SITUATION AND OUTLOOK
For Irish Agriculture
April 2022

UPDATED FOLLOWING THE INVASION OF UKRAINE

Emma Dillon, Trevor Donnellan, Kevin Hanrahan, Anne Kinsella, Jason Loughrey, Michael McKeon, Fiona Thorne, Brian Moran and John Lennon

Agricultural Economics & Farm Surveys Department
Teagasc
Athenry,
Co Galway
Ireland

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Contents - Situation and Outlook for Irish Agriculture (APRIL 2022)

Acknowledgement

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Agricultural Economics and Farm Surveys Department

Teagasc

Athenry

Co Galway

H65 R718

Ireland

INTRODUCTION

In December of 2021 Teagasc published its annual Situation and Outlook for 2022. In the short period since then the outlook for 2022 has changed considerably due to the Russian Federation's invasion of Ukraine and the war that has resulted.

The destruction, economic upheaval and displacement of people brought about by the war will have the greatest impact on Ukraine. The war is also having significant economic consequences in the wider world.

Ukraine is a major grains and oilseeds exporter. Similarly Russia has a significant presence in grain and oilseed export markets. The prospect of a reduced supply of grains and oilseeds on world markets has led to a sharp increase in international grains and oilseed prices.

Fossil fuel prices have also risen sharply, while fertiliser prices, which were already on the increase, have now reached levels never previously experienced.

It is too early to say with certainty how the war will affect the agriculture sector. Without a doubt, production costs will increase considerably in 2022. However, output prices will also increase and the net impact on producers' incomes remains uncertain.

The revision of our outlook begins with a summary of the current economic situation. The important role that Ukraine and Russia play in grain and oilseed export markets is then considered. This is followed by a review of input market developments and prospects. Finally, there is an assessment of the likely performance of the main farm systems in 2022.

In this publication the situation and outlook is summarised. For each commodity sector, production, consumption, output price, input market developments and income are assessed and are then given either a positive, neutral or a negative ranking.

This exceptional analytic exercise is carried out in respect of the current Situation, representing the first quarter of f 2022, and the Outlook representing the three remaining quarters of 2022. The categorisation is performed with respect to the farmer's perspective on the impact of market price, supply and demand developments on farm profitability.

Examples of **positive** developments would include:

- A rise in output prices
- A fall in input prices
- A decrease in international supply
- An increase in international demand
- Favourable weather conditions
- A weaker domestic exchange rate

Conversely, examples of **negative** developments would include:

- A fall in output prices
- A rise in input prices
- An increase in international supply
- A decrease in international demand
- Poor weather conditions
- A stronger domestic exchange rate

Where either the situation or the outlook suggests no change relative to the corresponding period in the previous year, this is categorised as **neutral**.

~~Neutral~~

Finally, where it is too early to make an informed judgement such instances are represented by a question mark.

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Uncertainty

Uncertainty always features when looking at the future. The current situation in agricultural commodity and input markets is evolving. From an agricultural perspective what happens next depends to a degree on what happens in the war in Ukraine and how governments and other stakeholders around the world react to supply and demand conditions in commodity markets.

As with every year, the other big unknown is weather conditions for the growing season, both here in Ireland and internationally. Weather that is favourable for global production could offset some of the anticipated production shortfall resulting from the invasion of Ukraine and a poor year for global production would exacerbate the shortfall.

Consequently, it will be necessary to revisit this Outlook in the next few months as circumstances evolve.

GLOBAL ECONOMY

MACRO ECONOMY and EXCHANGE RATES

Up until the end of 2021 the emergence of the global economy from the pressures of the COVID-19 pandemic had been impressive. Economic growth rates were favourable, with a rebound evident following on from the difficulties encountered during the height of the pandemic. One emerging challenge was that supply chain pressures led to a considerable increase in inflation, but this was thought to be very much a temporary issue.

However, the invasion of Ukraine by Russia has triggered a more pronounced jump in inflation that may be cause for greater concern. Sharp increases in energy prices have been accompanied by large commodity price increases.

In Europe, Brexit and COVID-19 have retreated as political concerns and have been replaced by the crisis triggered by the Russian invasion of Ukraine. Resources will be diverted to support the Ukrainian war effort and to provide support to the large number of refugees that have been accommodated by European Union Member States.

In the US and UK interest rates have begun to increase in an effort to dampen inflation and this has led to some strengthening of the US dollar and sterling against the euro. The European Central Bank has so far declined that course of action.

There are some growing concerns that the global economy could find itself facing a period of stagflation, with diminishing growth prospects at a time of higher inflation. Some commentators have suggested that a global recession is now a possibility.

Following the Russian invasion of Ukraine and the negative impact this is likely to have on the global economy, the ESRI has revised downward the short term growth outlook for the Irish economy. However, the ESRI notes that economic growth in Ireland should still remain positive, with modified domestic demand (MDD) forecast to increase by 5.0% in 2022 and by 4.5% in 2023. The ESRI also notes that the conflict has fuelled higher inflation, which is now forecast to average 6.7% in Ireland in 2022 and 5% in 2023.

The unemployment rate in Ireland is forecast by the ESRI to continue to fall to 6.3% in 2022 and 4.8% in 2023 and it notes that due to the tightening labour market there is a risk of upward pressure on wages.

Overall, Ireland's economic prospects still remain favourable in spite of the sharp increase in price inflation.

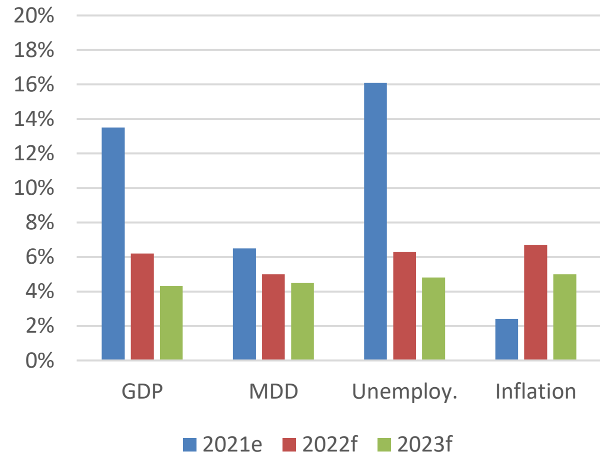
Figure 1: Euro/Dollar Exchange Rate 2008-2022

Source: European Central Bank

Figure 2: Euro/Sterling Exchange Rate 2008-2022

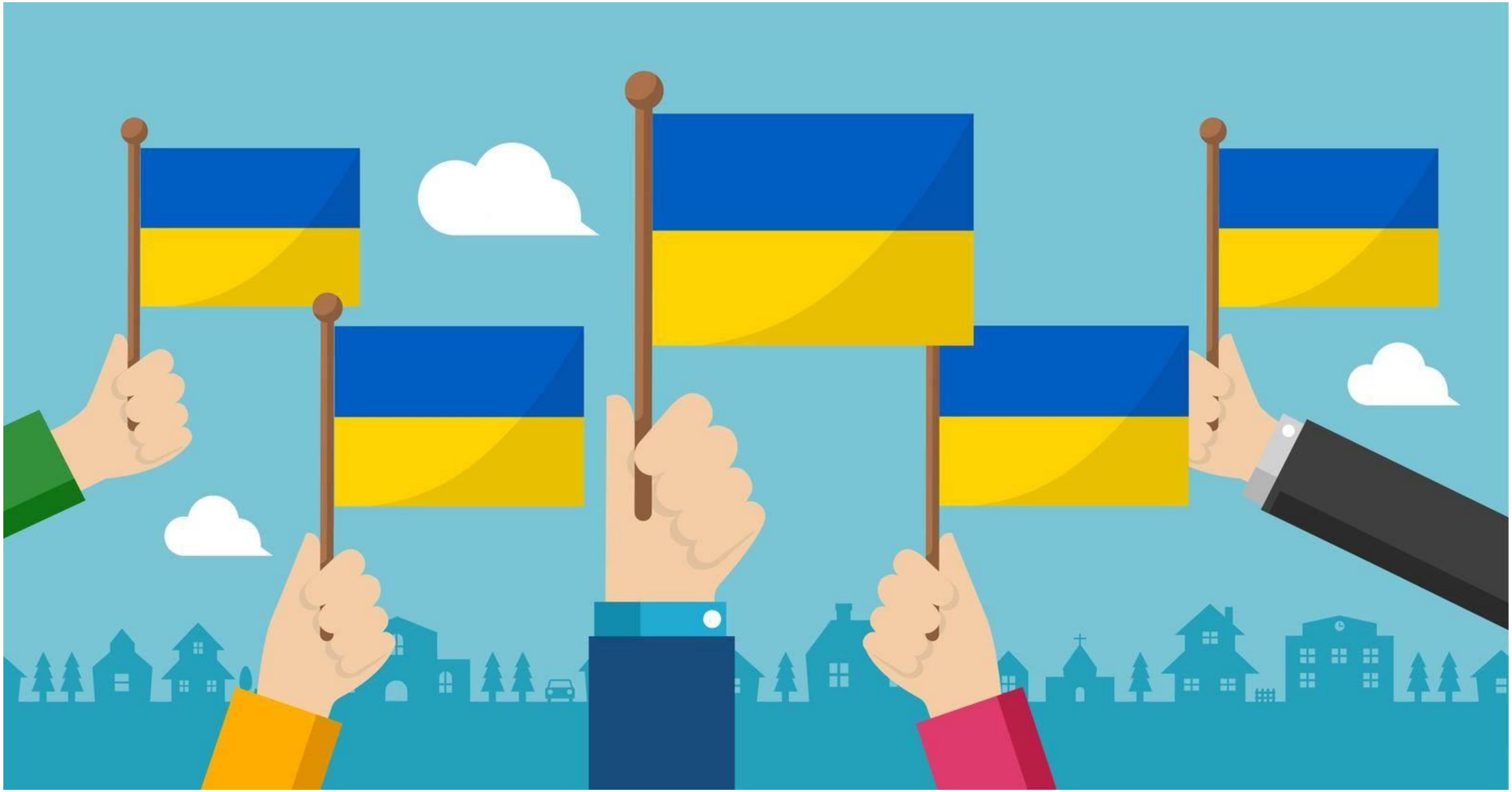
Source: European Central Bank

Figure 3: Key economic indicators Ireland 2021-2023f



Source: Economic and Social Research Institute

Invasion of Ukraine



War in Ukraine

The economic, political and social consequences of the Russian invasion of Ukraine will be felt deepest by the people of Ukraine itself. Many will have their lives changed indefinitely.

