

COST OF PRODUCTION ANALYSIS

In November the LMC Bulletin carried a brief article explaining the Red Meat Strategic Forum's plans for developing a cost of production index for specific beef and sheep production systems. The Strategic Forum was formed in September 2010 from senior members of the organisations that participated in the Task Force. Its role is to work on the strategic development of a sustainable and profitable red meat industry in NI. Following some recent queries, LMC is now providing an update on the progress of that activity.

Background

The concept of a NI red meat cost of production index was spawned by the NI Red Meat Task Force which included theoretical models for a range of highly efficient production systems. The Task Force report was published in 2007 and included associated costs for each of these models with all variable, fixed and hidden (land, labour and working capital) costs provided. Since 2009, LMC updated these figures on a six monthly basis by applying an inflation index provided by Anglia Farmers (a large scale agricultural purchasing co-op in the UK). Anglia Farmers calculate an overall inflation index for agriculture generally, an index for specific inputs and for different enterprises. In the past the generic beef and lamb inflation index figures produced by Anglia Farmers has been used to update the Task Force figures. The same approach is used in Table 1, adjacent.

The Task Force and these subsequent updates essentially provided producers with an ongoing estimate of the full cost of beef and lamb production (for the most efficient farms) by considering all inputs, including those that producers normally ignored in their own rudimentary profit and loss analysis. These figures provided a benchmark for producers and generally highlighted the lack of profitability in the sector.

Updating the Cost of Production Index

At the latest meeting of the Red Meat Strategic Forum in June 2011, it was agreed that a cost of production index was a valuable tool and that continued efforts should be made to provide these figures. However, it was also recognised that five years have elapsed since the original Task Force figures were published and that there have been ongoing developments in production methodologies since then. Best practice suggests that it is not appropriate to continue using an inflation index to update the original Task Force figures ad-infinitum, since any variance is compounded as time elapses.

With this in mind, the Red Meat Strategic Forum agreed that it was appropriate to undertake further research which would allow a re-baselining of these figures and the development of a more robust and sustainable method of calculating costs of production without always referring back to the original Task Force report.

A new approach

At face value this may seem to be a straightforward task. However, it is one that LMC cannot tackle by itself since it holds absolutely no data of its own on upon which we may calculate costs of production for the NI red meat industry. In this regard the industry is reliant on information being made available by other parties including DARD. Any new initiative to calculate production costs for the industry must clearly be a multi-lateral initiative led by the Red Meat Strategic Forum since it requires the input of a wide range of parties.

At present LMC is working in liaison with DARD Policy and Economics Division to calculate costs of production using Farm Business Survey data as the basis. This is a time-consuming exercise and one which will ultimately involve input from all members of the Red Meat Strategic Forum, who will be well-positioned to verify results as they emerge.

At the end of this process we should have a cost of production index which can be updated and re-baselined on an annual basis using a robust methodology with the same principles as were employed in the Task Force. Crucially, it will be based on recent and real farm business data from NI and not upon figures that were gathered more than five years ago.

Understanding your cost of production

It is important to note that it was never the purpose of the Task Force to provide *individual* producers with an indication of their own costs of production of beef and lamb. There is a wide range of efficiency in the NI red meat industry at farm level and analysis of this type gives no indication of the viability and efficiency of individual farms. It is a generic analysis of costs at farm level across the industry, based on the most efficient production systems.

In this regard it is important to note that producers ought to have a good understanding of *their own* costs. It makes no sense to rely on a generic cost of production figure for this purpose. Indeed, CAFRE provide a bench-marking service and are eager to sign up new members, so any producers or groups of producers that are keen to get a better indication of their own costs of production and efficiency should consider contacting the benchmarking team there.

Interim measure

It is clear however, that some producers are eagerly waiting for an update on costs of production. This is understandable. Prices have increased sharply in 2011, but with input costs also rising, it is difficult to evaluate whether the industry in general is any better or worse off than this time last year at farm level.

For those keen to have a generic reference to the Task Force we have provided an update in Table 1 below. It is important to bear in mind that the

baseline data for this information is now five years old and this obviously creates some uncertainty. Notwithstanding any weaknesses of this approach however, we do believe that this information may be of some value for the purpose of comparison in the absence of any other figure.

