



Headline Summary

The monthly farming and food brief summarises the latest statistical and economic information relating to the agricultural sector. In particular, it highlights the results of recently published evidence and research.

Food prices continue to fall

Year on year food prices have continued to fall, with an annual rate of inflation of -2.7% in the year to July 2015, according to official figures released on 18th August 2015. General inflation is 0.1 %, up from 0.0% in June.

(More details: see section 4.)

Major changes to the farm business

In results from the Farm Business Survey published on 13th August 2015, more than half of cropping farms (54%) planned to carry out a major change to the business in 2015 or 2016. For those planning a change, the most common reason given was to increase profitability.

Around 40% of cropping businesses planned a major investment in their business within the next two years. Larger farms were more likely to invest than smaller farms

A third of cropping businesses had introduced a new or innovative practice in the previous 12 months. For around half of these farms (48%) this was primarily the result of the farmer's own ideas; 19% cited the primary source as the media and 17% cited other farmers, discussion groups or farm staff.

(More details: see section 2.2)

Average Farm Household Income little changed from 2012/13

In results from the Farm Business Survey published on 20th August 2015, the average household income before tax) of the principal farmer was £51,800 in 2013/14, little changed from 2012/13 (£51,400 per household). A quarter of these households had an income of less £16,000 and a quarter had an income greater than £65,900.

(More details: see section 2.3)

Monthly milk production lower than previous year

Monthly milk production was lower than the previous year for the first time since June 2013 (25 months). But continued pressure from international markets have led to a 1.3% (0.32p per litre) decrease on the UK average farm gate milk price since in the month to July 2015 to 23.35p per litre.

(More details: see section 2.1.2 and the detailed briefing Annex A at the end of this document).

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1. Overall economic position

Consumer Price Index

- The Consumer Prices Index (CPI) rose to 0.1% in the year to July 2015, compared to 0.0% in the year to May 2015.
- The largest upward contribution came from clothing and footwear, and transport prices.

Labour Market Statistics

- Comparing the estimates for April to June 2015 with those for the 3 months to March 2015, there was a slight fall in employment and rise in unemployment.
- There were 31.03 million people in work, 63,000 fewer than for the 3 months to March 2015 and 354,000 more than for a year earlier.
- There were 1.85 million unemployed people. This was little changed with the number for the 3 months to March 2015 but higher than for a year earlier.
- The proportion of the economically active population who were unemployed (the unemployment rate) was 5.6%, little changed compared with the 3 months to March 2015 but lower than for a year earlier (6.3%). Economically active people are those in work plus those seeking and available to work.
- There were 8.99 million people aged from 16 to 64 who were out of work and not seeking or available to work (known as economically inactive), little changed compared with the 3 months to March 2015 and with a year earlier.

Retail Sales

- Year-on-year estimates of the quantity bought in the retail industry grew for the 28th consecutive month in July 2015, increasing by 4.2% compared with July 2014. This was the longest period of sustained year-on-year growth since May 2008, when there were 31 periods of growth.
- The underlying pattern in the data, as suggested by the 3 month on 3 month movement in the quantity bought, showed growth for the 29th consecutive month, increasing by 0.5%. This is the longest period of sustained growth since consistent records began in June 1996.
- Compared with June 2015, the quantity bought in the retail industry is estimated to have increased by 0.1%. Increases were reported by department stores, other stores, household goods stores and non-store retailing offset by falls in predominantly food stores, textile, clothing and footwear stores and petrol stations.
- Amount spent in the retail industry increased by 1.0% in July 2015 compared with July 2014 but decreased by 0.2% compared with June 2015. The average weekly spend in the retail industry was £7.1 billion; non-seasonally adjusted data show this is unchanged from the previous month and the July 2014 figure.
- The value of online sales increased by 13.0% in July 2015 compared with July 2014, however, there was no growth in July 2015 compared with June 2015. They accounted for 12.6% of all retail sales.

GDP

- UK GDP in volume terms was estimated to have increased by 0.4% between Quarter 4 (Oct to Dec) 2014 and Quarter 1 (Jan to Mar) 2015, revised from the previous estimate of GDP published 28 May 2015.
- GDP was estimated to have increased by 3.0% in 2014, compared with 2013, revised up 0.2 percentage points from the previously published estimate.

2. Farming

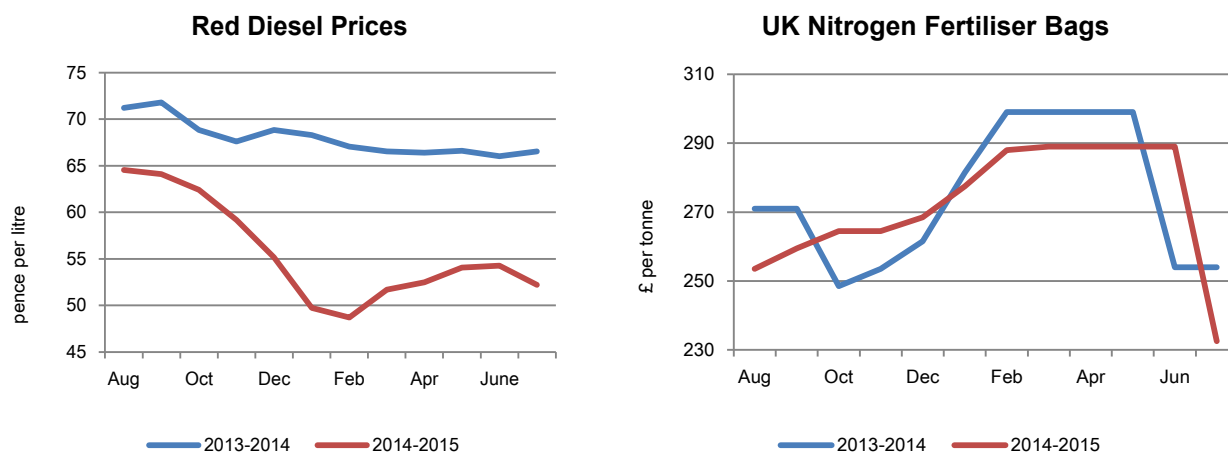
This section brings together the latest economic position for the farming sector (including UK and international input and commodity price intelligence) and the highlights of recently published evidence and research.

2.1. Economic

2.1.1. UK Prices – Inputs

- **Red Diesel:** In July 2015, the average price for red diesel was 52 pence per litre. Current prices are 22% lower than July 2014.
- **Fertiliser:** In July the average price for 34.5% UK Ammonium Nitrate bags fell to £232.50 per tonne. Current prices are 8% lower than July 2014. June figures were estimated as data was unavailable.

(Source: Dairy Co Datum).



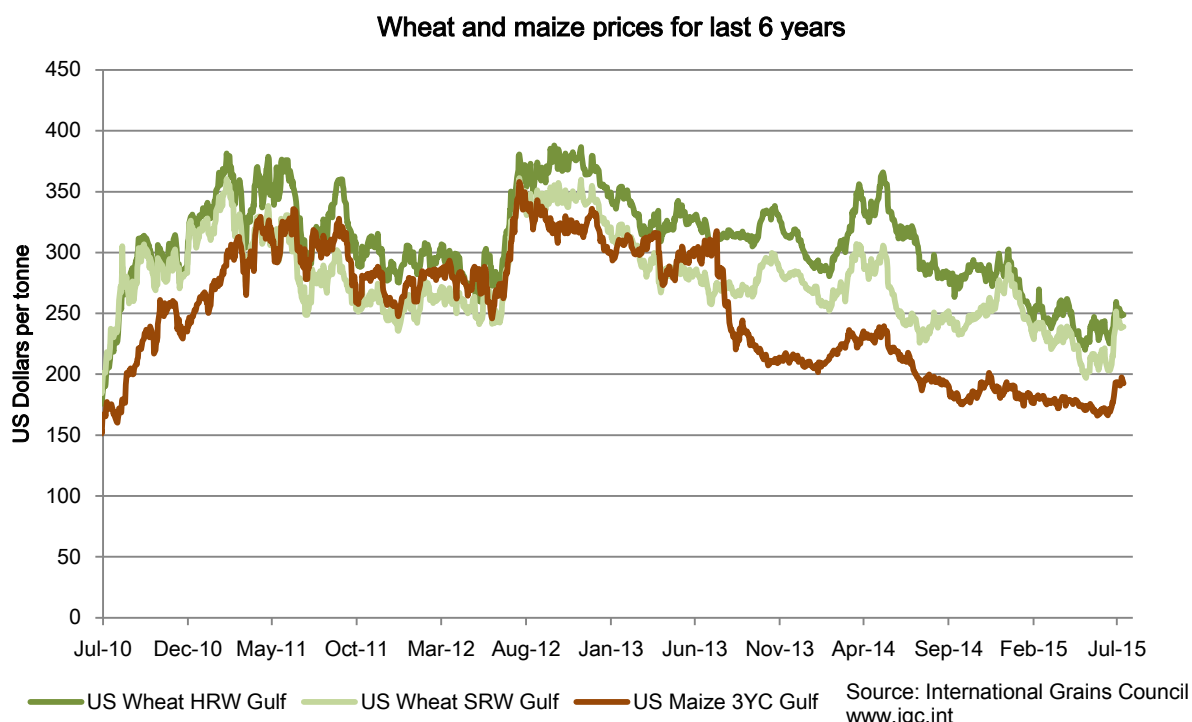
Contact: Graham Brown, Farming Statistics (Accounts and Prices), graham.brown@defra.gsi.gov.uk

