



## Managing milk price volatility

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# Milk price volatility

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Source: Central Statistics Office

<sup>1</sup> Monthly manufacturing milk price, including VAT, actual fat and protein



# Significant industry advances in recent years

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## Increased dairy exports

- Value + 55% since 2009
- Exporting to 140 countries  
(Source: Bord Bia)

01

## Increased milk output – 2015 v 2009

- National milk production + 30%
- Dairy cows + 18%  
(Source: CSO)



02

04

## Improved financial profile

- Total farm debt (dairy & non-dairy) has reduced by c.35% (€1,798m) since peak in Q1 2009  
(Source: Central Bank)

03

## Better herd profile

- €61 increase in Herd EBI (2015 v 2010)
- Higher milk constituents

	2009	2015
% Fat	3.83	4.01
% Protein	3.33	3.49

(Source: CSO, ICBF)



# Common traits of those better able to manage volatility

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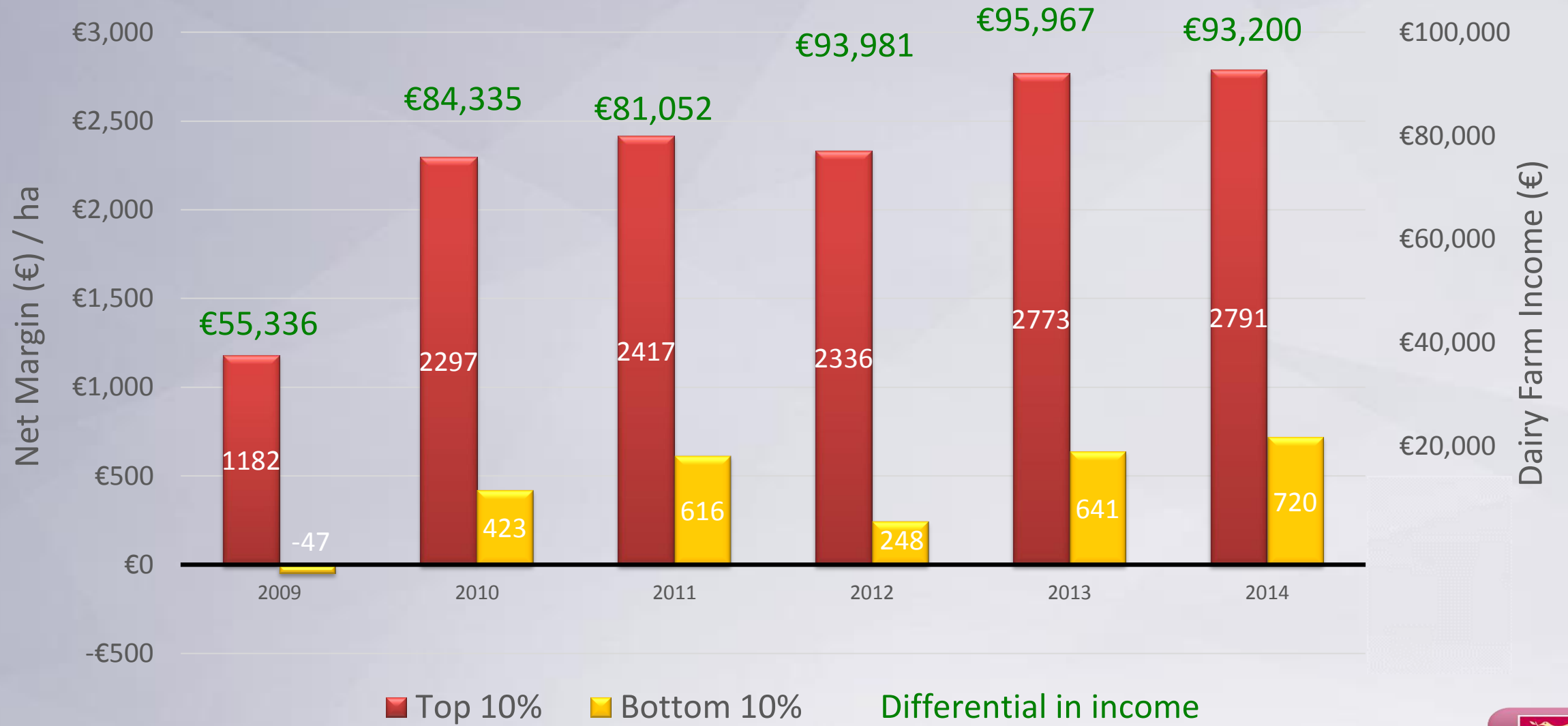
- Have you the skillset to be a top performer?
  - Technical, Financial and People Management skills