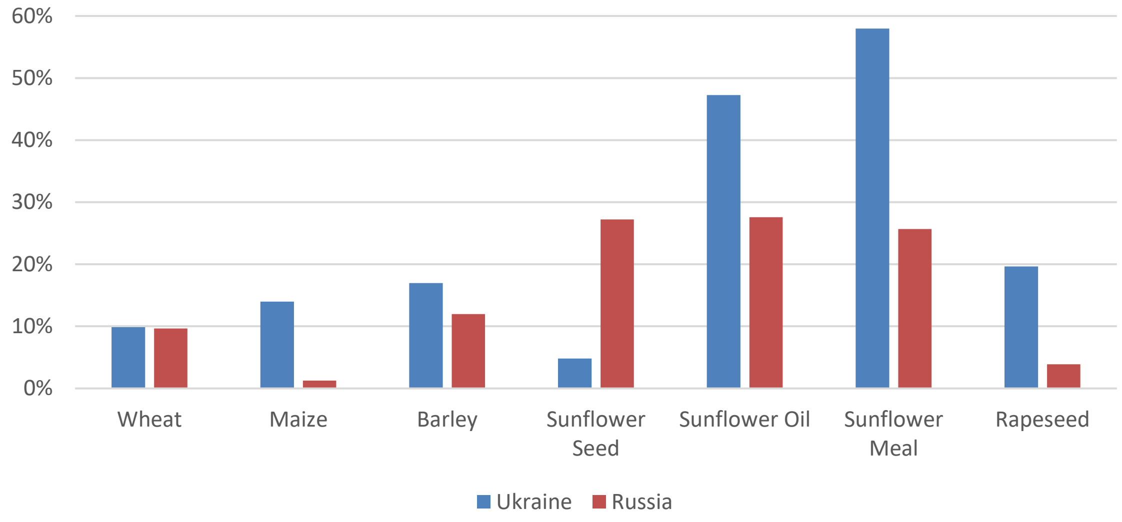
The war in Ukraine has also begun to have significant economic consequences internationally. Both Ukraine and Russia are significant players in global agriculture. Both countries play an important role in global grain and oilseed export markets. The war therefore has important consequences for wheat, maize, barley, sunflower seed and rapeseed markets. Prices in these markets have risen sharply in the expectation that supplies of grain and oilseeds on the international market will be considerably lower than expected.

The upheaval in these specific grain and oilseed markets will have an effect on the prices of other grains and oilseeds, as customers switch, where possible, to relatively cheaper alternatives which will then too increase in price. Overall, feed ingredient prices have increased across the board

Added to this impact on agricultural production and trade, the war has led to a sharp increase in energy prices and this has further increased fertiliser prices which were already at extremely high levels. Both fuel and fertiliser are key inputs in commercial agricultural production. The end result is sharply higher grain and oilseed prices, with prices for meat and dairy products also on the increase. The increase in energy, other raw materials and food prices, alongside existing supply chain problems, has led to higher rates of general inflation in the wider economy.

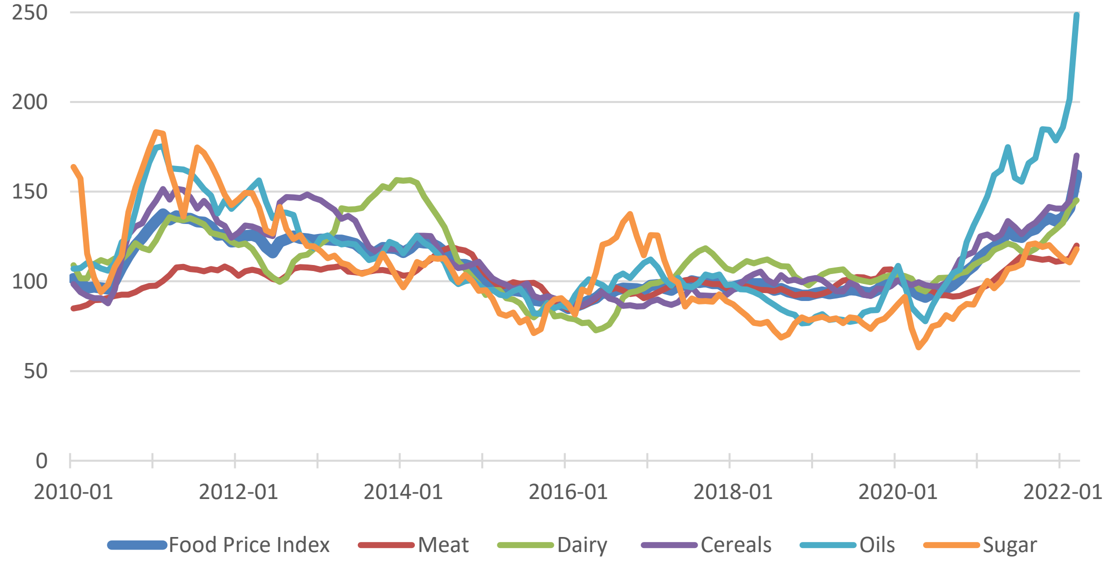
The increase in prices and reduced availability of staple food ingredients and animal feeds gives rise to concern about food security, particularly in low income countries which are substantial importers of basic agricultural commodities. In countries where consumers already spend a high share of their income on food, increases in food prices can have serious consequences for human health and for the functioning of society and political stability.

Figure 4: Ukraine and Russia share of world export volume for various crop outputs



Source: USDA

Figure 5: FAO Monthly Food Price Index and Associated Indices January 2010 to March 2022



Source: UN Food and Agriculture Organisation

FARM INPUTS

FEED MARKET

Based on DAFM and CSO data, average dairy feed use per head is estimated to have been about 1,200 kg per cow in 2021, up 8% on the 2020 level. Beef and sheep feed usage per head in 2021 was also up on the 2020 level.

As of March 2022, official data on feed use in the current year are limited. DAFM feed sales data for Q1 are not yet available. Precise forecasts of (i) the magnitude of the adjustment in purchased feed use to higher feed prices and (ii) the impact of lower fertiliser use on grass production (and indirectly the demand for purchased feed) are difficult to make.

At the time of writing, it is assumed that feed usage volumes on dairy farms will increase slightly relative to the 2021 level, due to limited fertiliser availability. The volume of sheep feed use in 2022 is assumed to be similar that used in 2021. Beef feed usage in 2022 is assumed to be up slightly for cattle finishing farms and unchanged on cattle rearing farms.

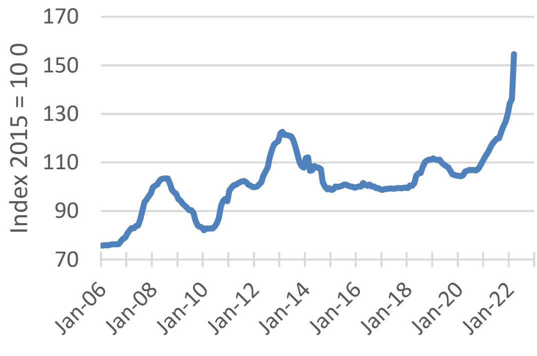
Feed prices thus far in 2022 have been on a strong upward trajectory. Feed prices have increased substantially since February 24th when Russia invaded Ukraine. Exports from Ukraine and Russia of wheat and maize in 2022 are expected to be dramatically lower than in 2021. This reduction in supplies to world markets is expected to lead to continued increases in grain and oilseed prices which will be reflected farm gate feed prices in 2022 that are substantially higher than in 2021.

Despite an estimated increase in world production of soft wheat and maize in 2021/22, reduced ending stocks are expected. For wheat and maize, stocks to use ratios for the year a whole, are estimated to have declined. The latest issue of Strategie Grains (March 2022) concludes that grain ending stocks are expected to be low for 2021/22 and 2022/23 in all exporting countries, except Ukraine and Russia. Due to the war in Ukraine, an estimated 25Mt of exportable grain from Ukraine and Russia has not made it to the world market. With most Ukrainian ports no longer operational and it is assumed that very little grain will be shipped out of Ukraine until at least autumn of 2023. Furthermore, Russian exports of grain will also be lower due to both western sanctions on the Russia Federation and domestic Russian restrictions on food grain exports.

Overall, global cereal and oilseed market developments, as reflected in forward contracts prices, suggest that there will be an increase in Irish cereal prices at harvest 2022 relative to 2021. At present (April 2022) a 25% increase in farm gate cereal prices for the 2022 harvest is forecast.

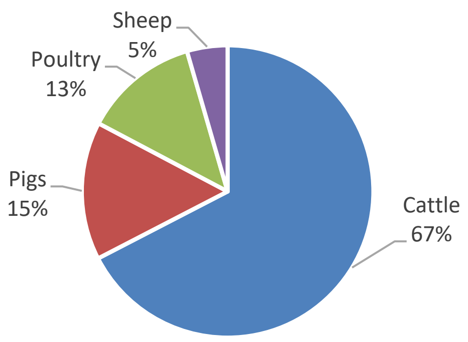
Feed prices increased through H2 of 2021, and have continued to remain 'bullish' in Q1 of 2022. These high and increasing prices reflects the reduced stocks to use ratios on the international cereal balance sheets. Averaging across the full year it is likely that farm gate feed prices in 2022 will be at least 20% higher than in 2021.