2.1.2. Prices and Market Information – Commodities

Cereals

- The July 2015 average price for Hard Red winter wheat was \$237 per tonne, which was a 31% decline from the May 2014 average price of \$342 as markets react to the latest harvest information. The 2014 and 2015 decline in prices has been steeper than that seen in 2013 when prices of Hard Red winter wheat fell from \$330 in May to \$311 in June. Soft Red winter wheat followed a similar pattern and is 33% lower than the May 2014 average price.
- Maize prices have fallen from a record high of \$358 per tonne in July 2012 to \$174 in June 2015. Over recent weeks prices have increased to \$185 per tonne in mid-August 2015, 6.5% higher than the June average).
- The USDA published their World Agricultural Supply and Demand 2015/16 production forecasts on 12 August. For **wheat**, the global production forecast has been increased by 4.5Mt to 726.55Mt (which compares to the actual level of production of 725.25Mt for 2014/15). The increase in the forecast is due to higher forecasts in Russia and Ukraine offsetting a lower than expected crop in Canada and a reduction in carryover stock. Global wheat demand for 2015/16 shows little change from previous forecasts and world ending stocks are now forecast 1.66Mt higher than the July forecast at 221.47Mt and 12Mt higher than the actual 2014/15 ending stock. Global production of **maize** is forecast 1.5Mt lower than the July forecast but this offset by higher opening stocks (+3.47Mt). Overall global production

is forecast 20.6Mt lower than last seasons record crop (1,006Mt) at 986Mt. The EU crop is forecast 3.5Mt lower than last year due to hot dry conditions in western and southern regions having a detrimental effect on yields. Global ending stocks for 2015/16 are forecast at just over 195Mt. The world is still looking at a deficit maize situation at 2Mt but this is reduced from July's forecast of a 4Mt deficit. The USDA increased its forecast of soyabean production by 1Mt from it's July estimate; this was against market expectation and resulted in the biggest weekly fall in future prices seen so far this year. Oilseed prices were also negatively affected by Chinese currency devaluation.



Contact: Allan Howsam, Farming Statistics (Crops), allan.howsam@defra.gsi.gov.uk

- **Animal Feed** (source Defra): During June 2015 (the latest period for which data is available), the total GB retail production of animal feed was 905 thousand tonnes, up 1.8% compared to June 2014. Total GB integrated poultry feed production was 240 thousand tonnes, up 1.7% during June 2015 compared to the same period in 2014.
- **Flour** (source Defra): During June 2015 (the latest period for which data is available), the total amount of wheat milled in the UK was 595 thousand tonnes, down 0.7% compared to June 2014. The total amount of home grown wheat milled in the UK for June 2015 was 503 thousand tonnes, up 4% compared with June 2014. There were 93 thousand tonnes of imported wheat milled in June 2015, down 20% compared with June 2014, due to home grown wheat being readily available for Millers to use. Flour production (including Starch Manufacture and Bioethanol Production) for the same period was 470 thousand tonnes, up 0.6% compared to June 2014.
- **Brewers, Distillers and Maltsters** (source Defra): During June 2015, the total usage of barley by brewers, distillers and maltsters was 157 thousand tonnes, down 4.3% compared to June 2014.

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Livestock (source: Defra)

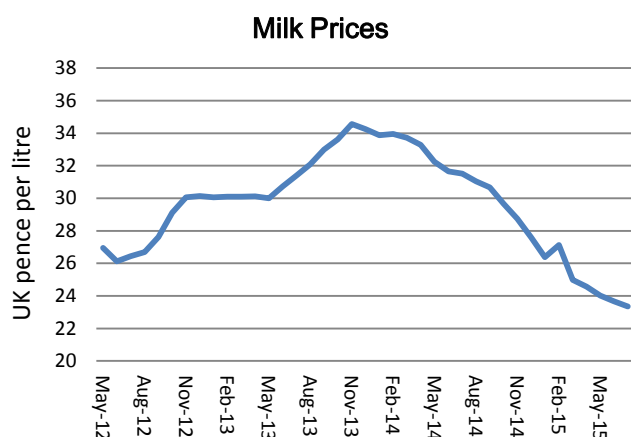
- **Pigs:** UK clean pig slaughterings were 3.4% higher than in July 2014 at 1.00 million head. Pigmeat production was 84 thousand tonnes, 4.1% higher than in July 2014.
- **Sheep:** UK clean sheep slaughterings were 2.0% higher than in July 2014 at 1.3 million head. Mutton and lamb production was 30 thousand tonnes, 3.7% higher than in July 2014.

- **Cattle:** UK prime cattle (steers, heifers and young bulls) slaughterings in July 2015 were 2.8% higher than July 2014 at 181 thousand head. Beef and veal production was 83 thousand tonnes, 6.2% higher than in July 2014.

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Livestock products (source: Defra)

- **Milk Volumes:** The provisional volume of wholesale milk delivered to UK dairies during July 2015 was 1.2 billion litres, 1.1% (13.8m litres) lower than in July 2014. This is the first time since June 2013 where the monthly intake of milk has been lower than the same period the previous year. (source: Defra).



- **Milk Prices:** Continued pressure from international markets have led to a 1.3% (0.32p per litre) decrease on the UK average farm gate milk price in the month to July 2015 to 23.35p per litre. This represents an 8 pence per litre (26%) decrease on the July 2014 price. The current strength of Sterling against the Euro is also adding downward pressure on UK dairy prices.

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[A detailed briefing on Dairy is available at Annex A on page 12.](#)

2.2. Farmer Intentions

In 2013/14, the Farm Business Survey (FBS) collected data from a subset of cropping (cereal, general cropping, horticulture and mixed farms) farms within the main survey. This data covered farmers' aspirations and plans for 2015 and 2016 for the whole business and for individual enterprises, the strength of these intentions and the reasons behind them. It also included any innovations or new practices adopted by the business in 2014. The results from these questions were published on the 13th August 2015. The key results from the survey are given below:

Major changes to the farm business

- More than half of cropping farms (54%) planned to carry out a major change to the business in 2015 or 2016. Major changes were more likely for those in the North West than other regions and/or for those with a net worth of less than £500,000 or more than £2 million.
- For those planning a change, the most common reason given was to increase profitability (63%).
- The most common changes planned were to production levels on existing agricultural enterprises (34%) and to output on diversified enterprises (21%). The strength of intention for carrying out these changes was relatively strong; 47% and 42% (respectively) of those planning to make these changes indicated that plans were well developed and the changes were almost certain to be implemented.

Enterprise level changes

- Major changes to agricultural enterprises were more likely to involve increasing or decreasing an existing enterprise (by at least 10%) than stopping or commencing something new. Changes were most likely to existing ornamental enterprises and least likely to existing combinable crop enterprises.
- Very few cropping farms (11%) had an existing enterprise that added value by selling direct to customers or by processing. Of those that did, 35% planned a major change in 2015 or 2016.
- Around a fifth (21%) of cropping businesses planned a major change to a diversification enterprise within the next two years. The planned change was largely to increase an existing enterprise (12% of cropping businesses) or to start a new enterprise (7%). The most common new enterprise type was generating electricity.

Major investment in the farm business

- Around 40% of cropping businesses planned a major investment in their business within the next two years. Larger farms were more likely to invest than smaller farms.
- The most common area for investment was in new machinery (16%).

Innovation

- A third of cropping businesses had introduced a new or innovative practice in the previous 12 months. For around half of these farms (48%) this was primarily the result of the farmer's own ideas; 19% cited the primary source as the media and 17% cited other farmers, discussion groups or farm staff.
- Of those cropping business that introduced a new or innovative practice, over a third (36%) were related to crop and livestock husbandry. For 27% the new practice was linked to precision farming and for 25% linked to farm management. Eighteen percent had introduced specialist equipment and for 14% the new practice was related to renewable energy and water management.

Link to full release: <https://www.gov.uk/government/statistics/farmer-intentions-survey>

Contact: Katherine Merrett, Farming Statistics (Farm Business Survey), katherine.merrett@defra.gsi.gov.uk

2.3. Farm Household Income

The final estimates of farm household income from the 2013/14 Farm Business Survey were published on 20th August 2015. Farm household income comprises Farm Business Income (including that from diversified enterprises), the off farm income of the principal farmer and their spouse/common law partner and income from other household members. The key results are:

- The average household income (before tax) of the principal farmer was £51,800 in 2013/14, little changed from 2012/13 (£51,400 per household). A quarter of these households had an income of less than £16,000 and a quarter had an income greater than £65,900.
- Changes in farm household income tend to be driven by changes in Farm Business Income (FBI). In 2013/14, FBI accounted for 70% of farm household income. Non-farm income (off-farm income of the farmer and their spouse or common law partner and income of other household members) has remained largely unchanged over the last 5 years, averaging between £14,000 and £15,500 per household.
- 92% of farm households had off-farm income from the principal farmer or their spouse or common law partner (on average £15,200 per household); 10% had income from other household members (on average £16,200 per household).
- Around half of principal farmer households obtained at least 50% of their non-farm income from unearned sources such as investments and pensions; in 2013/14 30% was from investments and 21% was from pensions. Only 2% of households obtained at least 50% of their non-farm income from working on another farm.
- 37,900 farm businesses (65%) are comprised of a single household. Analysing data for these businesses reveals a stark contrast between income and assets. For example, 25% had a household income below £17,900, but the median net worth of this group was £413,000.