**Surround yourself with the best people**



# Managing the cycle – Efficiency is key

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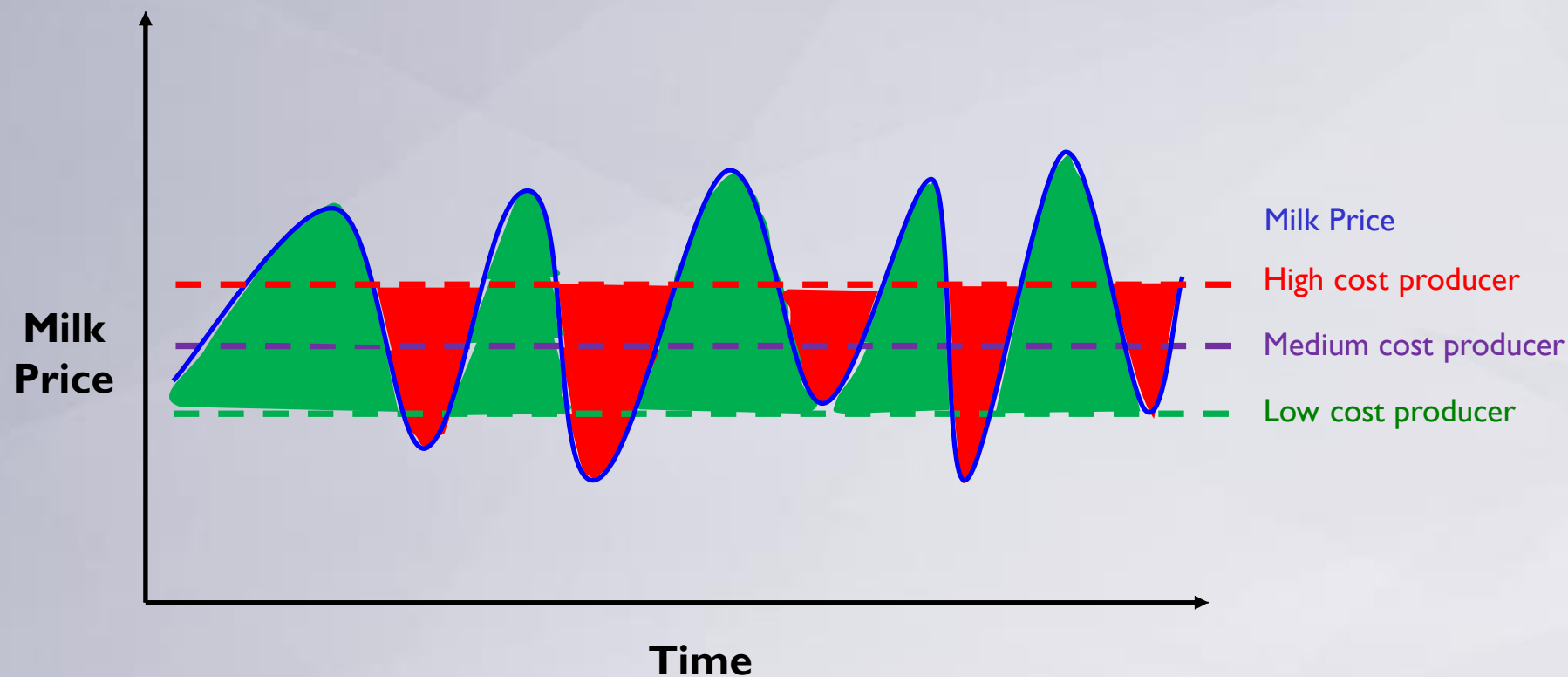
Source: Teagasc Dairy Profit Monitor, various years

<sup>ii</sup> Based on a Net Margin/litre basis

<sup>ii</sup> The differential in income assumes an average farm size of 45 ha (2014 dairy profit monitor average farm size for spring milk)



# High cost producers most exposed to output price volatility



- ▶ High cost producer makes a profit when milk price is above red line (Competitiveness problem)
- ▶ Medium cost producer makes a profit when milk price is above the purple line (Needs to manage price risk)
- ▶ Low cost producer makes a profit when milk price is above the green line (Can ride out the volatility)

# What's your farm's break even cash milk price?

*"The milk price needed to meet all cash commitments"*

Example: 100 cow Spring Calving dairy herd		(€)
Farm Income (incl €35,950 non-milk sales)	199,150	
Farm Expenditure	107,500	
<b>Surplus Before Drawings, Tax &amp; Financials</b>		<b>91,650</b>
<i>Less:</i>		
Household Expenses	44,000	
Taxation	11,500	
Financial repayments	18,500	<u>74,000</u>
<b>Net Surplus</b>		<b>17,650</b>

(Figures used are for indicative purposes only)



Break-even Calculation	c / litre
Co-op Milk price received	32
Less Net Surplus in c/litre (€17,650 / 510,000 litres)	3.5
<b>Break-even milk price<sup>1</sup></b>	<b>28.5</b>

<sup>1</sup> Assumes value of non-milk sales remains constant

- Complete analysis for your farm for 2015
- Calculate your estimated b/e milk price for 2016 based on 2015 output/cost parameters
- Outcome will determine your next move

# Dealing with cash flow difficulties – Identify root cause



## Key Considerations

- ▶ Establish root cause of problem and address it
  - ▶ Output, on-farm costs or non-farm expenditure

## Range of support options available

Review of monthly  
repayment commitments

Short term increase to  
working capital facilities

Short term loan facilities

An interest only period  
on existing borrowings

**If root cause is not treated the symptoms will re-occur**



# Conclusion

- ▶ Volatility is the new norm in farming
- ▶ Position yourself for the future – technical, financial & people management
- ▶ Efficiency must come before expansion – Better Before Bigger!!
- ▶ Establish your farm's cash break-even milk price as first step
- ▶ Treat the cause of the problem not the symptoms
- ▶ AIB is committed to supporting development of the sector & supporting the sector through income cycles

# Important Information

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Lending criteria, terms and conditions apply. Credit facilities are subject to repayment capacity and financial status and are not available to persons under 18 years of age. Security may be required.

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





**Thank You**

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