Figure 6: Longer Term Index of Monthly Irish Feed Prices 2006-2022



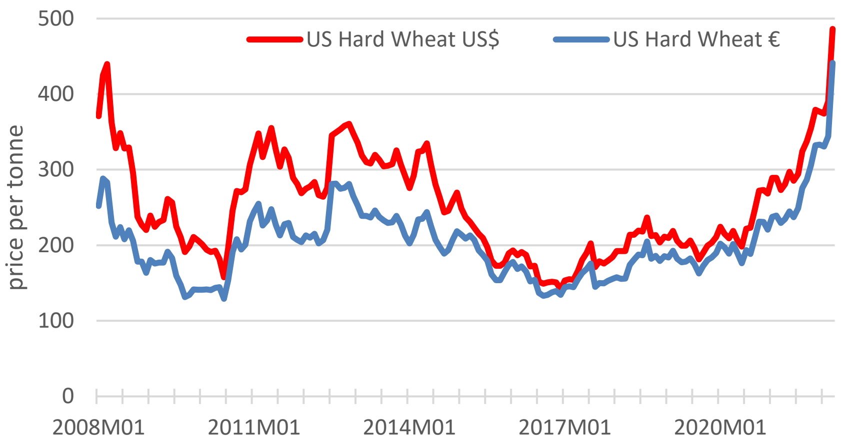
Source: CSO and authors' estimates for February/March 2022, based on market reports

Figure 7: Compound Feed use in Ireland by the main species 2021



Source: DAFM

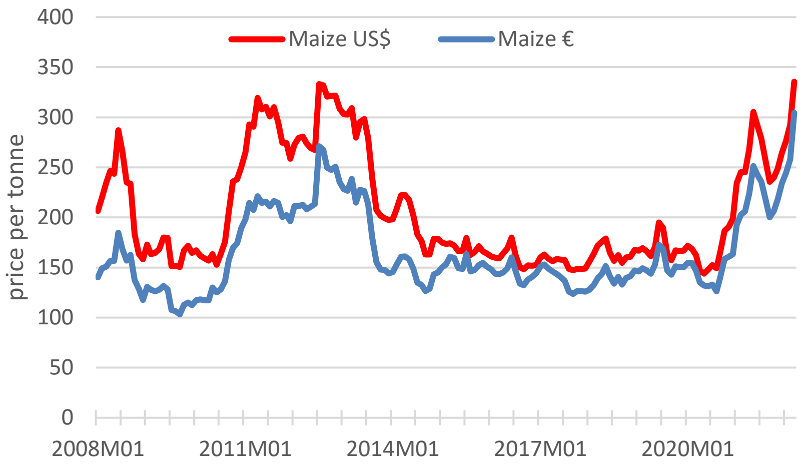
Figure 8:US Hard Wheat Price 2008-2022



Source: World Bank

Note: US No1 Hard Red Winter Wheat Gulf Export Price

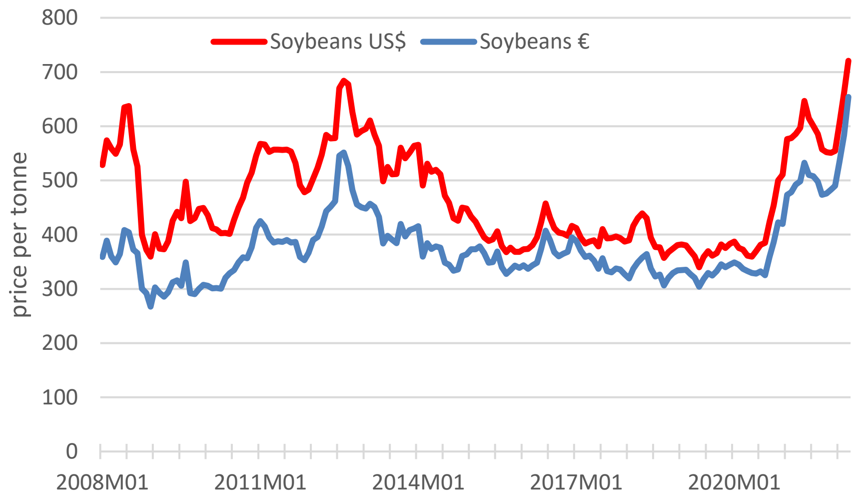
Figure 9: US Maize Price 2008-2022



Source: World Bank

Note: No 2 Yellow f.o.b. US Gulf Ports

Figure 10: International Soybean Price 2008-2022



Source: World Bank

Note: US Gulf Yellow Soybean #2 c.i.f. Rotterdam

FERTILISER MARKET

Fertiliser prices are influenced by the supply and demand balance in the market, but also reflect production costs, which are heavily related to energy prices. Energy prices were significantly higher in 2021. Increases in energy prices were largely a result of the recovery in demand following the COVID-19.

Upward movement in energy prices through 2021 and into Q1 2022 had been reflected in fertiliser prices. However, rate of inflation in both energy and fertiliser prices shifted dramatically following the Russian invasion of Ukraine in late February 2022. What to that point was principally a demand driven price dynamic was suddenly augmented by disruption to the supplies to Europe of fertilisers and natural gas used to produce fertilisers from Russia.

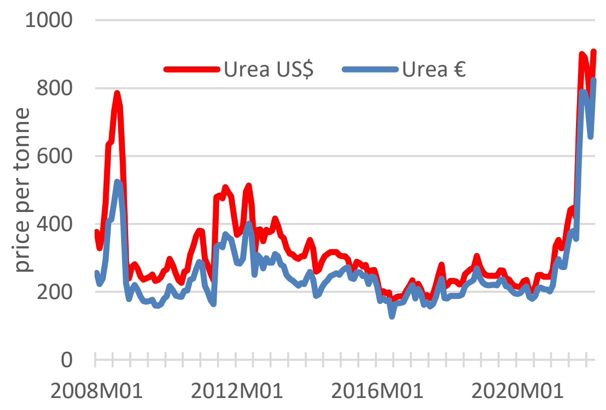
Prices for fertilisers have risen very dramatically during the first three months of 2022. Russia is a significant supplier of fertilisers to Ireland and wider EU27 markets. Sanctions on trade with the Russian Federation and general market disruption due to the war has been reflected in concerns with the availability of fertiliser supplies on the Irish market.

The available official data on fertiliser sales covers the first three months of the fertiliser year (Oct 2021 – Dec 2021). For this three month period a decrease in nitrogen, phosphorus and potassium sales relative to sales in the same period in the previous fertiliser year 2020/2021.

It is not yet clear whether this reduction will necessarily be reflected in a decrease in usage over the full course of 2021/2022 fertiliser year. Some farmers may have delayed fertiliser purchases in the expectation that fertiliser price inflation would ease over the course of 2022. However, due to the war in Ukraine the opposite case is now much more likely, with large increases evident across all fertiliser products during the first three months of 2022, with more price increases expected over the coming months. As a Consequence, timing of fertiliser purchases at the farm level will have a significant impact on total fertiliser expenditure this year. Those farmers who purchased during the first quarter of the fertiliser year (Oct. 2021 – Dec. 2021) are likely to have much lower costs than farmers purchasing over the remainder of the fertiliser year.

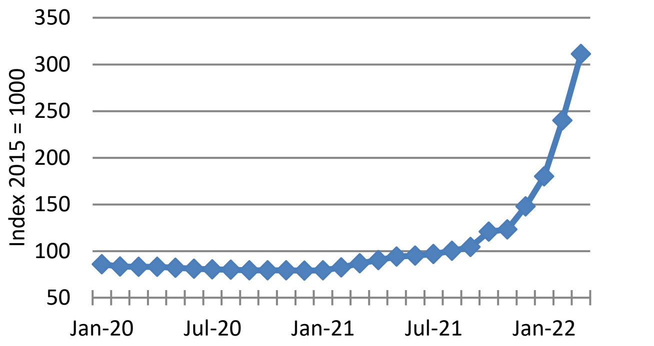
The actual impact of higher prices on volumes applied is hard to call this early in the season. The latest data from the Teagasc fertiliser use survey in March 2022 indicates that only one third of farmers have secured their full fertiliser requirement for the year thus far. As a consequence of the dramatically higher fertiliser prices, and our forecast that these high prices will persist for the remainder of 2022 it is assumed that fertiliser volumes applied will be back on those levels applied in 2021. With the reductions in rates of application ranging from 10% to 20% depending on the enterprise concerned.

Figure 11: International Urea Price 2008-2022



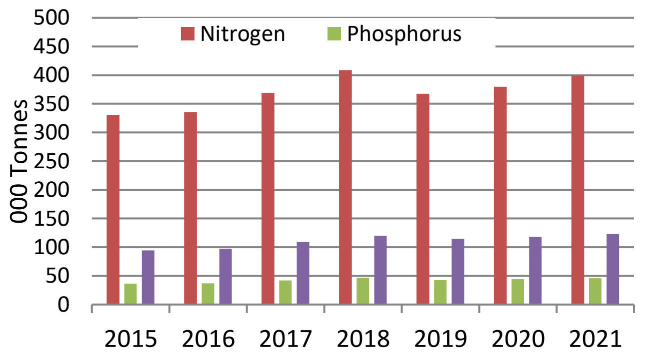
Source: World Bank
Note: Ukraine Black Sea f.o.b.

Figure 12: Index of Monthly Irish Fertiliser Prices 2018-2022



Source: Central Statistics Office and authors' estimates for Feb and March 2022, based on market reports

Figure 13: Irish Fertiliser Sales in fertiliser year 2015-2021



Source: DAFM

ENERGY MARKETS

Under normal circumstances fuel and electricity are not very significant input items in agricultural production. These cost items are typically more significant in tillage, pig and poultry production than they are in grassland systems. However, the magnitude of the increase in energy prices that is currently being experienced, especially since it is occurring alongside substantial increase in other input costs, is a concern for all farm systems.