Link to full release: <https://www.gov.uk/government/statistics/farm-household-income-and-household-composition-201213>

Contact: Katherine Merrett, Farming Statistics (Farm Business Survey), katherine.merrett@defra.gsi.gov.uk

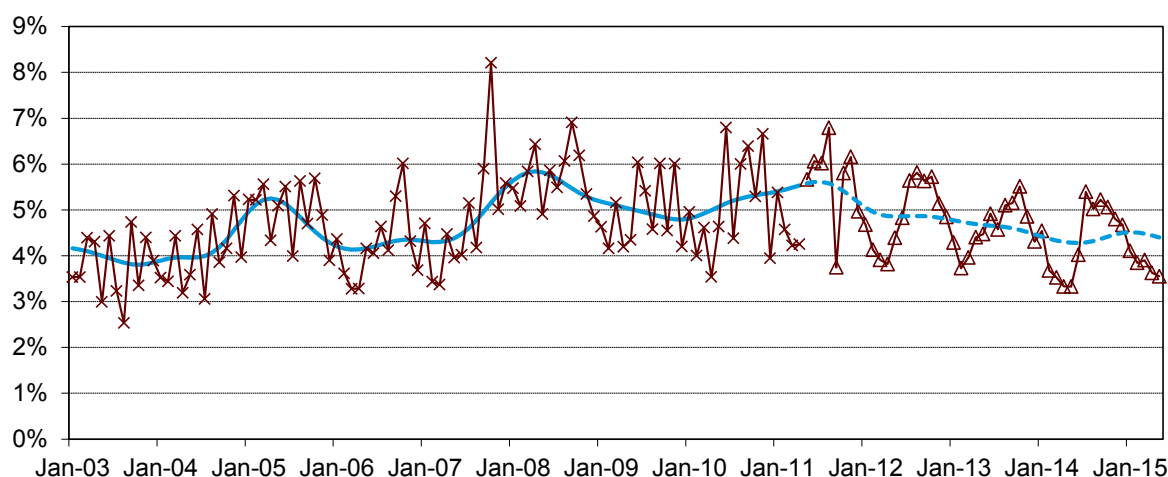
3. Environment, Health and Welfare

3.1. Health and Welfare

3.1.1. TB Statistics May 2015 – Great Britain

- The provisional incidence rate for January to May 2015 is 3.8% compared to 3.7% for January to May 2014. However, care needs to be taken not to read too much into short term figures, especially as this figure includes a number of unclassified incidents. As such, the incidence rates are subject to further revisions as more tests and their results for the period are input.
- The number of new herd incidents during January to May 2015 was 2,139 compared to 2,143 during January to May 2014. The number of tests on officially TB free herds was 38,441 during January to May 2015, compared to 38,246 during January to May 2014.

Herd incidence of bovine TB (bTB) in GB: number of new incidents of bTB leading to the withdrawal of officially TB free (OTF) herd status, as a percentage of tests carried out in OTF herds each month since 2003:



contact: Animal and Plant Health Evidence and Analysis (APHEA), tbstatistics@defra.gsi.gov.uk

4. Food

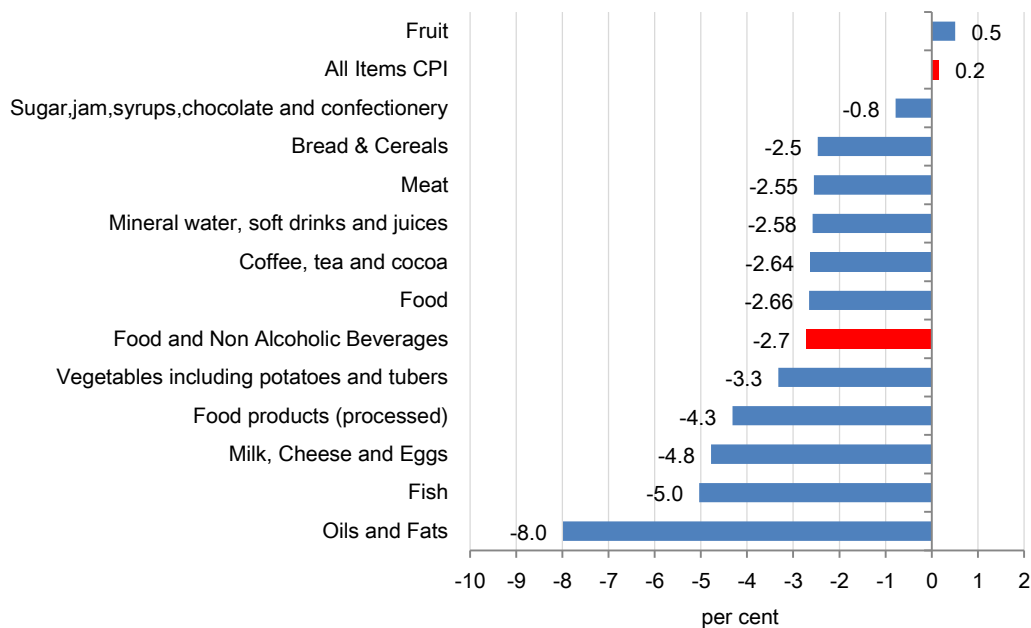
This section highlights current trends in food price inflation and drivers of future price changes together with the latest trade figures for food and drink.

4.1. Food inflation

4.1.1. Consumer and retail prices

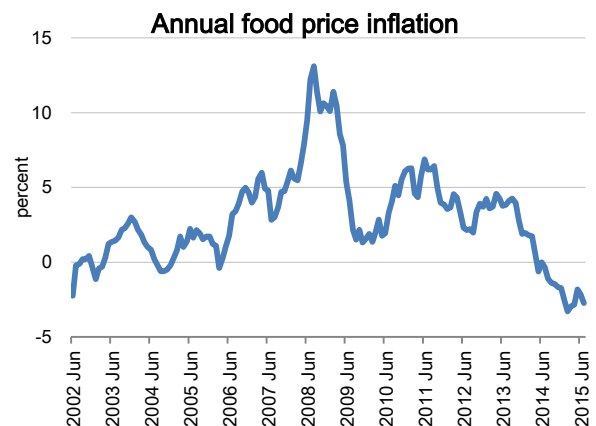
Year on year food prices have continued to fall, with an annual rate of inflation of -2.7% in the year to July 2015, according to official figures released on 18th August 2015. General inflation is 0.1%, up from 0.0% in June.

Changes in CPI Indices July 2014 to July 2015 (2005=100)



The fall in food prices over the last year has been driven by significant declines in international food commodity prices, falling oil prices and continuing intense price competition between supermarkets. Some of these effects take time to feed through to inflation.

Annual all items inflation was 0.1% in the year to July 2015, up from June. There were large upward effects from clothing and footwear, where prices fell by 3.4% between June and July compared with a larger fall of 5.7% between the same months in 2014. Similarly, transport services rose by 6.6% between June and July 2015 compared with a rise of 4.6% in 2014, and recreation and culture rose by 0.2% compared with a fall of 0.2% last year. There were large downward effects from food and non-alcoholic beverages, falling 0.7% between June and July this year compared with a fall of 0.2% in the same months in 2014, fuel and lubricants, and restaurant and hotel prices.



Below are the average retail prices of selected items on 14th July 2015:

1 pint of milk	£0.43 (down from £0.44 in June)
Loaf of sliced white bread (800g)	£1.02 (unchanged from June)
Cheese (kg)	£7.77 (down from £7.82 in June)
Eggs (dozen large free range)	£2.73 (down from £2.76 in June)
Potatoes, old white (kg)	£0.75 (down from £0.77 in June)
Apples (kg)	£2.00 (up from £1.93 in June)
Sugar (kg)	£0.73 (down from £0.74 in June)

Contact: Andrew Scaife (Food Statistics), andrew.scaife@defra.gsi.gov.uk

4.2. International Trade in Food, Feed and Drink

4.2.1. Value of Trade

This section shows the latest available trade figures (to June 2015).

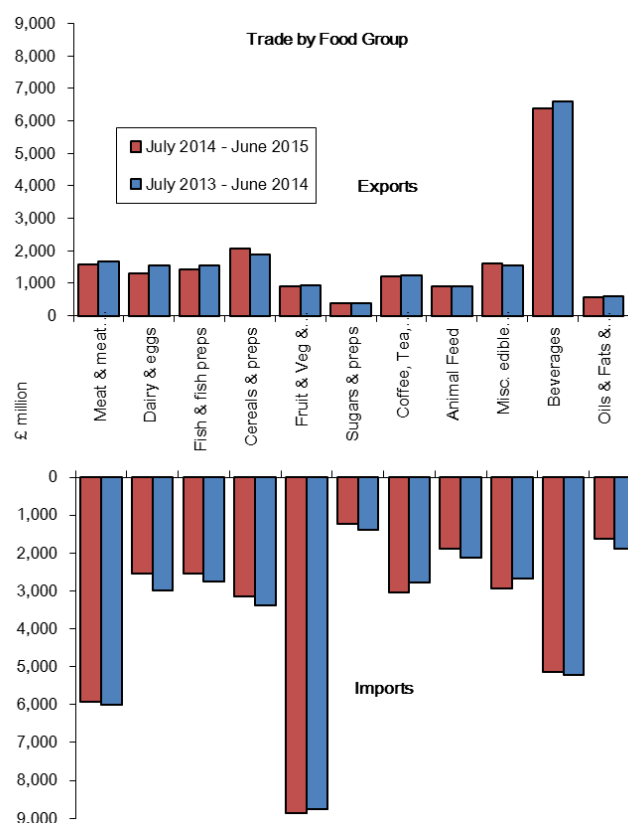
In June:

- The value of exports was £1.5 billion, 8.4% lower than in June 2014;
- The value of imports was £3.3 billion, 3.1% lower than the previous June;
- This resulted in a crude trade gap of minus £1.8 billion, 1.8% wider than in June 2014.

