



**Milk Cost of Production  
Survey 2019**

## Commentary



As usual, the survey also looks ahead at projections for the current trading year. Even half way through the year with a much better summer of forage production behind us, there are arguably more uncertainties over profitability now than there were at the same point last year.

In comparison to the vagaries of the weather, the continued uncertainty over Brexit looks like the perfect storm and at the time of writing (although perhaps not by the time you read this) there remains enormous uncertainty over

whether the UK will leave the EU on 31 October and, perhaps more relevantly, whether a trade deal will be struck.

Certainly the risks of a no deal exit have come far more clearly into focus and although the weakening value of sterling will be helping to prop up farmgate milk prices to some extent, the impact of the weaker pound on imported inputs is only partly being offset by lower domestic grain prices from the good 2019 UK harvest.

If we set those factors aside as far as we can, the expected trading position for 2019/2020 looks more positive.

Again, milk output is expected to be level with the previous two years with some key inputs, notably feed expected to fall following better summer 2019 forage production.

Factor in an expected fall in milk price year-on-year, coupled with better yields, could offset that drop.

Overall, CFP is expected to rise by 0.71p/litre year-on-year to 3.4p/litre in 2019/2020 (a rise from £141/cow to £269/cow).

As in previous years, perhaps the most interesting comparisons are between the top and bottom 10% of producers by profitability.

Within the sample, the top 10% of producers achieved a CFP of £585/cow with the bottom 10% making a loss of £471, a variance of £1,056/cow. While there continues to be an exodus of producers from the industry, it is clear that there remains a great number of farms producing milk efficiently. While the most profitable producers do not necessarily come from any particular production system, it will inevitably be those businesses that can generate a real world profit, taking into account rent, finance and labour costs which will have the most opportunities going forward.

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Welcome to our Milk Cost of Production Survey for 2019. Once again, Old Mill have collaborated with The Farm Consultancy Group and the majority of the sample data has been sourced from farmers across the Mid-West and South of England.

In many ways the results of our 2018/2019 dairy survey hold few surprises compared to general sentiment on the ground. A reminder firstly of the basis for the survey which is a comparison of farms with March year ends who derive their income mainly, or solely, from milk sales. In order to make the businesses comparable, rents, interest payments, drawings and capital expenditure have been excluded from normal profit figures and a labour charge of £30,000 has been included per full time partner/director.

The Basic Payment Scheme has also been excluded from the income figures. Depreciation is included.

On this basis, the headlines are that while milk output per farm has remained relatively level between 2017/2018 and 2018/2019, the costs of producing milk have risen with the overall effect that Comparable Farm Profit (CFP) has fallen from 5.9p/litre (£383/cow) to 2.69p/litre (£141/cow) between the two years.

Despite lower milk output following the dry 2018 summer, the firmer milk price has offset that reduction in the results.

On the cost side, it will come as little surprise that purchased feed costs are higher at £789/cow, up from £662/cow the previous year.

Both the results of the survey and most conversations with producers would suggest that wherever possible the effects of the dry 2018 summer have been ring-fenced into the last financial year with most producers incurring higher feed costs to maintain condition and fertility.

As such, it is hoped that there will be a smaller hangover into the current 2019/2020 year than many would have anticipated.



Whilst milk prices for the year 2018/2019 have been slightly higher than the previous year, they are falling now and are 2p/litre less than the autumn of 2018 with record milk volumes. It has been a favourable year for milk production with an early spring and adequate rain to get two decent silage cuts before drier conditions in July and August.

The forecast figures for 2019/2020 are showing a profit, which is expected to increase by £128/cow or 1.7p/litre to £269/cow based on the following assumptions:

### Output

- Cow numbers are expected to remain constant this year. More cows left the herd last year as a result of the drought, and though replacement heifers are in short supply this autumn, forage supplies mean more cows will be retained to compensate
- With a more mature herd, a favourable grass growing season and good quality forages, litres per cow is expected to increase resulting in costs spread over more litres.

