Low demand and increasing supply reduces milk cheques

Price squeeze continues

Milk price has continued to fall – despite hopes and predictions that by this point in 2015 things would be on the up. So what are the factors that are keeping farm-gate prices low?

text **Rachael Porter**

Over supply – that's the big factor behind the continued milk price 'depression' and the current eight-year low. So says the Farm Consultancy Group's Charles Holt. Both stocks and production of milk are high in all the major milk producing and dairy consuming areas of the world.

"Stocks in China, in particular, are higher than speculators thought there were a few weeks ago. So China's demand for dairy produce hasn't increased, as the market hoped it would. In this quota-free market, producers really are at the mercy of volatility."

The end of quota may have played a role in over supply – some producers have taken the brakes of production, particularly in Ireland where we know that producers have been gearing up to switch on milk production for some time. "And UK herds – and those across Europe – have also milked well over the winter," adds Mr Holt.

Supply has increased by 667 million litres during the past year. Of that increase, 49% has gone into milk powder, 22% to cheese and 20% to liquid. "And with milk powder the weakest performer in the market, any growth in supply only serves to dilute market returns," says The Dairy Group's Nick Holt-Martyn.

He adds that UK supplies were up 1.54% in April, with Ireland up 14.5% and the Netherlands increasing production by around 4%. "Much of that will be going into powders, leaving markets weakened around the world.

"Until supply stabilises there can be little, if any, recovery in market returns without an unlikely significant shift in demand. Milk pricing for the rest of 2015 awaits the new season reports in New Zealand for any signs of reduced supply, combined with a response in the EU showing supply easing off through late summer and autumn," he adds.

The farm gate milk price for April dropped to 24.6ppl – the lowest since August 2010. Organic producers and those selling milk to a dedicated supplier are still realising a decent price of between 30ppl and 35ppl.

"But many are seeing a milk price of around 20ppl – some even lower," says Charles Holt, adding that what really stands out is the huge variation in milk price across UK businesses. "There's a massive difference, from those selling milk on the spot market who are seeing as little as 10ppl, through to organic producers selling direct at 35ppl. First Milk producers and some others are seeing less than 20ppl – typically between 17 and 18ppl, whereas the top end contracts, with other buyers, are seeing between 30 and 31ppl. That's a difference of almost 100%. Interestingly, the price gap in Ireland varies by a few euro cents."

Looking ahead, Mr Holt says that producers must learn to live with the fact that they are now 'price takers' and accept that volatility is here to stay. For some this low milk price will make their business unsustainable and there will, inevitably, be a flurry of producers leaving the industry. "Some producers are selling up and many are also struggling to get a good price – there's little demand for cows and a lot of supply."

There is a glimmer of hope that Russia could lift its ban on EU dairy imports in August. And there is talk that El Niño weather conditions could limit milk production in some parts of the world, possibly Australia and New Zealand, later this year and into 2016. "The key is to keep focused on efficiency to build a business that can cope with extremely lean times and maximise profitability when prices are higher."