The following chart shows annual trade by food group for the periods July 2013 – June 2014 and July 2014 – June 2015.

The key points on the change between these periods are as follows:

- Imports of **dairy products and eggs** fell by £464m (15.5%), and exports fell by £233m (-15.1%)
- Imports of **Coffee, Tea, Cocoa, Spices** rose by £281m (10.2%), while exports also fell by £28m (-2.2%)
- Imports of **fish and fish preparations** fell by £191m (-7.0%) and exports also fell by £131m (-8.5%)
- Imports of **cereals and cereal preparations** fell by £223m (-6.6%), while exports rose by £169m (8.9%)
- Imports of **meat and meat preparations** rose by £75m (1.3%), while exports fell by £111m (-6.6%)
- Imports of **fruit and vegetables** rose by £101m (1.2%) and exports fell by £23m (-2.4%)

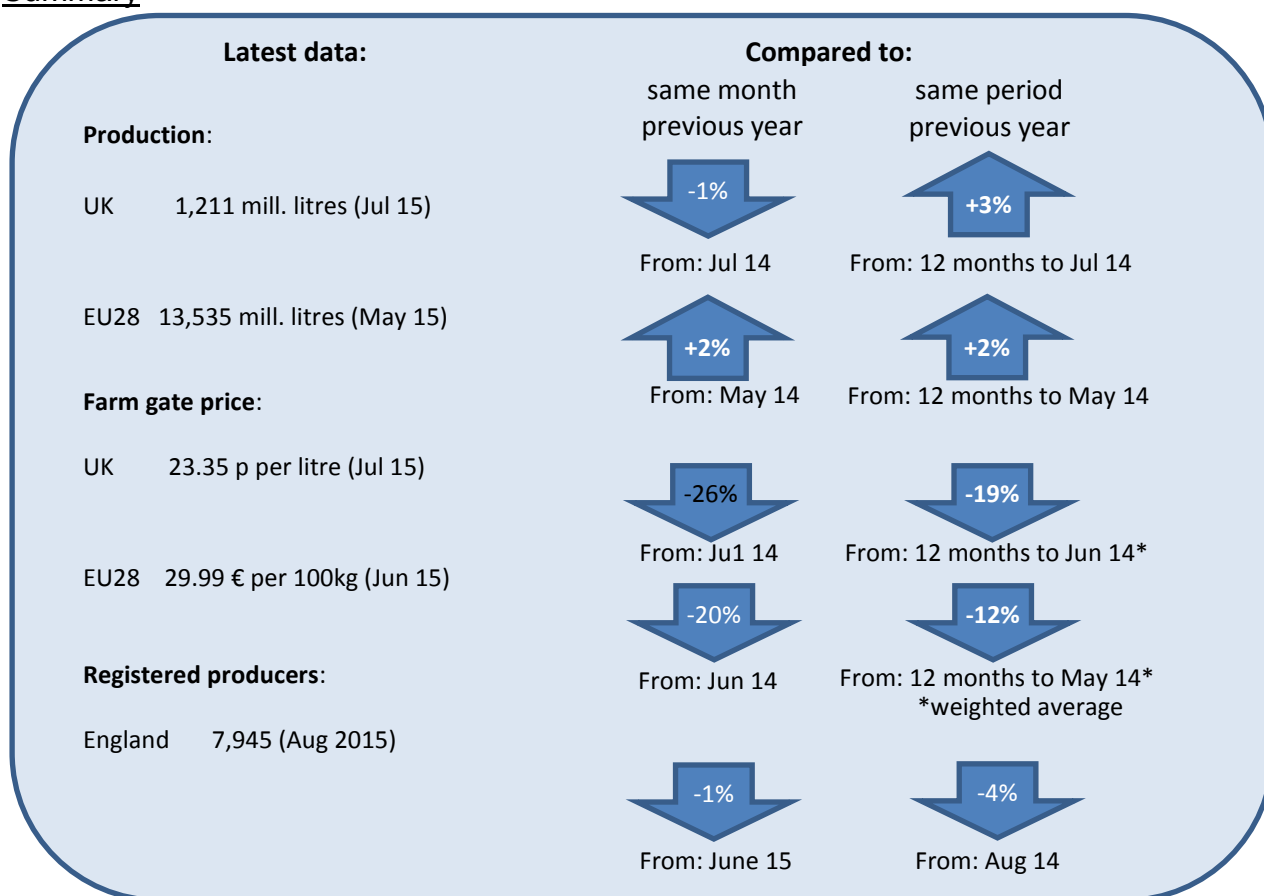


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Contact: Julian Groom, Farming Statistics (Trade), julian.groom@defra.gsi.gov.uk

Annex A: Dairy Briefing: August 2015

Summary

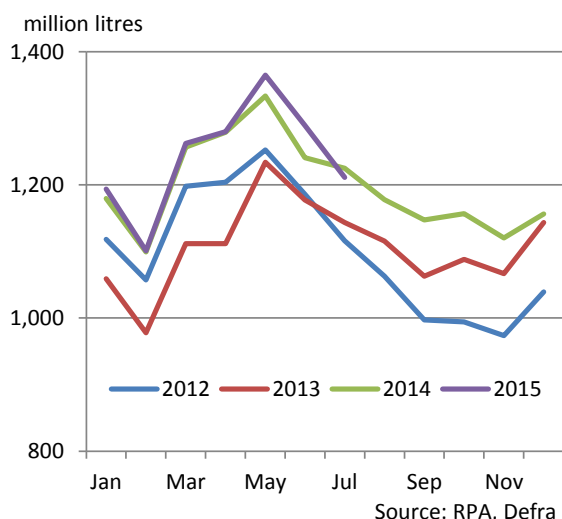


- In July 2015, the UK average farm gate milk price was 23.4 pence per litre (ppl), 26% (8.2 ppl) lower than in July 2014.
- High commodity prices in early 2014 stimulated production globally. The increase in global and EU production has since put downward pressure on commodity prices. This has been further compounded for the UK with the strong £ putting further downward pressure on UK £ prices.
- Internationally, commodity prices are expected to make some recovery from their current lows although, barring the usual volatility from changes in weather, economic and policy conditions¹, they are unlikely to return to the levels seen in 2011 and 2013. Cheese prices are expected to rise fastest over the medium term and to maintain a premium over other dairy products.
- Over the medium term, growth in global supply is expected to slow slightly, whilst growth in demand for dairy in emerging countries is expected to be met mostly by domestic production. EU exports should be helped by a weakening Euro.
- In both the UK and EU, milk production eased slightly in the first quarter of 2015 (the end of the final quota year). Although production has again increased since the end of the quota system on 31st March (1% up in both the UK (April to July) and EU (April to May) compared to a year earlier, in July 2015, UK production was 1% lower than a year earlier.

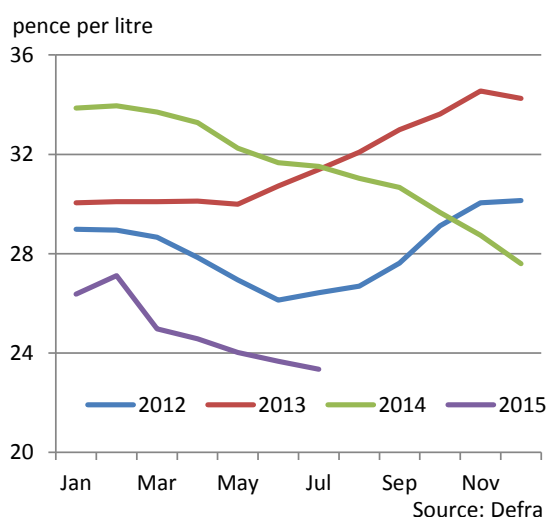
¹ Where dairy production is primarily from pasture-fed herds, such as in New Zealand, the weather can be a very important factor. A continuation of the Russian import ban would affect trade flows given its importance in the world market as a dairy importer.

- Lower cereal prices have helped to reduce feed costs. In the 3 months to June 2015, GB dairy compound feed prices were around £26 per tonne less than in the same period in 2014. Straight feed prices such as maize gluten and hipro soya remain lower than in 2014. Grazing and forage harvesting conditions have also been favourable in 2014 and 2015.
- Average Farm Business Income is expected to have fallen by around 11% on dairy farms in England for 2014/15 to £78,000. Increased production and higher prices at the beginning of 2014 are expected to have offset, to some extent, the price reductions since mid-2014.
- The average net margin for milk in England was 1.9 ppl in 2013/14 after all costs are considered (including an imputed cost of land for owner occupiers and the costs for unpaid family labour). The average net margin for 2014/15 is expected to fall to around 0.4 pence per litre, a return to the levels seen in 2012/13. Increased production and lower feed prices are expected to have partially offset the reduction in the milk price.
- Data from the Food Standards Agency indicate that there were 7,945 registered dairy production holdings in England at the beginning of August 2015, 4.4% less than a year earlier.