### Costs

- Feed costs will decrease in the second half of the year as corn prices are 20% less and fewer bulk feed replacers will be bought due to plenty of available forages
- Bedding costs will decrease due to the lower straw prices and higher straw yields per acre. Only an early housing of cows could negate this
- Fertiliser costs are budgeted higher due to higher

**The sample farms analysed here include organic, all milk bonuses (e.g. Arla paid a one off exceptional bonus), a higher proportion of manufacturing than liquid contracts, plus more aligned contracts than would be the norm across the whole of the UK.**



prices this summer and autumn and more being used in favourable grass growing conditions

- Machinery costs will stay static. Though fuel costs are less, and less silage has been fed out this summer, more silage has been made
- Labour costs, which increased last year, will increase again slightly due to the shortage of skilled labour
- Depreciation costs are expected to increase as those remaining in dairy have to continually invest to meet ever increasing standards and to avail of grant funded project opportunities.

Milk production costs are likely to decrease by 10% for the current year and will compensate for a 6% decrease in income, resulting in a forecast increase in dairy profits which is needed. This is based on an average milk price of 30p/litre which seems quite high when the Department for Environment, Food & Rural Affairs (DEFRA) 12 month average milk price ended in June 2019, excluding bonuses is 29.52p/litre.

Costs increased by 3.09p/litre or £225/cow last year mostly in feed, labour and machinery, which could be attributed to the drought. Most of these costs are budgeted to be reversed this year, but it still leaves only £76,400 for this 2.1 million litre sample average dairy farm to cover rent, debt finance and repayment and taxation on a 30p/litre milk price.

How are those on 27p/litre coping this year? Most of the profit budgeted is wiped out at this price if your costs are similar to the average farm.

You should now have enough information about your dairy business in terms of costs, calving pattern and forage quality and stocks to be able to budget accurately where your business will be financially on 31 March 2020. We budgeted for this sample size this time last year and our costs were 0.68p/litre too high and our income was 0.46p/litre too low resulting in an under shoot on profit by 0.22p/litre or £4,620 on 2.1 million litres. Budgeting is not a precise science, but you get better at it with practice. The best farmers all budget.

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## Key points

1. The average total comparable cost of milk production in the year to 31 March 2019 was £2,411/cow compared to average milk income received of £2,267/cow.
2. The average total comparable cost of milk production in the year to 31 March 2020 is projected to be £2,218/cow against an average milk income received of £2,227/cow.
3. Milk prices have held up in 2018/2019 with an average milk price of 31.59p/litre, with all types of farming system able to produce milk profitably on a £/cow basis.
4. Milk income has remained stable, with the increase in price having been offset by the fall in yield as a result of the summer drought, however this impacted profitability further than expected with feed costs being £61/cow higher than projected. Cow numbers did not fall as projected, instead increasing by 1 head over the year, with increased feed purchases being used to bulk out rations.
5. Whilst the milk price is projected to be lower on a pence per litre basis in 2020, this is projected to be mitigated by increased yields, with milk income per cow falling by just £11/cow.
6. Non-milk income is likely to fall during 2019/2020, as depressed beef prices and short supplies of heifers affect the sales of cows and calves.
7. The main change in the cost of milk production for 2020 is projected to be feed decreasing by £234/cow. Crop growing conditions for summer 2019 have been good in most areas, leading to a plentiful supply of good quality forage, reducing the demand for concentrates and moist feeds to bulk out rations. Falling prices of domestic grain have been offset by the weak pound, increasing the cost of imported ingredients, although usage of bulk feed replacers will decline.
8. Variable costs also expected to decrease by £18/cow with straw prices having dropped back from the highs of 2018/2019, although the effect of this will be dampened by a rise in fertiliser costs.
9. Overall the comparable farm profit is projected to increase from £141/cow in 2019 to £269/cow in 2020.
10. For 2019/2020, cost of production is projected to decrease, which when combined with a stable milk income, sees comparable farm profit increase by £128/cow.
11. The total comparable cost of milk production for the top 10% of producers was £1,801/cow compared with £2,886/cow for the bottom 10%, a difference of £1,085/cow.
12. The top 10% of producers produced lower yields at 6,695 litres, spending £285/cow less on concentrates than the bottom 10%, although they did spend £34/cow more on purchased forage, indicating that it was more efficient to fill the feed gap with forage than concentrates following the shortfall from the drought.
13. Although removed from the top 10% vs bottom 10% statistics, organic systems consistently performed well in 2018/2019 with all producers achieving performance comparable with, or in excess of, the top 10% of conventional producers.