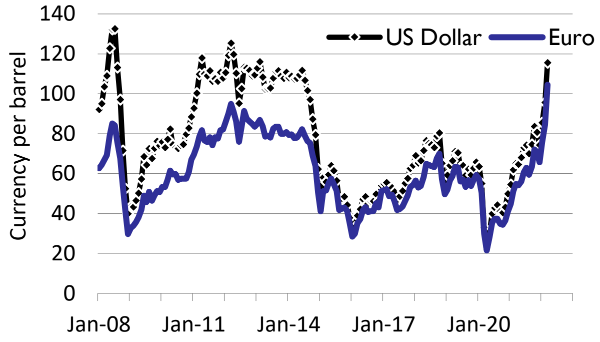
The first signs of upheaval in energy markets emerged in the summer of 2021, which is normally a period when Europe builds up its gas reserves ahead of the winter period. Lower than normal imports of natural gas into Europe, particularly from Russia, resulted in a failure to build up to normal levels of gas stocks in Europe and the price of natural gas in Europe then escalated dramatically over H2 of 2021.

The Russian invasion of Ukraine and Europe's attempt to reduce its dependence on Russian energy imports have led to sharp increases in crude oil and other fossil energy prices. As a knock on consequence, the price of electricity has also increased sharply.

Having been as low as US$40 per barrel entering 2021, the monthly average Brent crude oil price rose to US$65 by December 2021. Brent crude oil prices have risen further in Q1 2022, surpassing the US$100 mark. European natural gas prices have remained at unprecedented levels in Q1 of 2022.

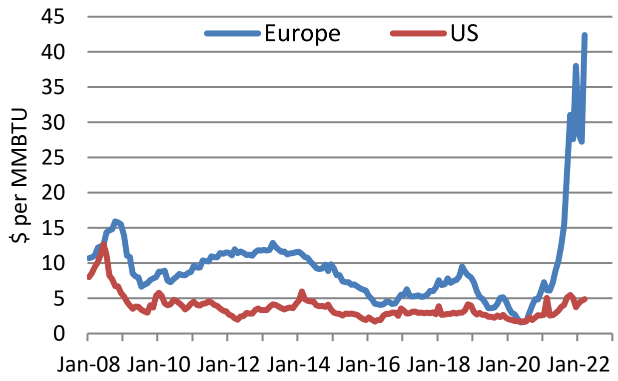
The ratcheting up of prices in energy markets, has affected motor fuel and electricity prices, with motor fuel prices in particular showing a sharp increase over the last 18 months. The increase in natural gas prices has driven the sharp increase in fertiliser prices, given that natural gas is the key ingredient in nitrogen production.

Figure 14: Brent Oil Prices 2008 -2022



Source: Adapted from the St Louis Fed

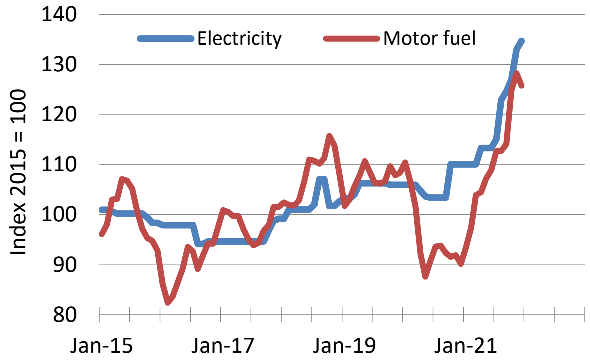
Figure 15: European and US Natural Gas Prices 2008-2022



Source: World Bank

Note: Natural Gas (Europe) Netherlands. Natural Gas (US) Henry Hub

Figure 16: Index of Irish fuel and electricity prices 2015-2022



Source: CSO (and author estimates)

DAIRY

DAIRY

Global Supply

Situation	Outlook
Positive	Positive

- Production growth in the main exporting countries slowed in H2 of 2021.
- Production in 2021 was up in the US, but was relatively static in the EU27, UK and NZ.
- Adverse weather in NZ and S. America is limiting production growth prospects. This alone would be lead to lower global milk production growth in 2022.
- The war in Ukraine has created further new uncertainties in relation to input costs, output prices and the associated impact on milk production.
- In spite of high milk prices, higher input costs are set to put a brake on global milk production growth as 2022 progresses.

Global Demand

Situation	Outlook
Positive	Neutral

- International dairy product demand in H2 2021 and into H1 of 2022 has remained solid, in spite of high product price levels.
- China remains an important part of the global demand picture.
- High oil prices may been beneficial for international demand for milk powders.
- However, inflationary pressures are being felt all along the food chain and will contribute to higher dairy commodity prices.
- However, higher dairy commodity prices may have a limited impact on dairy demand, as price levels for some vegetable oil dairy alternatives have also seen an increase.

Milk Prices

Situation	Outlook
Positive	Positive

- European dairy prices increased substantially through 2021.
- Butter and SMP prices reached almost €5,000 and €3,000 per tonne, in Q4 2021, up 23% and 18% respectively for the year as a whole. Cheddar prices rose about 5% in 2021.
- Dairy prices have strengthened even further in Q1 2022, with prices expected to remain at unprecedentedly high levels through 2022.
- With global dairy export capacity now limited, Irish farm milk prices are now among the highest in the EU.
- While both supply and demand side market developments over the coming months are uncertain, Irish farm milk prices in 2022 could be 20% to 30% higher than in 2021.
- However, some producers have significant shares of their output in fixed milk prices contracts, well below prevailing spot milk prices.

Irish Production

Situation	Outlook
Neutral	Neutral

- Input price inflation and access to farm inputs will dominate production decisions through 2022.
- Dairy cow numbers will continue to increase, but high input prices and uncertainty relating to the availability of farm inputs could depress milk yields.
- No increase in milk production is envisaged in 2022, but favourable or adverse weather would affect that outcome.
- In spite of the dramatic increase in input expenditure, very high milk prices may be sufficient to avoid a negative impact on dairy margins and income on most farms.
- Intensive users of purchased inputs and farmers dependent on hired labour will likely see the greatest impact on productions costs.

Input Cost

Situation	Outlook
Negative	Negative

- Fertiliser prices rose sharply in H2 2021 due to higher gas prices.
- Feed prices rose right through 2021, with feed prices in Q1 2022 reaching record levels.
- The Russian invasion of Ukraine has led to further upward feed and fertiliser price movements in Q1 2022.
- Fertiliser and feed availability for 2022 have become uncertain.
- The war in Ukraine has also led to a further dramatic increase in energy prices.
- Total milk production costs per litre in 2022 could be up 30% on the 2021 level, but the degree of uncertainly that exists makes it difficult to predict with high confidence.
- Farms that have a lower reliance on purchased inputs are likely to fare better than others.

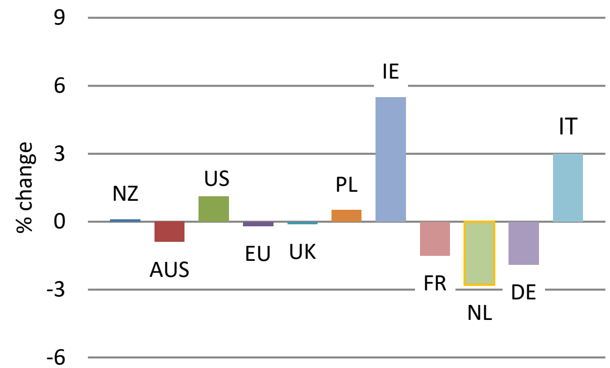
Irish Farm Income

Situation	Outlook
Neutral	Neutral

- As always, average net margin in 2022 will be weather dependent to some degree
- On many farms higher feed, fertiliser and fuel expenditure in 2022 relative to 2021, should be largely offset by higher milk prices.
- The average Irish dairy farm could see a net margin per ha and income level in 2022 broadly in line with the 2021 figure.
- However, fixed milk price contracts, paying well below the spot milk price, will adversely affect incomes on some farms.
- Overall, the impact of the input and output price changes on incomes will be specific to farm circumstances..

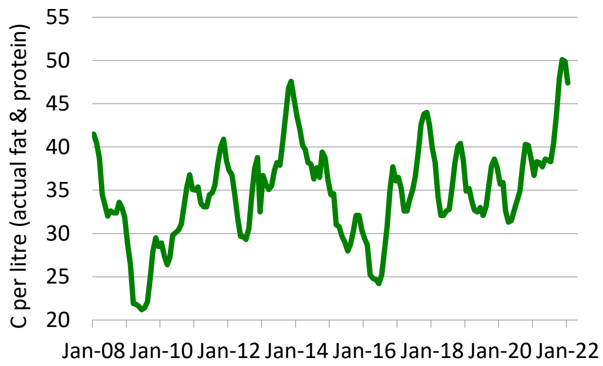
DAIRY

Figure 17: % Change in Milk Production 2021 vs 2020



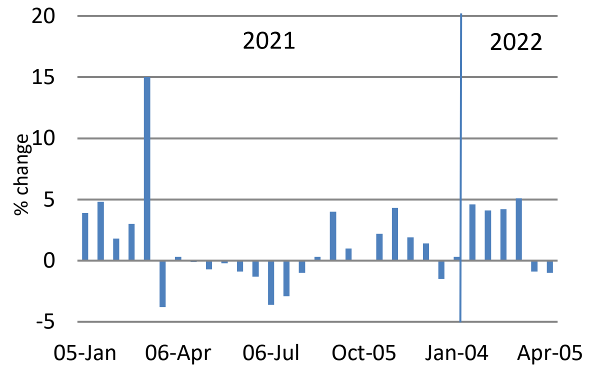
Source: Eurostat, AHDB, USDA, Dairy Australia, DCANZ