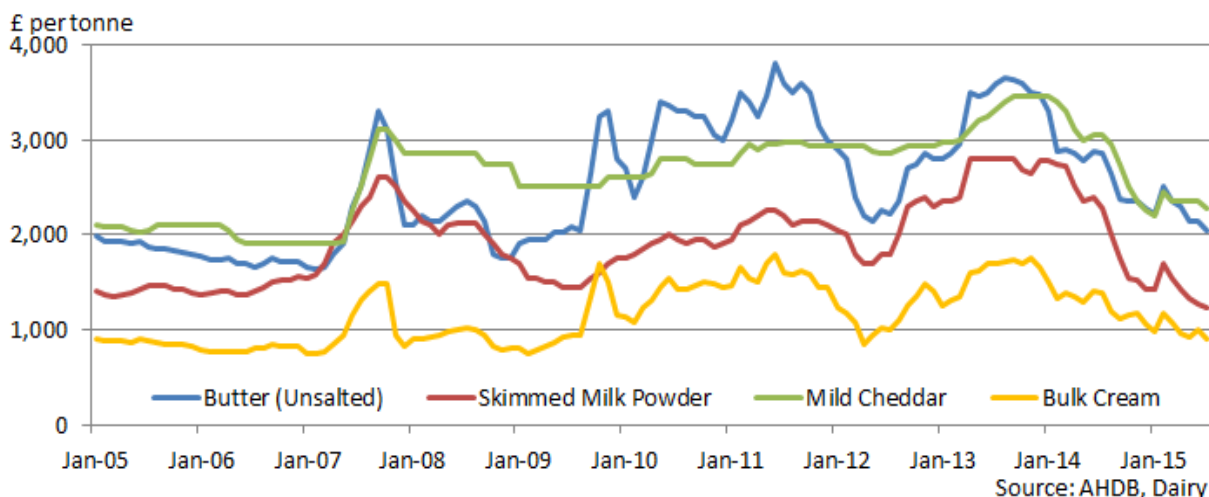
UK Wholesale milk production:



UK average farm gate milk price:



UK wholesale commodity prices:

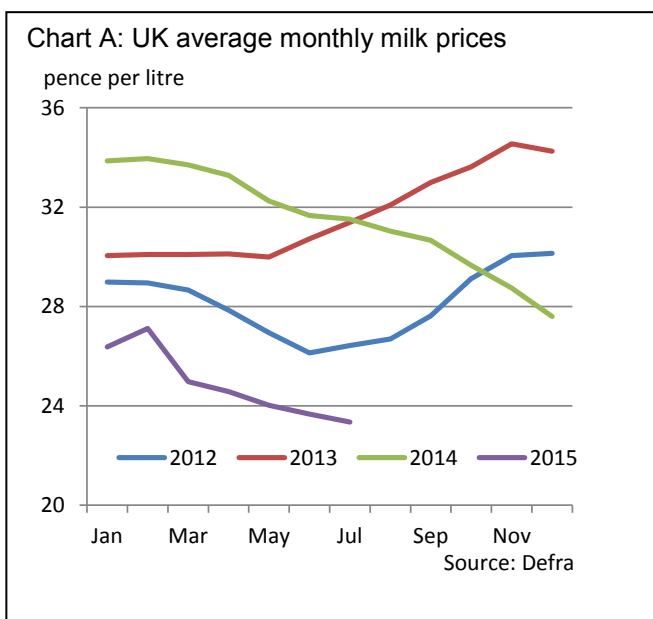


BACKGROUND DATA

1) UK & EU farm gate milk prices

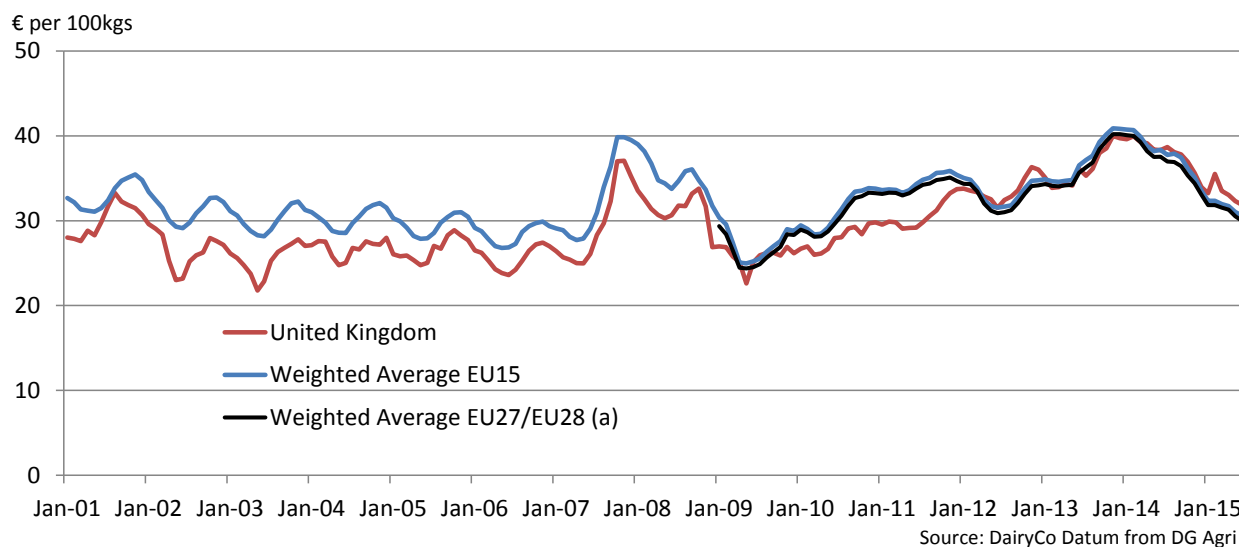
In July 2015, the UK average farm gate milk price was 23.4 pence per litre, 26% (8.2 ppl) lower than June 2014 (Chart A). Note that the February 2015 price includes retrospective bonus payments to some producers. Excluding these payments, reduces the February price from 27.1ppl to 26.1ppl.

Average prices in Northern Ireland have been lower than for the rest of the UK for the last 12 months due to their greater reliance on export markets. In June 2015 the average price in Northern Ireland was 19.85 ppl.



The trend in average UK farm gate milk prices follows that seen across the EU (Chart B).

Chart B: EU and UK average monthly milk prices (January 2001 to May 2015)

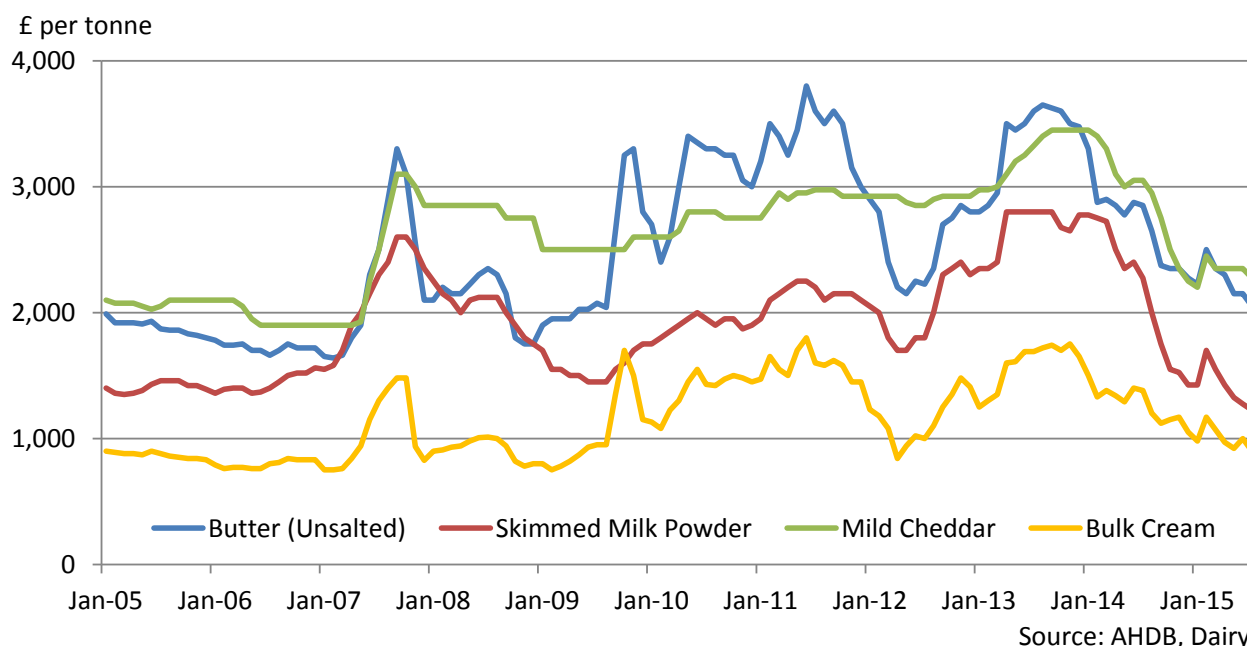


(a) EU28 from July 2013

Note: Global prices were higher across a range of commodities in 2007/8. The UK price increase in Feb 2015 was due to retrospective bonus payments to some producers.

The fall in milk prices has been driven by lower dairy commodity prices on global markets. Strong production around the world and lower than expected demand from both Asia and Russia (due to the import ban) have left international markets over-supplied. Additionally, the strengthening of sterling has put further downward pressure on UK £ commodity prices (Chart C).

Chart C: UK Dairy Commodity Prices



Internationally prices are expected to make some recovery from their current lows although, barring the usual volatility from changes in weather, economic and policy conditions², they are unlikely to return to the levels seen in 2011 and 2013 (Chart D). Cheese prices are expected to rise fastest over the medium term and to maintain a premium over the other dairy products.

Increasing incomes and changes in diets are expected to raise the demand for dairy products in developing and emerging countries, but most of this growth will be satisfied by domestic production via increasing dairy herds and improved yields. For example, over the next decade India is expected to overtake the EU as the world's biggest milk producer (although this will be almost entirely consumed fresh).