## The basis

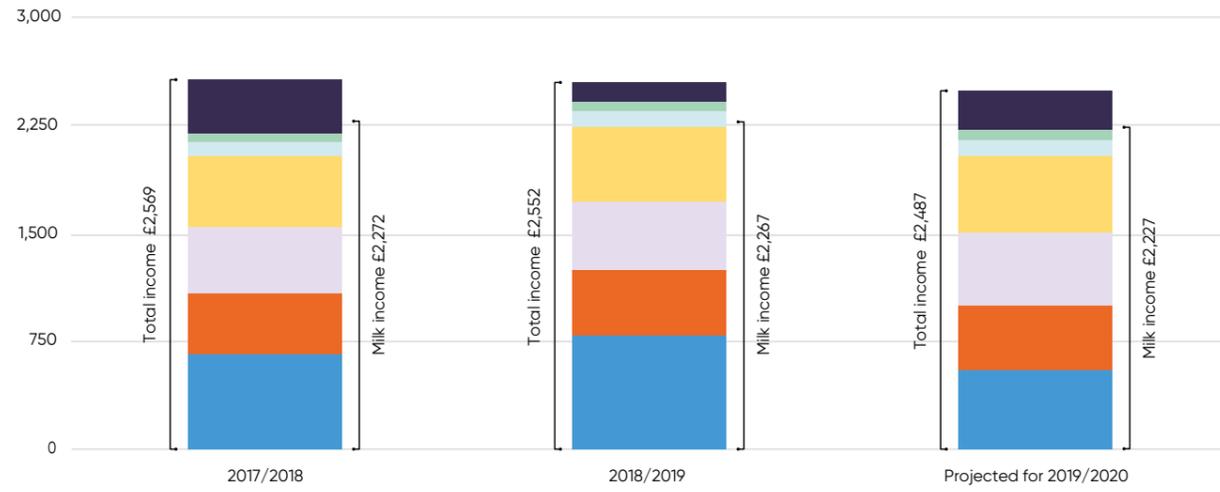
In order to understand and interpret the results of the survey, it is important to set out the basis upon which these figures have been produced, specifically:

1. The sample consists of Old Mill and The Farm Consultancy Group clients who derive their income mainly or solely from milk sales, across a variety of farming systems.
2. All farms have a 31 March year end.
3. In order to make the businesses comparable, rents, interest payments, drawings, tax and capital expenditure have been excluded from the figures and a labour charge of £30,000 has been included per full time partner/director. Basic payment scheme has also been excluded from the income. It should be noted that depreciation has been included in these figures.
4. The projection for 2020 has been calculated by looking at actual costs incurred for this financial year to date along with national trends.

## Whole sample - actual 2018/2019 results compared with 2019/2020 projected results

	2017/2018	2018/2019	Projected for 2019/2020	Difference
<b>Herd size</b>	283	284	284	0
<b>Yield per cow (litres)</b>	<b>7,421</b>	<b>7,278</b>	<b>7,400</b>	<b>122</b>
	<b>£/cow</b>	<b>£/cow</b>	<b>£/cow</b>	<b>£/cow</b>
<b>Milk income</b>	2,272	2,267	2,227	(40)
<b>Non-milk income</b>	297	285	260	(25)
<b>Total income</b>	<b>2,569</b>	<b>2,552</b>	<b>2,487</b>	<b>(65)</b>
<b>Purchased feed</b>	662	789	555	234
<b>Variable costs</b>	422	461	443	18
<b>Labour (paid + unpaid)</b>	463	470	511	(41)
<b>Power &amp; machinery</b>	490	519	525	(6)
<b>Administration</b>	100	106	113	(7)
<b>Property repairs</b>	49	66	71	(5)
<b>Cost of production</b>	<b>(2,186)</b>	<b>(2,411)</b>	<b>(2,218)</b>	<b>193</b>
<b>Comparable farm profit</b>	<b>383</b>	<b>141</b>	<b>269</b>	<b>128</b>