Figure 18: Monthly Irish Milk Prices 2008 -2022



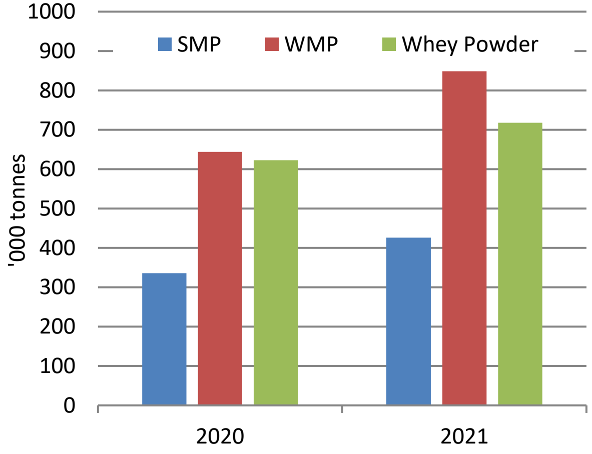
Source: CSO

Figure 19: GDT Auction Index Fortnightly Price Movements in 2021 and 2022



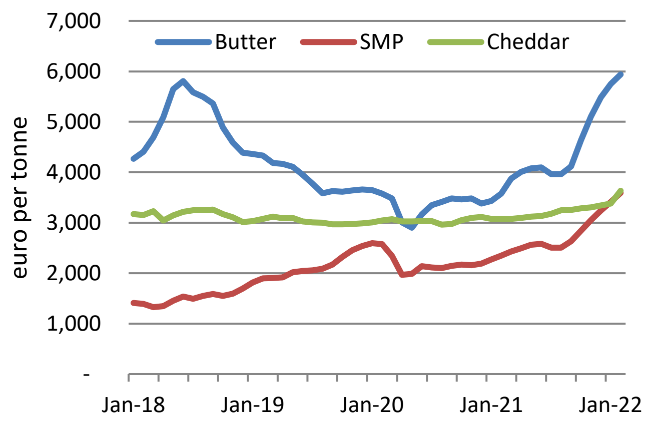
Source: GDT

Figure 20: Chinese Powder Imports 2020-2021



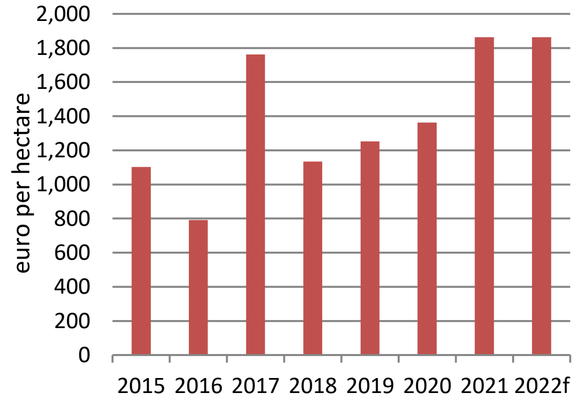
Source: IHS Markit

Figure 21: EU27 Wholesale Dairy Product Prices Jan 2018 to Feb 2022



Source: DG Agri

Figure 22: Average Dairy Net Margin per hectare 2015 to 2021 and Forecast for 2022



Source: Teagasc NFS 2016-2020, Author Estimate for 2021 and Author Forecast for 2022

BEEF

BEEF

EU+UK Supply

Situation	Outlook
Positive	Positive

- EU beef supply is expected to be 0.5% lower in 2022, mainly due to a reduction in the size of the cow herd.
- Strong milk prices will incentivize EU dairy farmers to limit cow disposals.
- EU exports to high value markets are expected to increase due to recent trade agreements.
- Global tightness in beef availability will support exports from Europe.
- EU imports of beef are expected to increase slightly in 2022.

EU+UK Demand

Situation	Outlook
Positive	Positive

- Total EU domestic use of beef is forecast to be similar in 2022 relative to 2021.
- Retail and foodservice demand remains strong in the European Union and the United Kingdom.
- Retail demand for Irish beef has increased in the United Kingdom.
- Continued absence of UK customs checks on agri-food imports from Ireland will support continued Irish beef exports to UK.

Beef Prices

Situation	Outlook
Positive	Positive

- Irish finished prime cattle prices increased by 12% in 2021 relative to 2020.
- For 2022, Irish finished cattle prices are forecast to increase by 16% relative to 2021.
- In 2022, weanling prices are forecast to increase by 8% relative to 2021.
- Store cattle prices in 2022 are forecast to increase by 12% relative to 2021.
- For individual farm businesses, timing of cattle marketing will be particularly important in 2022.

Irish Production

Situation	Outlook
Positive	Positive

- Irish prime beef production in Q1 2022 was approximately 5% higher than in Q1 2021.
- For 2022 as a whole, Irish prime beef production is forecast to increase by 3% compared to 2021.
- The number of prime finished cattle is forecast to increase by 4% relative to 2021.
- A small decline in slaughter weight is forecast to partially offset higher factory throughput in 2022.

Input Costs

Situation	Outlook
Negative	Negative

- Direct costs of beef production are dominated by purchased feed and pasture costs.
- The war in Ukraine has led to large increases in fertiliser prices and in costs of purchased feed and forage production relative to 2021.
- Feed prices, motor fuel prices and particularly fertiliser prices are forecast to be substantially higher than in 2021.
- Total costs of production on single suckling and cattle finishing enterprises are forecast to increase by 24% and 30% respectively in 2022.

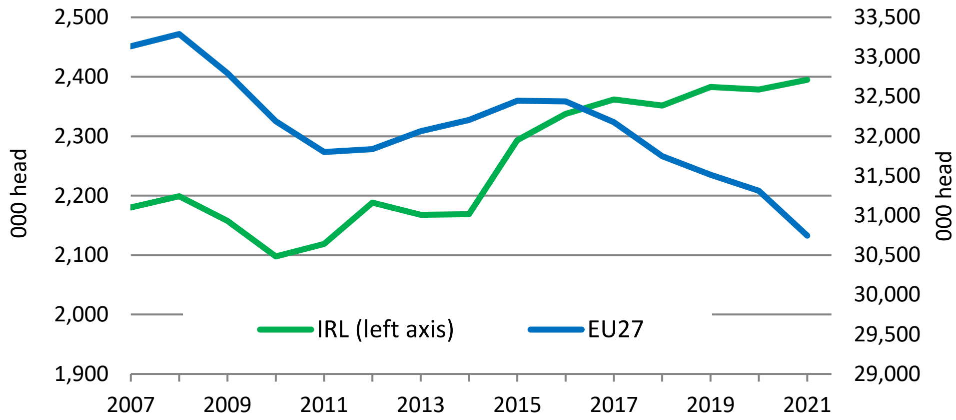
Farm Income

Situation	Outlook
Negative	Negative

- The impact of input expenditure growth is forecast to exceed that of output value growth in 2022.
- Average gross margin on the single suckling enterprise is forecast to decrease by approximately 13%.
- Average gross margin on cattle finishing farms in 2022 is forecast to be similar to 2021 due to the farms in the top-third of profitability.
- Overhead costs are forecast to increase by 11%.
- FFI on Cattle Rearing farms is forecast to decrease by 25%.
- FFI on Cattle Other farms is forecast to decrease by approximately 16%.

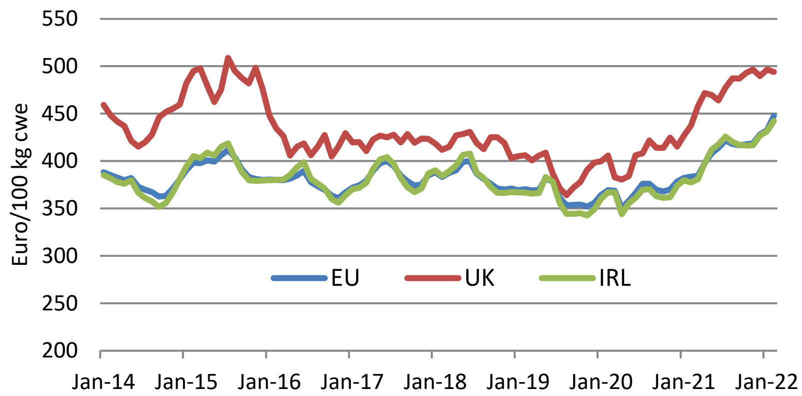
BEEF

Figure 23: Irish and EU27 cow inventories (December) 2007-2021



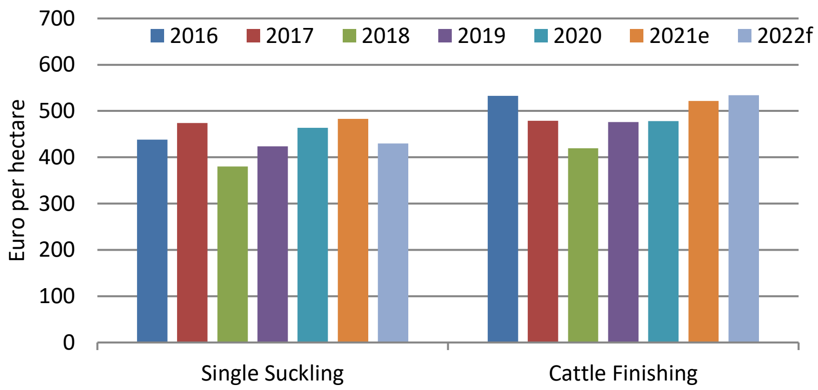
Source: Eurostat

Figure 24: Monthly EU, UK and Irish Finished Cattle Prices 2014 to 2022 (Excl. VAT)