The bulk of world dairy exports come from the EU, United States, Australia and New Zealand. Import destinations are wider spread (Chart E) but developing and emerging countries tend to dominate. Russia is the main importer of butter and cheese, although increasing domestic production mean those imports are likely to decline slightly. China has seen milk powder imports increase dramatically in recent years and a further continuation, albeit at a much slower growth rate, is expected. North Africa and the Middle East will also be an important and growing market.

Globally, growth in dairy production is expected to decrease slightly, from 1.9% to 1.8% per annum. New Zealand in particular will see increasing production costs and environmental constraints limit growth in their mainly pasture-based dairy system. Slow growth in the EU (0.9% per annum) is projected in response to slow growth in domestic demand, although EU exports should be helped by a weaker Euro improving competitiveness.

² Where dairy production is primarily from pasture-fed herds, such as in New Zealand, the weather can be a very important factor. A continuation of the Russian import ban would affect trade flows given its importance in the world market as a dairy importer.

Chart D: OECD/FAO Outlook Projections

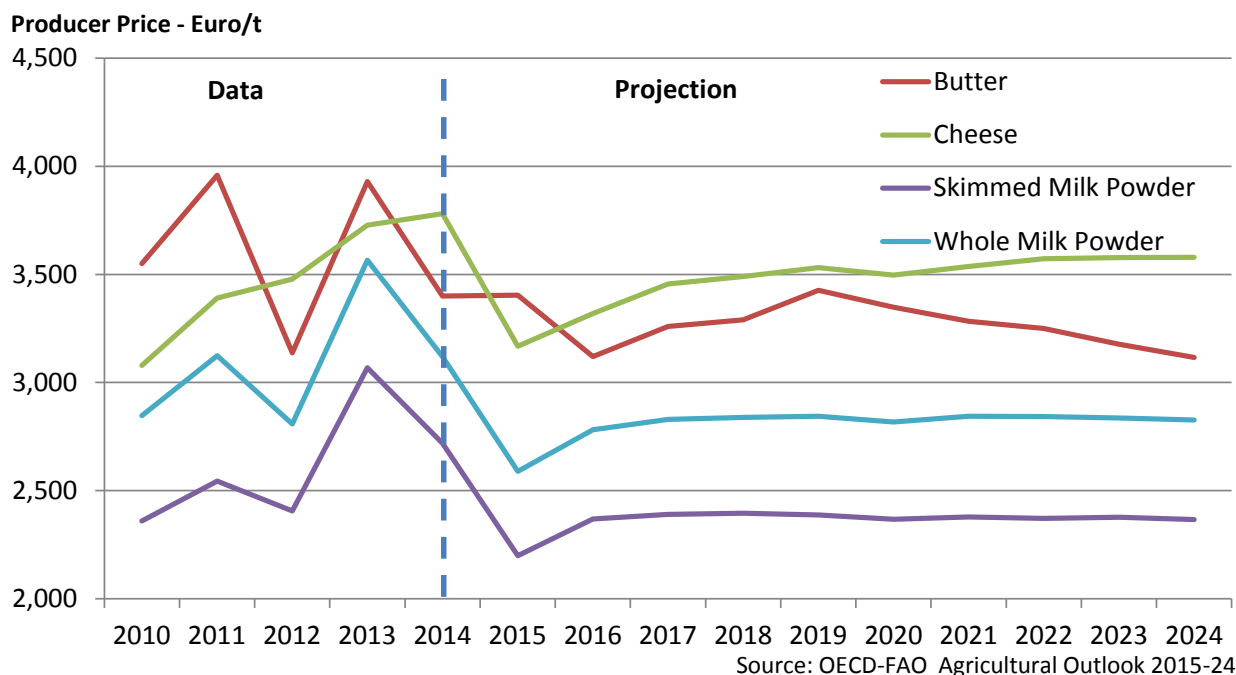
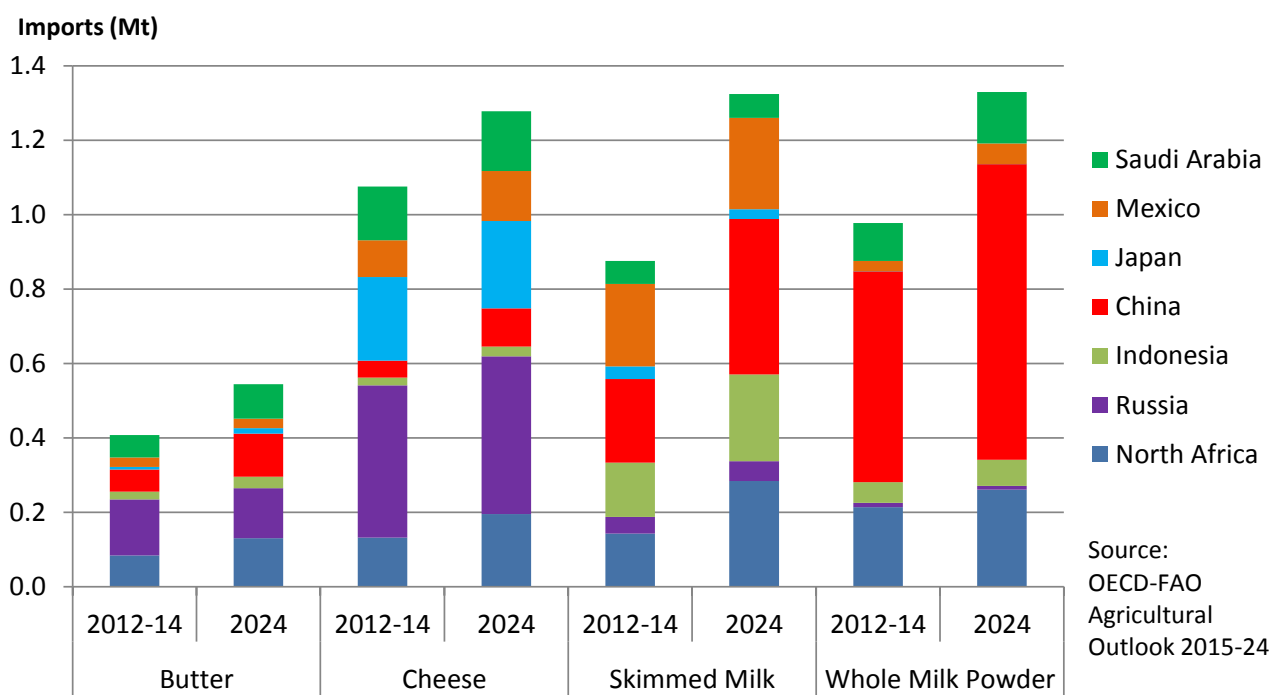


Chart E: Import projections for the major dairy importers



2) UK and EU Milk production

Milk production continues to increase. In the 12 months to July 2015, UK production was at its highest since at least 2003, 3% higher than in the year ending July 2014 and 8% higher than the average for the previous 10 years (2004/05-2013/14), as producers responded to the higher milk prices in early 2014 and improved feed availability (Chart F). These production increases will have had a positive effect on net margins and, together with reducing feed prices, will have helped to partially offset the impact of the milk price

reductions (see section 4). Production levels in the first four months of 2015 were similar to a year earlier. Whilst there were increases in both May and June, production was down 1% in July 2015 (compared to July 2014).

