorable decline in production was to be halted. Twelve months on things haven't really changed much, and true, sustainable profits seem as far away as ever.*

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