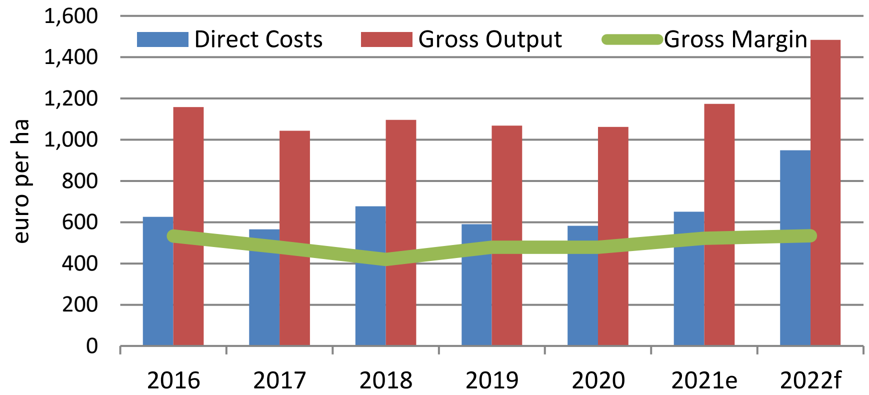
Source: DG Agriculture and Rural Development, AHDB and ECB

Figure 25: Single Suckling and Cattle Finishing Gross Margin per hectare 2016-2020, Estimate for 2021 and Forecast for 2022



Source: Teagasc NFS 2016-2020, Author Estimate for 2021 and Author Forecast for 2022

Figure 26: Cattle Finishing Gross Output, Direct Costs and Gross Margin per hectare



Source: Teagasc NFS 2016-2020, Author Estimate for 2021 and Author Forecast for 2022

SHEEP

SHEEP

EU+UK Supply

Situation	Outlook
Postive	Positive

- Outlook is for stable for indigenous EU supply.
- World demand, driven mostly by China, is absorbing more of NZ and Australia output.
- Reduced UK production and exports have reduced supplies to the EU market.
- There was a modest increase in EU sheep meat production in 2021, influenced by positive sheep prices.
- While EU flock size has stayed relatively stable in the last five years, there has been some shifts in production shares between member states.
- In 2022 EU production is projected to grow modestly.

EU+UK Demand

Situation	Outlook
Neutral	Neutral

- EU demand for sheep meat is stable, with lower supplies reflected in higher prices.
- Declining EU imports, which have not been offset by greater EU production has been reflected in increasing EU lamb prices.
- Post-Brexit, UK exports to the EU are subject to normal third country customs processes and resulting trade costs will continue to affect the competitiveness of UK sheep meat exports to the EU.
- The continuing absence of UK customs checks on agri-food imports from Ireland will support UK demand for Irish sheep meat.

Lamb Prices

Situation	Outlook
Positive	Positive

- Heavy lamb prices in the EU for the year to date are 5% higher compared to same period in 2021.
- Higher prices in the EU for heavy lamb are now forecast for the remainder of 2022.
- Average Irish prices for the year to date are almost 8% higher than in 2021, remaining well above the 5 year average price (2017-2021).
- With the seasonal forecast increase in lamb prices in run up to the Eid and Easter festivals, lamb prices for 2022 are forecast to average 10% higher than in 2021.

Irish Production

Situation	Outlook
Positive	Positive

- For the period January to March 2022, total sheep slaughter is over 9% higher when compared with the corresponding period in 2021.
- Total sheep throughput in Ireland, for the year January to March 2022 is just over 554 thousand head.
- Based on CSO slaughter data for the year to date average slaughter weights are also higher than in 2021.
- With higher prices and increased output volume, sheep output value is forecast to increase strongly in 2022.

Input Costs

Situation	Outlook
Negative	Negative

- Direct costs of production on Irish sheep farms are dominated by concentrate, pasture and forage costs.
- For the year to date, fertiliser, feed and fuel prices have been much higher than in 2021.
- Costs of production on Irish sheep farms are forecast to increase substantially in 2022 due to the escalation in fertiliser and purchased feed costs in particular.
- The large increase in fuel, fertiliser and feed prices coupled with some modest increase in feed use, is expected to lead to a 30% increase in total costs of production for 2022.

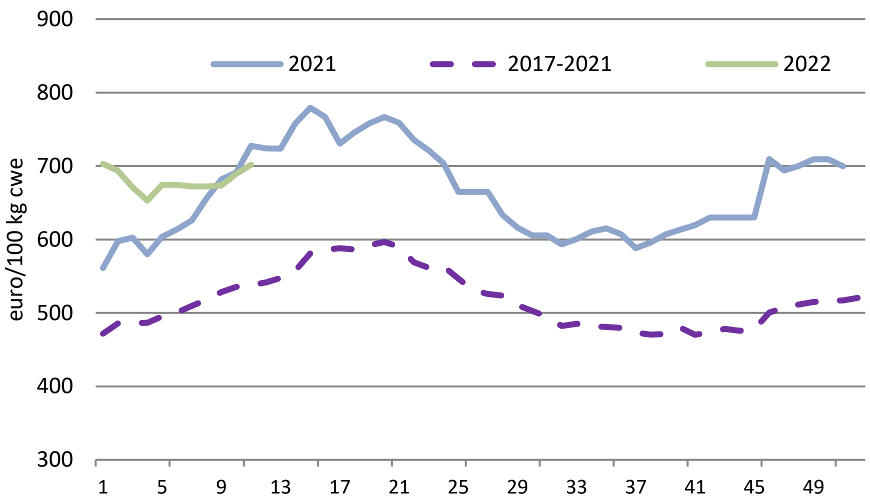
Farm Income

Situation	Outlook
Negative	Negative

- In 2022 margins earned from sheep production are forecast to decline from the record levels estimated for 2021.
- Higher lamb & sheep prices will be insufficient to cover increased costs of production in 2022.
- Average gross margin per hectare in 2022 is forecast to decline by over 5% to €700/ha.
- Net margin from mid-season lamb production is forecast to drop to €110 per ha.
- The average Family Farm Income on sheep farms is forecast to decline by 20% in 2022.

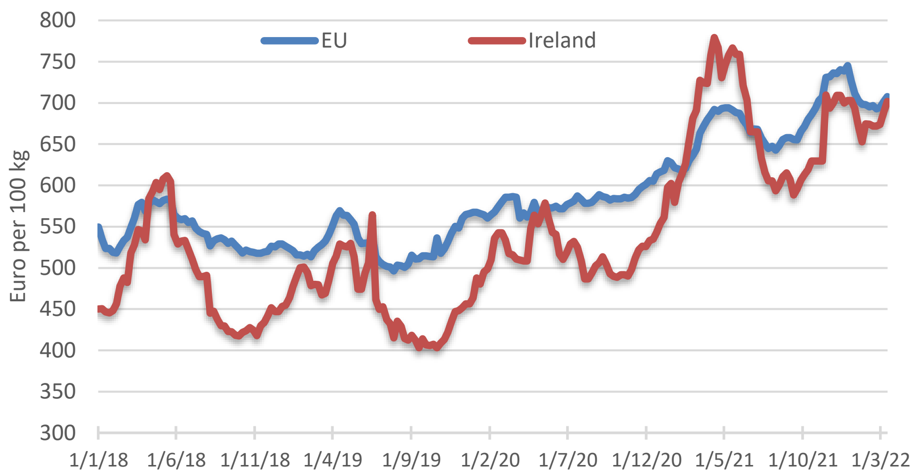
SHEEP

Figure 27: Weekly Irish Lamb Prices 2021, 2020, 2019 and average 2017-2022



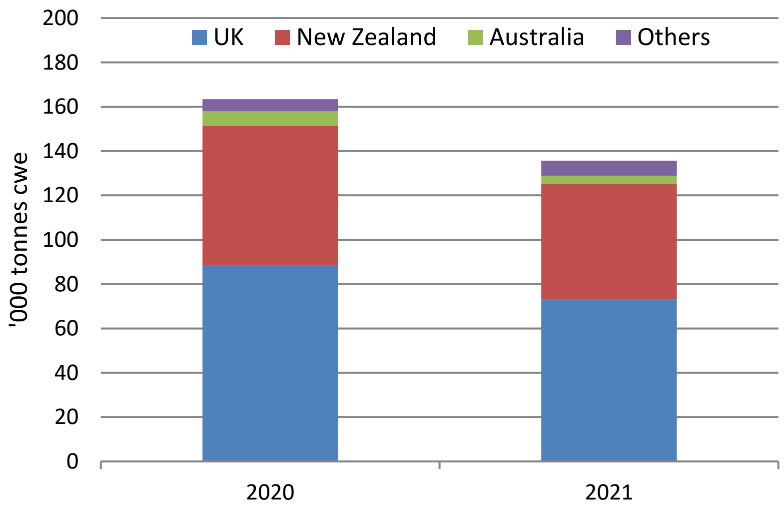
Source: DG Agriculture and Rural Development

Figure 28: Lamb Price evolution – EU and Ireland – heavy lamb 2018-2022



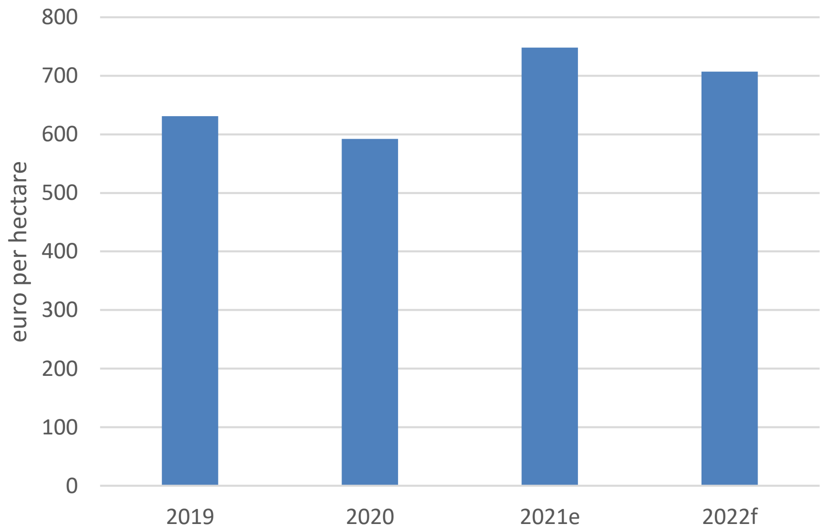
Source: DG Agriculture and Rural Development

Figure 29: EU27 Sheep & Goat meat imports (Jan-Dec)



Source: DG Agriculture and Rural Development

Figure 30: Mid-Season Lowland Lamb Gross Margin per hectare 2019-2022



Source: Teagasc NFS 2016-2020, Author Estimate for 2021 and Author Forecast for 2022

TILLAGE

TILLAGE

Wheat Market

Situation	Outlook
Positive	?