Finally, it is also worth adding that none of the source data for this analysis belongs to LMC and all of the source data for these calculations is on the public record. The figures are derived from a combination of the published Task Force figures from 2007 and the Anglia Farmers Agricultural Inflation Index. These two entities are entirely

independent of LMC. The next cost of production figure that LMC refers to will be based on a new methodology agreed by the Red Meat Strategic Forum. Given that this exercise will be led by the Red Meat Strategic Forum and requires input from a range of parties, it is not for LMC to give a definite timescale on the availability of this update at the present time. In this respect, we trust that this update may provide a useful reference for those that require it in the interim. While LMC does not intend to provide a further update to the figures outlined in Table 1 below, there is nothing to preclude others from doing so given that the source data is publicly available.

Table 1. Estimates of the Costs of Production (£/kg CW rounded to nearest 5p) for efficient producers

Version	Updates (£/kg CW)	
	Original Task Force Figure	Updated Task Force Figure
Date	Oct-07	Aug-11
Beef Model		
Suckler to Beef (Top 10%, scale of 100 cows)	£3.20	£4.65
Dairy Origin Beef AAx (Grass, 16months, 400/year)	£2.25	£3.27
Dairy Origin Beef HOL/FR Steers (Grass, 16m, 550/yr)	£2.05	£2.98
Sheep Model		
Lowland Sheep (1.75 lambs/ewe @ 19kg CW)	£2.20	£3.20
Upland Sheep (1.65 lambs/ewe @ 18kg CW)	£2.40	£3.49
Hill Sheep (1.3 lambs/ewe @ 17kg CW)	£3.20	£4.65

Original Task Force Figures have been updated using Anglia Farmers Agri-Inflation Index (beef and lamb). The base year for this index is 2006. In August 2007, around the time the Task Force was launched the index had reached 108. In August 2011 the index had reached 157. These figures are the basis of the calculation of the updated Task Force figure for August 2011.

FQAS Corner - DARD Approved Disinfectant Update – Novagen FP

As all FQAS members are aware, it is a requirement of the scheme for farms to have cleaning and washing facilities and a DARD approved disinfectant as part of bio-security.

The FQAS has recently been made aware that the disinfectant Novagen FP is currently suspended for Swine Vesicular Disease (SVD) and General Orders (which includes Brucellosis), due to failure of disinfectant tests carried out by Veterinary Laboratories Agency in GB. As this disinfectant is currently unapproved by DARD, NIFCC will be issuing a non-conformance for this during FQAS inspections, if Novagen FP is

presented as a DARD approved disinfectant for purposes of compliance with code 2.4 of the FQAS product standard.

There is a possibility that Novagen FP may become approved again pending further tests on dilution rates, although there is no timescale for any such process. FQAS would therefore advise farmers not to dispose of any Novagen FP that they may have, as it may become approved again. However, in the meantime a DARD approved disinfectant must be used. To keep up to date with current DARD approved disinfectants the lists can be found at the websites listed below:

DARD : <http://www.dardni.gov.uk/index/publications/pubs-dard-animal-health/pubs-animal-health-and-welfare-approved-disinfectants.htm>

LMC : <http://www.lmcni.com/industry/codesofpractice.cfm>



FQAS Helpline

If you have had a recent inspection and need help and advice to rectify any non-conformances, contact the FQAS helpline:
028 9263 3024

Answerphone Service

Factory Quotes & Mart Results
Updated 5pm Daily

Tel: 028 9263 3011

Text Service

Free Price Quotes sent to your mobile phone weekly

Email - bulletin@lmcni.com
Tel: 028 9263 3000

WEEKLY BEEF & LAMB MARKETS



CATTLE TRADE

CATTLE QUOTES		
(P/KG DW)	This Week 09/01/12	Next Week 16/01/12
U-3	320 - 322p	320p
R-3	314 - 316p	314p
O+3	308 - 310p	308p
Cows	260 - 275p	260 - 275p

* Plus 8p/kg in-spec bonus where applicable.

LAST WEEK'S NI CATTLE PRICES - P/KG				
W/E 07/01/12	Steers	Heifers	Young Bulls	Cows
U-3=	330.9	335.2	319.1	290.9
U=3=	330.1	338.2	325.6	297.7
U=4=	323.9	328.4	318.1	280.0
R=3=	328.8	330.3	312.1	288.4
R=4=	323.1	325.1	302.1	292.0
O=3=	316.4	310.3	308.0	269.1
O+3=	321.6	318.2	304.0	280.6
O+4=	325.3	318.7	292.1	279.1
P+2=	293.0		294.0	251.6
P+3=	294.9	278.3	294.0	257.8
Average	321.9	322.0	310.7	249.8

Note: The table above shows prices for selected grades from the 15-point scale. The table below merges grades down to the 5-point scale for comparison with GB regions and ROI.