Chart F: Average monthly UK Wholesale milk production – years ending July

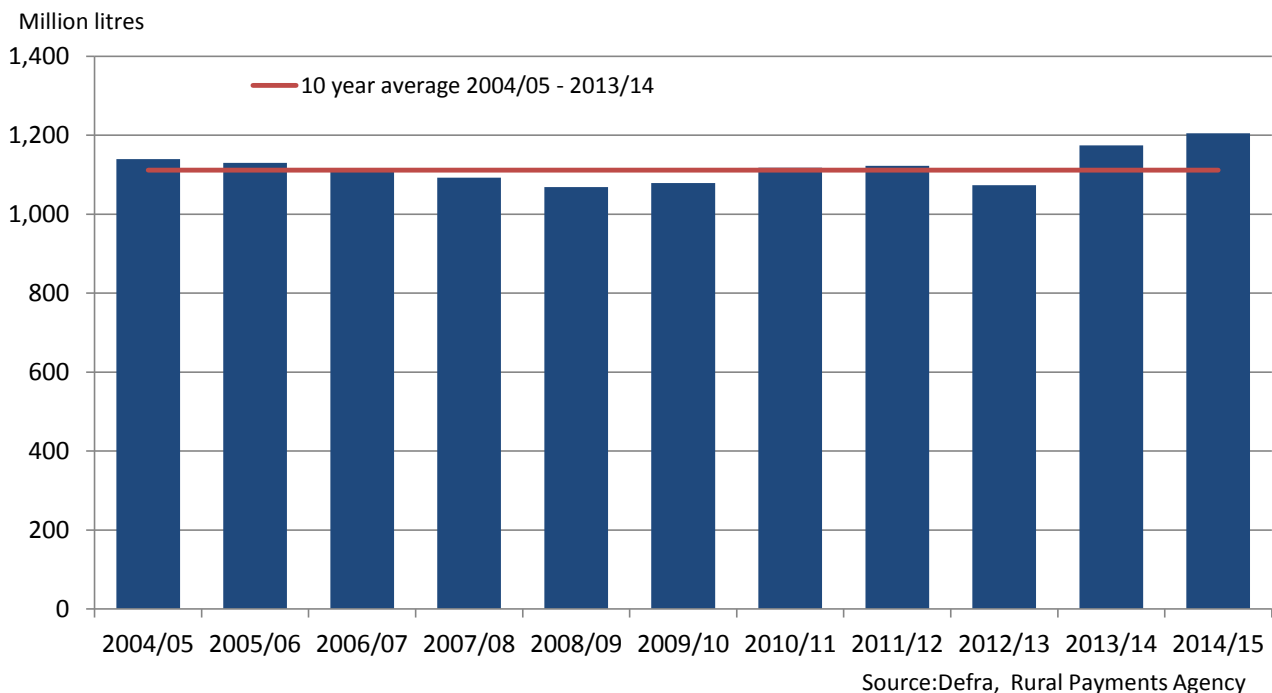
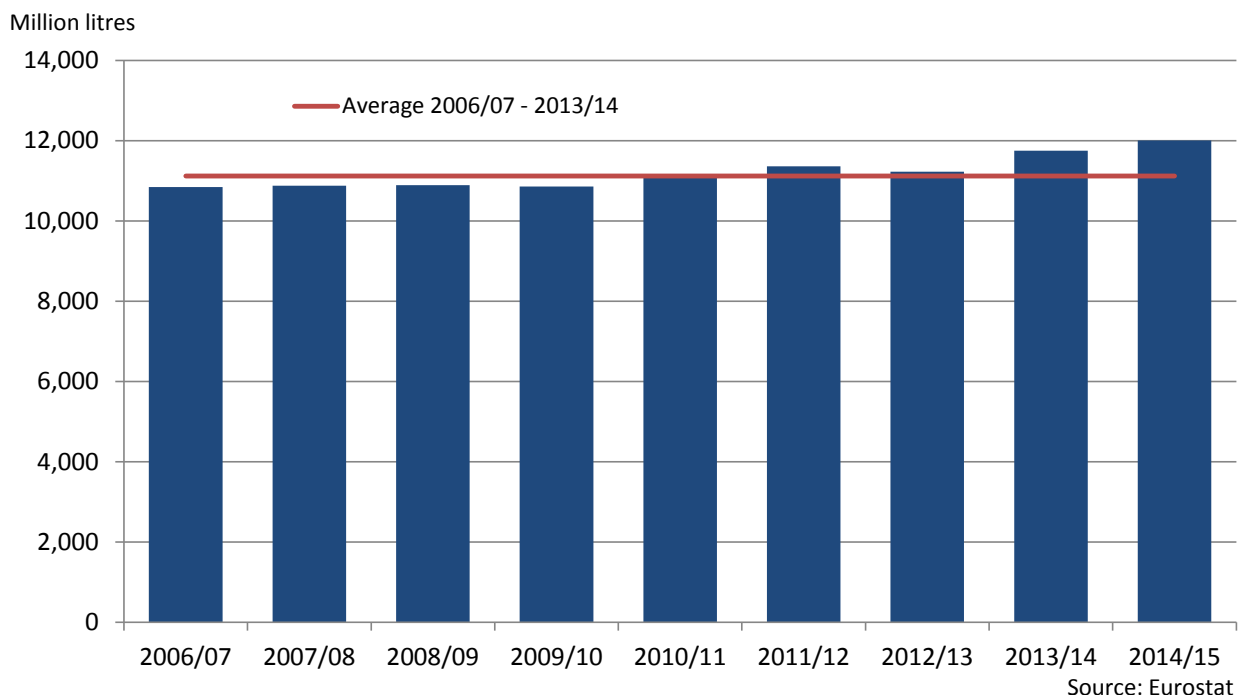


Chart G: Average monthly EU milk production – years ending May

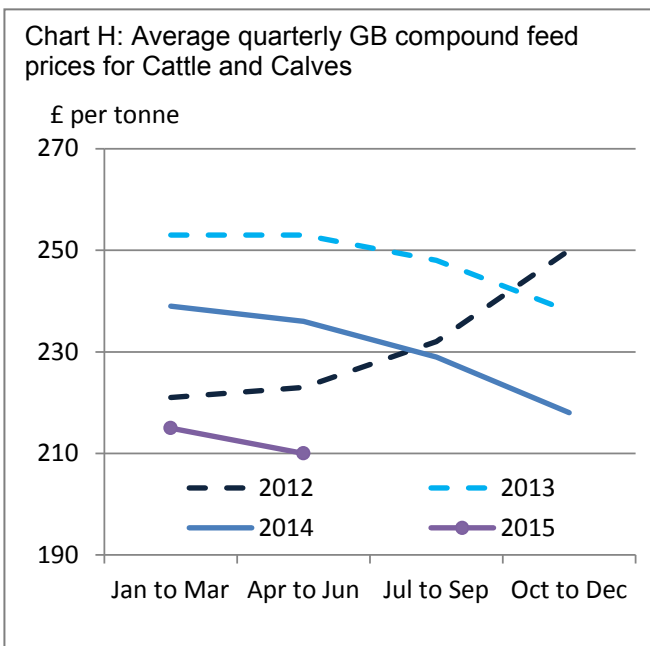


At an EU level (Chart G), milk production in the 12 months to May 2015 was 2% higher than in the previous 12 months and 8% higher than the 2007-2014 average. As in the UK, EU production eased in the final 3 months of milk quotas but has since increased; in both April and May 2015, EU production was 2% higher than a year earlier. The increase in global and EU production continues to put downward pressure on commodity prices which

should send the market signal through to producers to ease back and bring supply and demand back into balance.

3) Feed costs (GB)

In the 3 months to June 2015, GB dairy compound feed prices were around £26 per tonne less than in the same period in 2014 (Chart H). Straight feed prices such as maize gluten and hipro soya remain lower than in 2014. Grazing and forage harvesting conditions have also been favourable in 2014 and 2015. Cereal prices remain low and if sustained can be expected to help further reduce feed costs as we go through the year.

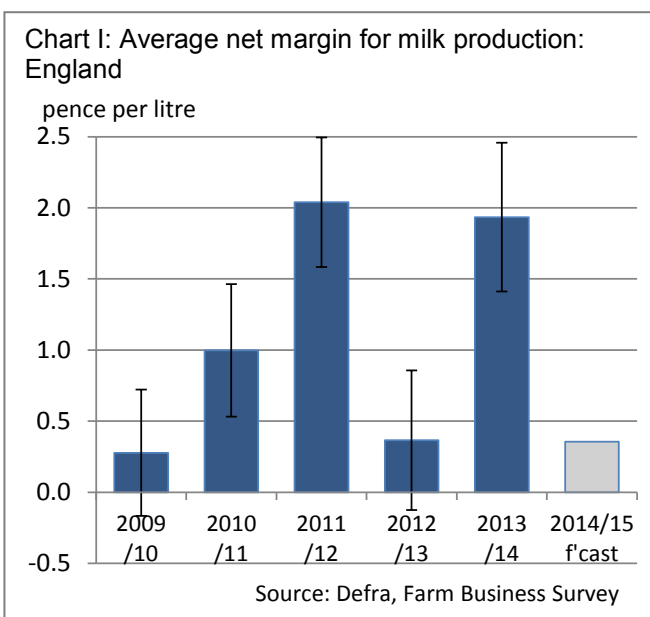


4) Production costs³ and net margins (England)

For farms in England in 2013/14:

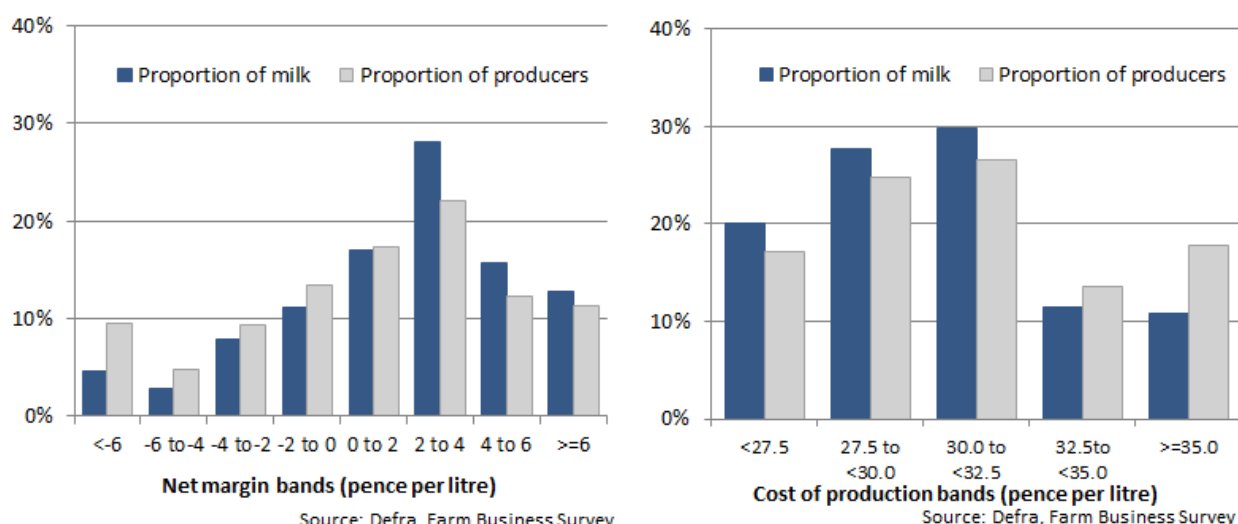
- The average cost³ of milk production in England was 30.5 pence per litre.
- The average price for milk sold was just under 32.5 pence per litre.
- The average net margin for milk production in England was 1.9 pence per litre (Chart I).