- World soft wheat production in 2022/23 is expected to be 715.1 Mt, up 8.1 Mt on 2021/22.
- World demand for human, industrial and feed use is expected to increase by 10.1 Mt year on year.
- World ending stocks are expected to be down by 1.5 Mt in 2022/23 compared to 2021/22.
- Stocks are expected to remain extremely low in the main export regions.
- A critical situation is on the horizon for 2022/23 due to low ending stocks on the international balance sheet.

Other grains market

Situation	Outlook
Positive	?

- The war in Ukraine has severely disrupted international grain markets.
- With spill over effects of the war impacting the 2022/23 season, it is projected that 30 Mt of grains could be wiped off the international balance sheet in 2022/23.
- With regards to barley, the war in Ukraine has placed a focus on the international balance sheet for 2022/23, with ending stocks projected to remain historically low for the coming season.
- With regards to maize, the Ukraine crisis will result in a large reduction in stocks on the international balance sheet unless demand falls much more sharply than currently expected.

Prices

Situation	Outlook
Positive	?

- Wheat and barley: signals at present indicate very large increases in harvest price in 2022 relative to 2021.
- Farm gate cereal prices on offer from forward contracts are at least 25% higher than prices paid at harvest 2021.
- Latest commentary from Strategie Grains (March 2022) indicates that the international stock situation projected for 2022/23 will keep prices high but should not prevent a downward correction at some point in the coming months.
- This market correction is expected because prices following the sudden shock caused by the war in Ukraine have risen much more sharply than when comparable inventory levels were experienced in the past.

Irish Production

Situation	Outlook
Negative	?

- It is assumed that the winter cereal area planted in Autumn/Winter 2021 for harvest in 2022, is broadly in line with the area planted in the previous season.
- Whilst there is significant interest in the recently announced €10 million Tillage Incentive Scheme, it is too early to accurately forecast the area devoted to Spring cereal crops for the 2022 season.
- Based on trend yields, it is assumed that yields on a per hectare basis will be down on those achieved in 2021.

Input Costs

Situation	Outlook
Negative	Negative

- In 2022, there has been a very significant increase in total direct costs.
- Whilst some of the increases in production costs were already forecast back in the December 'Outlook 2022' document, the war in Ukraine has exacerbated the inflationary pressure.
- Inflation in fertiliser and fuel, and (feed on specialised tillage farms with a subsidiary livestock enterprise), will be the main items of concern.
- The upward movement in energy prices will impact some overhead cost items.
- Overall, it is estimated that total costs on the average tillage farm in 2022 will be up over 30% compared to 2021.

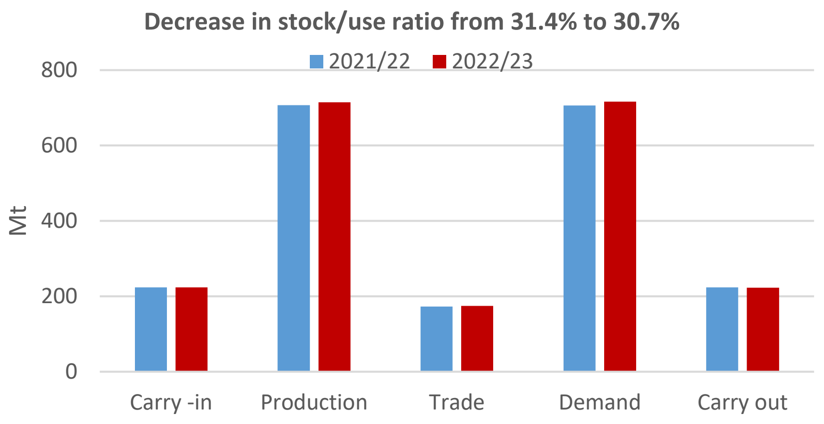
Farm Income

Situation	Outlook
Negative	Negative

- With higher output prices for wheat and barley, coupled with less significant decreases in yields for the main cereal crops, Irish cereal output value is forecast to be up in 2022.
- The Straw Incorporation Scheme and the Tillage Incentive Scheme will boost output value in certain circumstances.
- Overall costs in 2022 are forecast to increase. The significant increase in costs is expected to be enough to negate the increase in output value.
- Average income on tillage farms in 2022 is expected to be in the mid €30,000's.
- However, much uncertainty still surrounds the potential of all crops at this stage of the production year.

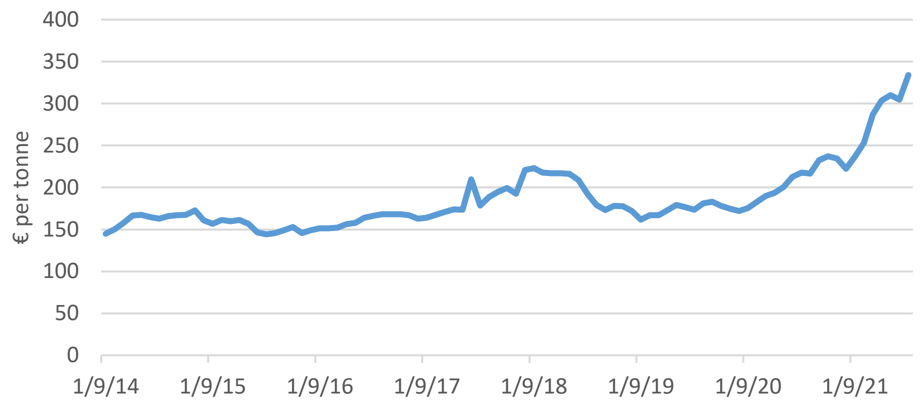
TILLAGE

Figure 31: World Soft Wheat Balance Sheet (Mt)



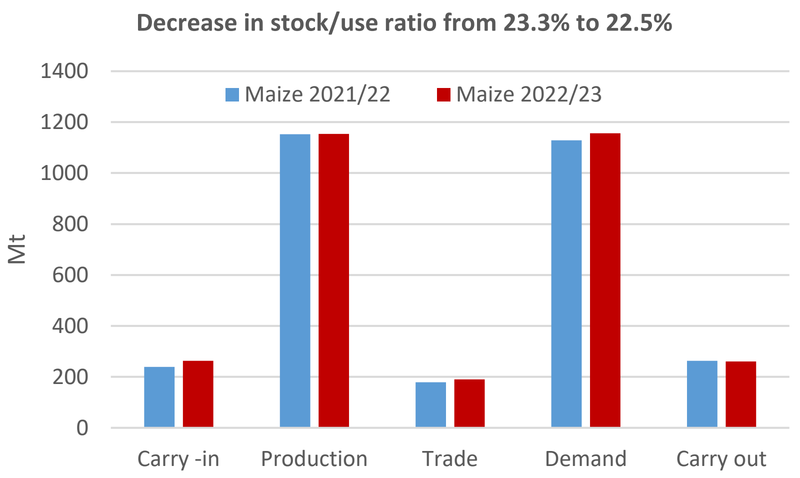
Source: Strategie Grains

Figure 32:– Monthly average imported feed barley price (Dublin port) 2014 –22



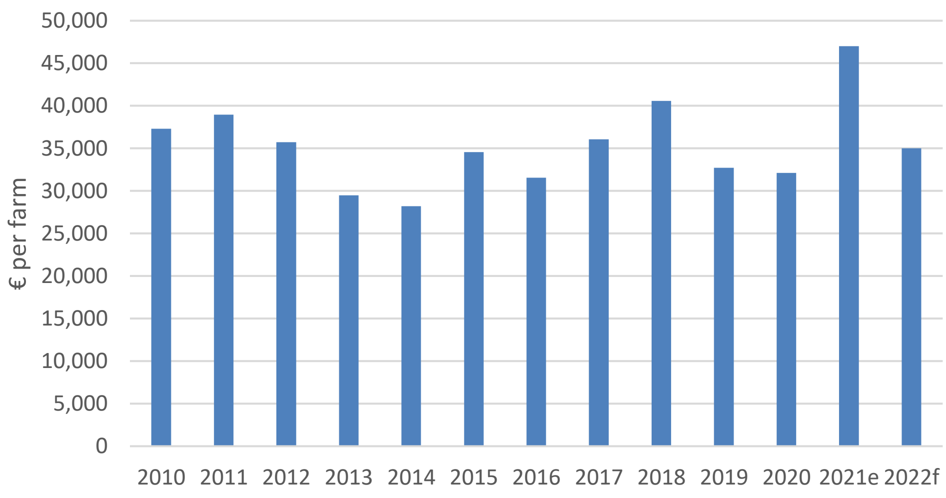
Source: European Commission, cereals statistics

Figure 33: World Maize Balance Sheet (Mt)



Source: Strategie Grains

Figure 34: Average Irish Tillage Farm Income (2010-2022f)



Source: Teagasc NFS 2016-2020, Author Estimate for 2021 and Author Forecast for 2022

PIGS

PIGS

	EU Supply	EU Demand	Prices	Irish Production	Input Costs	Farm Income
Situation	Positive	Positive	Negative	Negative	Negative	Negative
Outlook	Positive	Positive	Positive	Negative	Negative	Negative

EU Supply

- EU pigmeat supply is declining due to the negative margins over the last 18 months.
- Germany, Poland, Netherlands, France and Belgium are all seeing significant declines in their national sow herd populations.
- It is estimated that the aggregate decline to date in these countries is 7% or 384,000 sows.
- This sow reduction will equate to approx. 9.9 million less pigs produced per annum.
- The decline in the UK has been estimated by ADHB at 10%, which would equate to a decline of 40,000 sows.
- The average sale weight of slaughter pigs is falling in Spain & Germany (0.3-0.5kg), reflecting the demand for finisher pigs.