LAST WEEK'S CATTLE PRICES (UK / ROI)						
W/E 07/01/12	Scotland	Northern England	Midlands & Wales	Southern England	Northern Ireland	Rep of Ireland
Steers						
U3	351.3	347.0	343.5	338.3	329.2	338.2
R3	344.8	340.0	333.2	328.0	328.7	329.5
R4	347.7	347.4	334.7	327.5	325.5	329.4
O3	332.8	320.2	312.6	306.1	316.2	315.7
Average	345.2	336.9	328.5	315.7	321.9	-
Heifers						
U3	354.5	348.2	345.3	335.6	335.7	349.5
R3	345.0	338.0	330.9	320.0	329.3	338.5
R4	347.0	341.3	334.9	326.7	326.0	338.6
O3	319.5	318.0	306.5	295.2	313.6	324.8
Average	345.6	336.0	329.9	312.6	322.0	-
Young Bulls						
U3	340.1	333.9	333.2	330.1	321.2	335.5
R3	332.5	323.8	321.8	314.0	317.0	330.9
O3	309.5	305.7	303.2	298.3	304.1	321.0
Average	319.8	313.6	309.0	312.1	310.7	-
Prime Cattle Price Reported	4773	4784	3987	2461	4080	-
Cows						
O3	262.9	264.2	277.6	242.7	270.1	276.8
O4	268.3	267.9	272.1	245.1	270.9	277.3
P2	201.1	218.7	228.0	196.7	240.3	259.5
P3	223.8	247.3	249.6	225.8	255.2	268.4

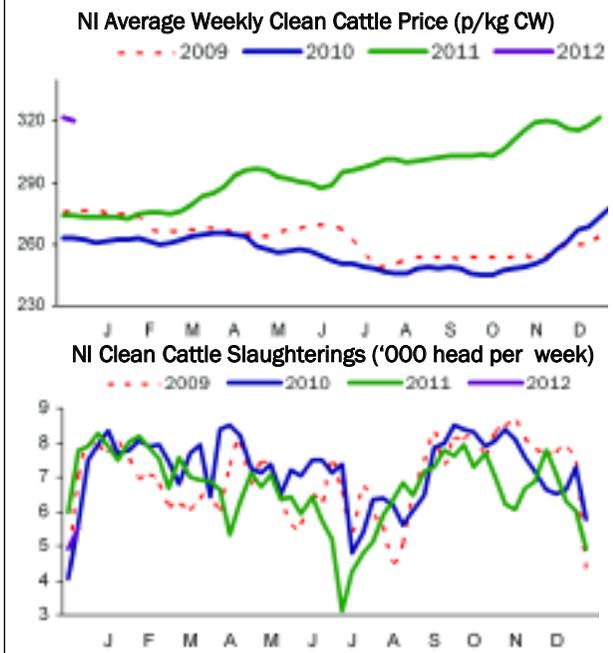
Notes:
(i) Prices are p/kg Sterling-ROI prices converted at 1 euro=83.09p Stg.
(ii) Shading indicates a lower price than the previous week.

Deadweight Cattle Trade

At the start of next week the factories are expected to be quoting 320p/kg for U-3 grade prime cattle, with some plants adding the qualification that these quotes are for Monday only. This represents a slight decline on this week when some plants were quoting 322p/kg for heifers. Cow quotes are expected to stand-on with quotes of 270-275p/kg at most plants. Last week's reported prices showed that the trade was slightly softer in the first week of January, compared to the last week of December. Average steer prices in NI were back by 1p/kg with average heifer prices back by 3p/kg. On average, young bull prices were back by 2p/kg.

The availability of cattle is certainly tight at the moment and several factories are operating shorter working weeks. In the first week of the year, the factories slaughtered just over 7,150 head. This was eight per cent fewer than in the same week last year and well behind December levels with over 8,000 head slaughtered in the week before Christmas.

The trade in England softened last week with prices in Southern England back to the greatest extent. U3 steer prices there were back by 6p/kg in the first week of January. U3 heifers were back by 2p/kg. In Scotland while the average steer price fell by 2p/kg, the average heifer price was up by 1p/kg. In euro terms U3 steer prices in ROI were unchanged with U3 heifer prices up by 2c/kg. The weaker euro may have been a contributing factor here as in sterling terms prices were somewhat softer.



More detailed information on prices and explanations of these tables and charts are available from the LMC Technical Department: Call 028 9263 3000.