The average net margin for 2014/15 is expected to fall to around 0.4 pence per litre, a return to the levels seen in 2012/13. Increased production and lower feed prices are expected to have partially offset the reduction in the milk price.



³ Production costs shown here include all financial aspects of dairy enterprises such as any unpaid labour (including that of the farmer and spouse), herd depreciation and an estimated rental equivalent for land that is owned. An allowance is also made for non-milk revenue, most of which is from the sale of dairy calves, which is applied as a reduction to cost. This is to take into account the value of by-products from milk production. As a result, the production costs here represent the price that would have to be paid on all milk produced for dairy enterprises to break even.

Chart J: Distributions of milk production costs and net margins 2013/14, England



Production costs tend to be higher and net margins lower for smaller milk producers (Table 1). Even during the period of higher milk prices in 2013/14, around 25% of milk was being produced at a negative net margin (from around a third, 37%, of producers).

Table 1: Milk production cost and net margin by production groups, England 2013/14

	Annual milk production (million litres)						Total
	<0.5	0.5 to 1.0	1.0 to 1.5	1.5 to 2.0	2.0 to 2.5	>=2.5	
No. of farms in sample	65	103	74	35	14	11	302
Average no. of dairy cows per farm	59	104	157	212	267	369	160
% of milk production	4%	16%	27%	21%	14%	18%	
% of producers	15%	27%	28%	15%	8%	7%	
Av'ge cost of production (ppl)	36.6	31.6	29.9	30.5	29.5	29.8	30.5
Av'ge net margin (ppl)	-4.6	0.2	2.3	2.0	3.4	3.1	1.9

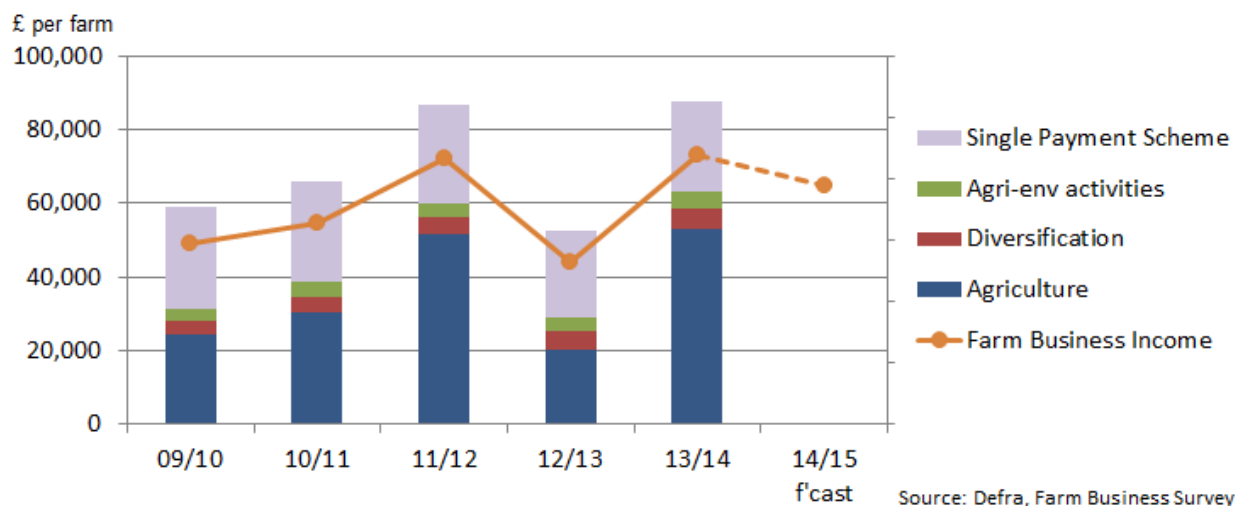
Farms with at least 25 thousand euros of standard output and more than 10 dairy cows.

Source: Defra, Farm Business Survey

4) Farm Incomes (England)

Farm income forecasts for 2014/15 were published on 29th January. These are derived from information available in early January 2015 for prices, animal populations, marketings, crop areas, yields and input costs and are intended as a broad indication of how incomes for each farm type are expected to move compared with 2013/14. The forecasts are subject to a margin of error, reflecting, in particular, the fact that farm income is derived as the relatively small difference between total output and total input; small percentage changes in either of these can result in large percentage changes in income. Survey results for 2014/15 will be published at the end of October 2015.

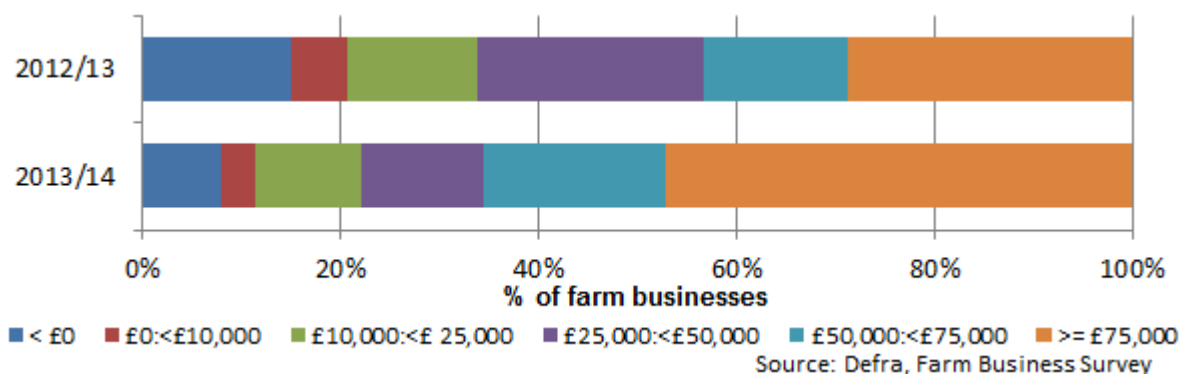
Chart L: Average Farm Business Income: Specialist dairy farms England



Average incomes are expected to have fallen by around 11% on dairy farms in **2014/15** to £78,000 (Chart L). Milk prices fell considerably during the second half of 2014. However, for the year as a whole (March to February) higher prices in the first half of the year together with high volumes, will have partially offset the reduction seen in the latter half. The average fall in milk price for 2014/15 as a whole is expected to be around 6%. Milk production also increased with producers responding to the high prices seen in late 2013 and the early part of 2014. Output from beef, which is a significant enterprise on many dairy farms, is also expected to be lower due to a fall in finished cattle prices. Input costs are also expected to have fallen, particularly for feed, reflecting lower cereal and soya prices. Current indications are that volumes of purchased dairy feed were unchanged compared to the previous year which may reflect the quality of conserved forage as well as an increase in average herd size.

In **2013/14**, average Farm Business Income was £87,800 for dairy farms, returning to 2011/12 levels. Agricultural output was around 20% higher driven by both increased milk prices (14% higher than in 2012/13) and production (8% higher than in 2012/13). This was partially offset by increased input costs, particularly for feed due to increased levels of production and the prolonged winter. The upward trend in average herd size continued and the average milk yield per cow for those businesses covered by the survey increased by approximately 4% to just over 7,900 litres. The average values mask considerable variability (Chart M).

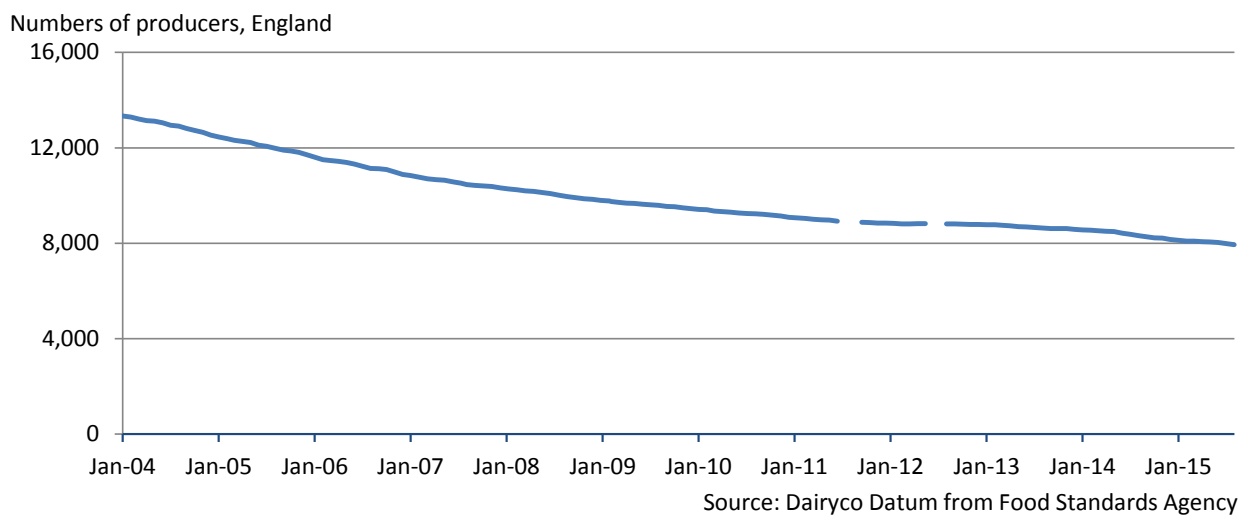
Chart M: Distribution of Farm Business Income: Specialist dairy farms England



5 Producer numbers

Data from the Food Standards Agency indicate that there were 7,945 registered dairy production holdings in England at the beginning of August 2015, 4.4% less than a year earlier (Chart N).

Chart N: Numbers of registered dairy production holdings: England



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