EU Demand

- USDA, in their January report, forecast EU pigmeat demand to be virtually unchanged.
- However, in the interim, EU demand for pigmeat is estimated to have increased.
- This is due primarily to the high price of substitute meats e.g. beef, lamb.
- It may also be influenced by the large number of Ukrainian refugees entering into the EU, driving higher demand for pork and chicken.
- Chinese import demand is still dampened, due to their high slaughter volumes. The outlook is for an increase in Chinese demand for EU pigmeat from Q3 2022.

Prices

- The Irish pig price has remained at a low level during Q1 2022. The margin over feed is at an historic low, with the pig price barely covering the feed price.
- However, the Irish pig price is beginning to rise and this upward trend is expected to continue from Q2 2022 onwards.
- A pig price of €2.20 will be required for the sector to breakeven.
- Therefore, the Irish pig price needs to rise by 36% (€1.62-€2.20) for this target to be achieved.
- The pig price in other EU countries rose strongly during March (+34%).
- EU prices are expected to continue to rise throughout Q2 2022.
- US pig prices have gained strongly since February, due to a reduction in the sow herd and on-going pig disease issues.

Irish Production

- The Irish sow herd has remained very stable over the last 20 years, ranging from 145,000 to 150,000 sows.
- Since the start of March 2022, the national herd has reduced by over 10,000 sows, with pig units closing.
- Another 10-12,000 sows are at high risk of being culled in the coming weeks.
- The very high level of debt that these farms have accumulated, due to recent historic losses, will remove the possibility of restocking.
- The potential loss of pigmeat exports (primary & secondary) is forecast at €65 million but could double if a further 10-12,000 sows are culled.

Input Costs

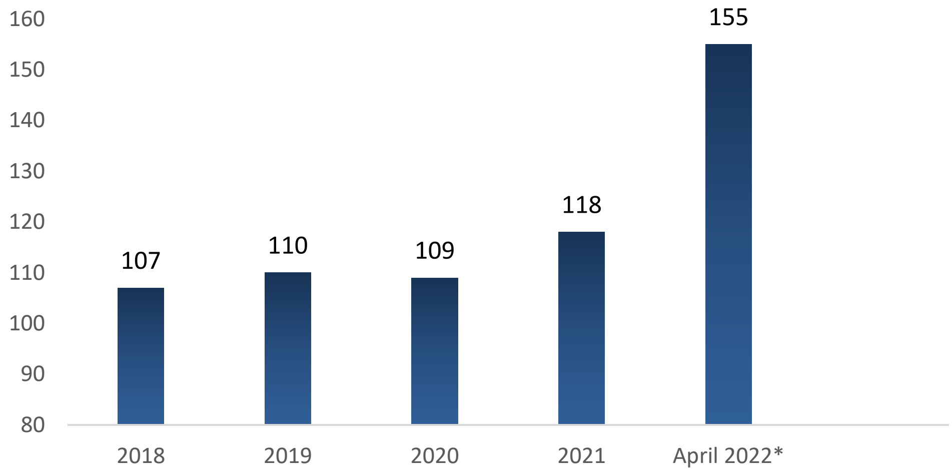
- Feed is the largest input in pig production, currently representing 76% of the total cost of production.
- The composite pig feed price rose sharply through 2021 due to relatively tight stocks.
- These tight global stocks were severely restricted when the Russian invasion of Ukraine began.
- Composite feed prices rose €50/tonne in January 2022 and are expected to rise a further €70-80/tonne during April-May 2022.
- These expected rises generate a forecast 32% increase in feed cost since the start of the year.
- Energy costs have increased substantially over the last 6 months, primarily due to electricity and fuel price increases.

Farm Income

- The sector was moderately loss making in Q3 and Q4 2021 due to falling pig price and rising feed prices.
- Losses escalated during Q1 2022 due to the rise in input prices and continuing low pig prices.
- Margin over feed is now the lowest in over 30 years.
- The estimated loss on an average (600 sow) farm in Q1 2022 was €163,000.
- The forecast loss in Q2 on the average farm will be €145,000.
- The forecast annual loss on the average pig farm is estimated to be €436,000.
- It is forecast that the sector will return to profitability in March 2023 due to rising pig prices and a stabilisation in feed prices.

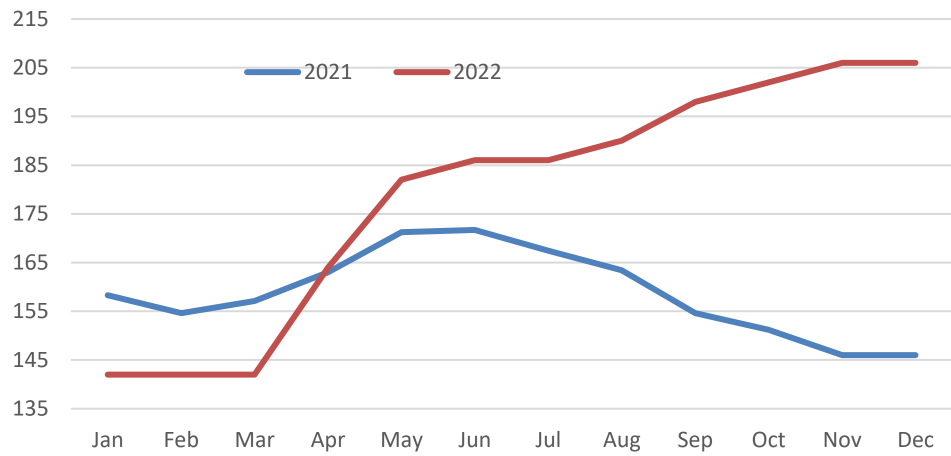
PIGS

Figure 35: Composite Pig Feed Costs c/kg



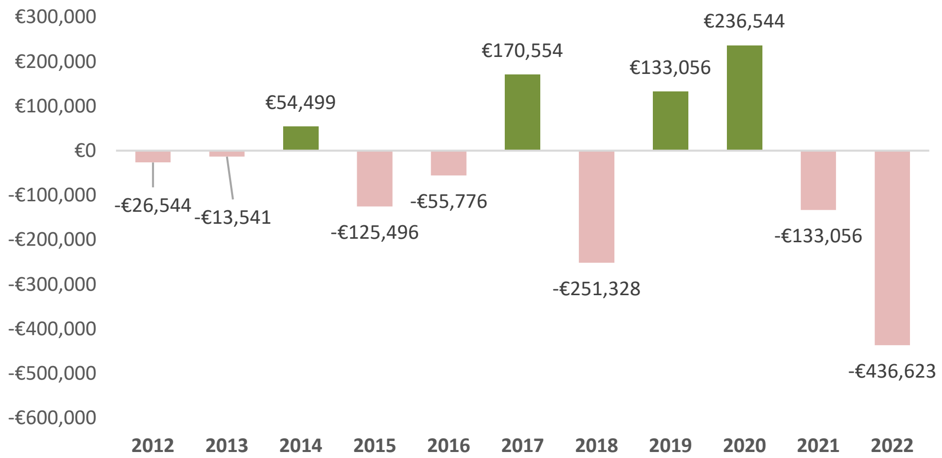
Source: Teagasc Pig Dept

Figure 36: Monthly Irish Pig Price c/kg 2021 and forecast for 2022



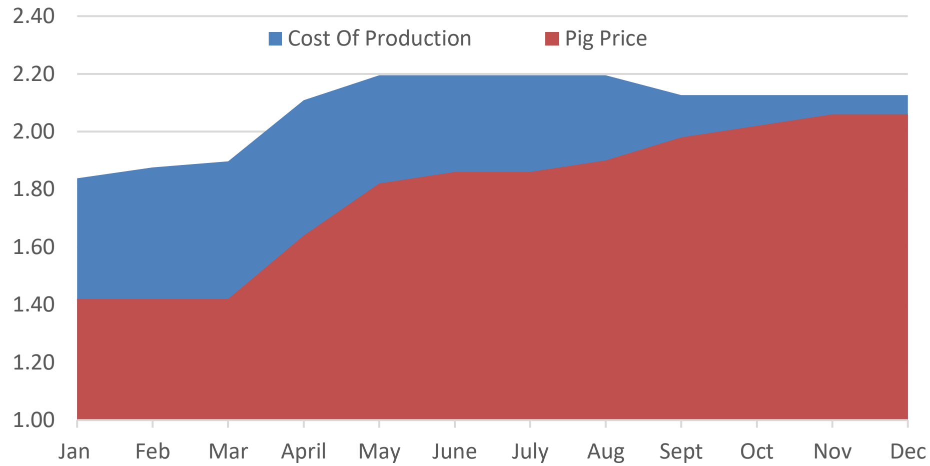
Source: Teagasc Pig Dept

Figure 37: Estimated annual profit/loss for 600 sow unit (2012-2022)



Source: Teagasc Pig Dept

Figure 38: Forecast monthly cost of production & pig price c/kg for 2022



Source: Teagasc Pig Dept