LATEST NI BEEF MARTS							
Finished Cattle (£/100kg LW)	from		to		Store Cattle (£/100kg LW)	Dropped Calves (£/head)	
	from	to	from	to		from	to
Steers					Store bullocks up to 400kg	Continental bull calves	
1st quality	194	213	1st quality	200	253	1st quality	290
2nd quality	169	193	2nd quality	160	198	2nd quality	220
Friesians	122	163					288
Heifers					Store bullocks 400kg-500kg	Continental heifer calves	
1st quality	185	215	1st quality	185	250	1st quality	230
2nd quality	160	184	2nd quality	150	182	2nd quality	150
Beef Cows					Store bullocks over 500kg	Friesian bull calves	
1st quality	150	198	1st quality	170	209	1st quality	180
2nd quality	122	149	2nd quality	150	169	2nd quality	120
Dairy Cows					Store heifers up to 450kg	Holstein Bull Calves	
1st quality	117	145	1st quality	170	200		12
2nd quality	103	116	2nd quality	145	169		150

Taken from a sample of beef marts in the week ended 06/01/12

Deadweight Sheep Trade

On Friday one plant was quoting 420p/kg for hoggets for Monday. This doesn't represent any change from this week when quotes ranged from 415-420p/kg. Last week's reported prices showed that liveweight and deadweight lamb prices were back by about 5p/kg in NI, with the weaker euro potentially having an impact. The lamb kill was well up in the last quarter of 2011, and this continued to be the case in the first week of 2012, with a kill of over 5000 head last week. In the same week last year fewer than 4,000 head were slaughtered.

SHEEP QUOTES		
(P/KG DW)	This Week 09/01/12	Next Week 16/01/12
Hoggets	415 - 420p	415 - 420p*

All plants paying up to 22kgs for FQAS lambs.
* Quote from one plant only.

REPORTED LAMB/HOGGET PRICES - P/KG			
(P/KG)	W/E 24/12/11	W/E 31/12/11	W/E 07/01/12
NI Liveweight	371.1p	381.9p	376.8p
NI Deadweight	407.4p	414.7p	409.9p
GB Deadweight	452.1p	458.2p	453.4p

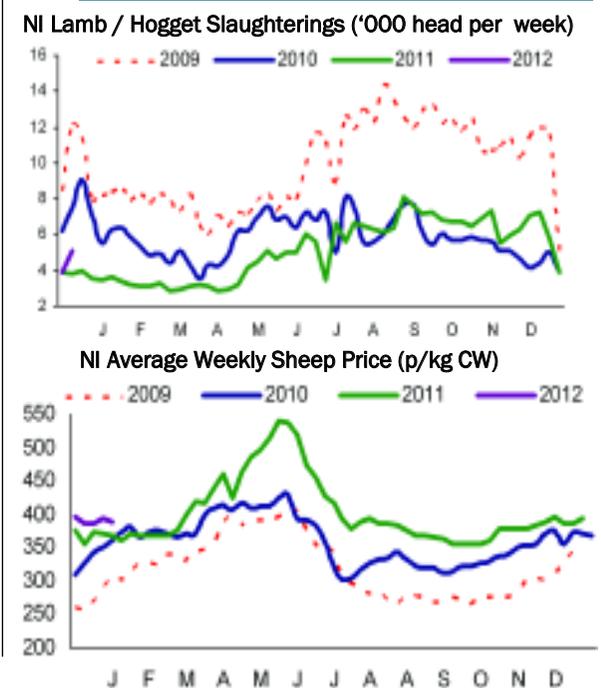
LATEST SHEEP MARTS

From: 07/01/2012 To: 12/01/2012		Hoggets (P/KG LW)			
		No.	From	To	Average
Saturday	Omagh	746	365	396	N/A
Monday	Kilrea	500	367	389	372
	Masserene	970	365	405	N/A
Tuesday	Armoyle	386	370	390	378
	Rathfriland	409	352	425	376
	Saintfield	472	368	405	375
Wednesday	Ballymena	1303	360	395	371
	Enniskillen	484	360	407	380
	Markethill	800	370	413	383
	Newtownstewart	170	350	384	360
Thursday	Downpatrick	300	355	405	375

This week's marts

Average prices reported from the marts this week show that the trade has been generally similar to the week before. In Markethill on Wednesday, prices of 383p/kg were reported, similar to the 380p/kg reported last week. Likewise Ballymena reported an average price of 371p/kg on Wednesday, again similar to last week. Average prices over the course of the week generally ranged from 370-380p/kg, with top cull ewes generally making to a top of £90-105/head.

SHEEP TRADE



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