**“Cautious optimism over 2019/2020 profitability, as feed costs mitigate milk price falls.”**



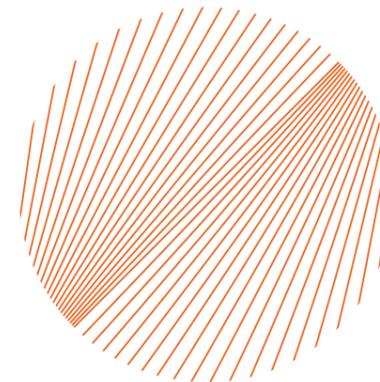
■ Comparable farm profit (CFP)    ■ Labour (paid + unpaid)  
■ Property repairs                    ■ Variable costs  
■ Administration                        ■ Purchased feed  
■ Power & machinery

## Key points

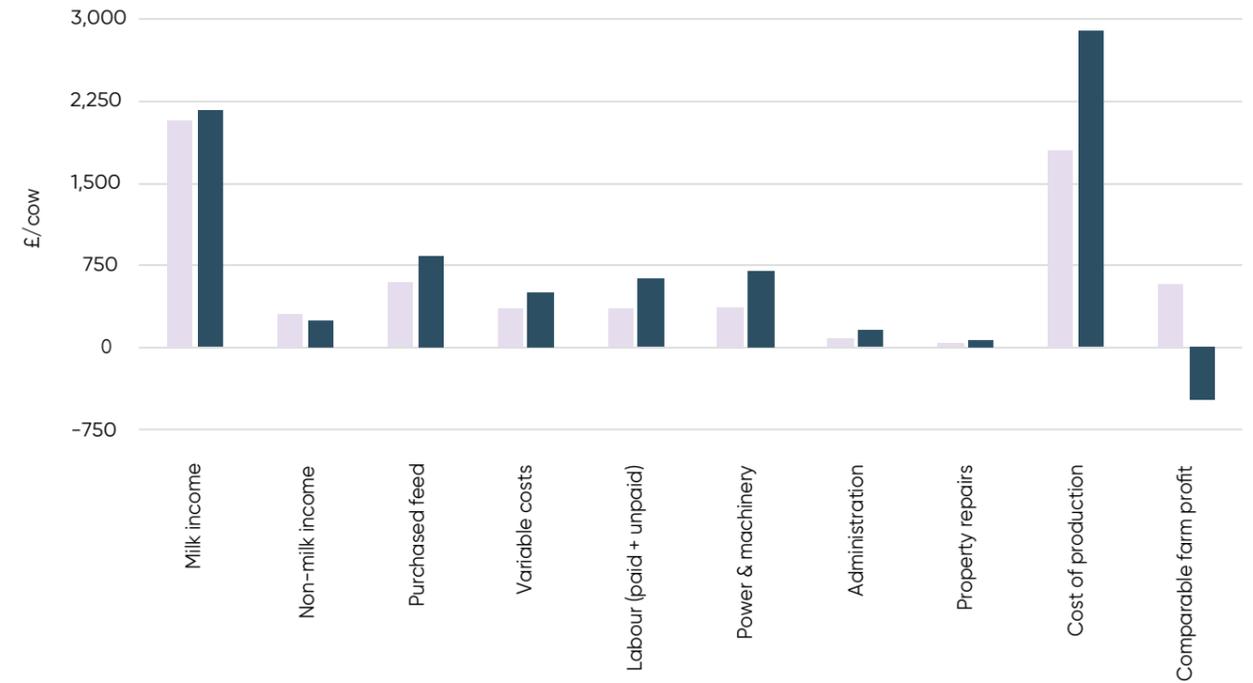
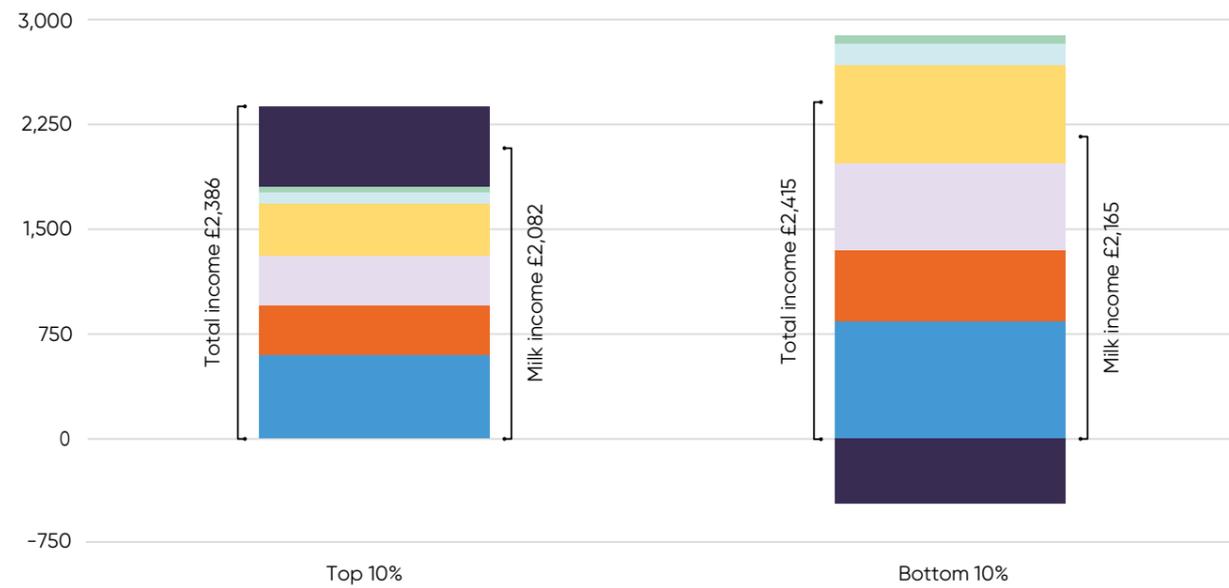
1. Herd size is expected to remain stable, with the tight supply of heifers being balanced out by plentiful supplies of forage.
2. The comparable farm profit for 2019/2020 is projected to return to levels seen in 2017/2018.
3. The top 10% of producers received £28/cow less income than the bottom 10%.
4. The cost of production is expected to decrease by £193/cow, or 3.00p/litre.

## Top 10% by retained profit per litre vs bottom 10% - 2018/2019

	Top 10%	Bottom 10%	Difference
<b>Herd size</b>	270	151	(119)
<b>Yield per cow (litres)</b>	<b>6,695</b>	<b>7,385</b>	<b>690</b>
	<b>£/cow</b>	<b>£/cow</b>	<b>£/cow</b>
<b>Milk income</b>	2,082	2,165	83
<b>Non-milk income</b>	304	250	(54)
<b>Total income</b>	<b>2,386</b>	<b>2,415</b>	<b>29</b>
<b>Purchased feed</b>	593	840	(247)
<b>Variable costs</b>	358	508	(150)
<b>Labour (paid + unpaid)</b>	353	628	(275)
<b>Power &amp; machinery</b>	375	696	(321)
<b>Administration</b>	86	149	(63)
<b>Property repairs</b>	36	65	(29)
<b>Cost of production</b>	<b>(1,801)</b>	<b>(2,886)</b>	<b>(1,085)</b>
<b>Comparable farm profit</b>	<b>585</b>	<b>(471)</b>	<b>(1,056)</b>



**“£1,085 difference in cost of keeping a dairy cow for a year between top 10% and bottom 10% of producers, with only £29 of extra income to cover this.”**

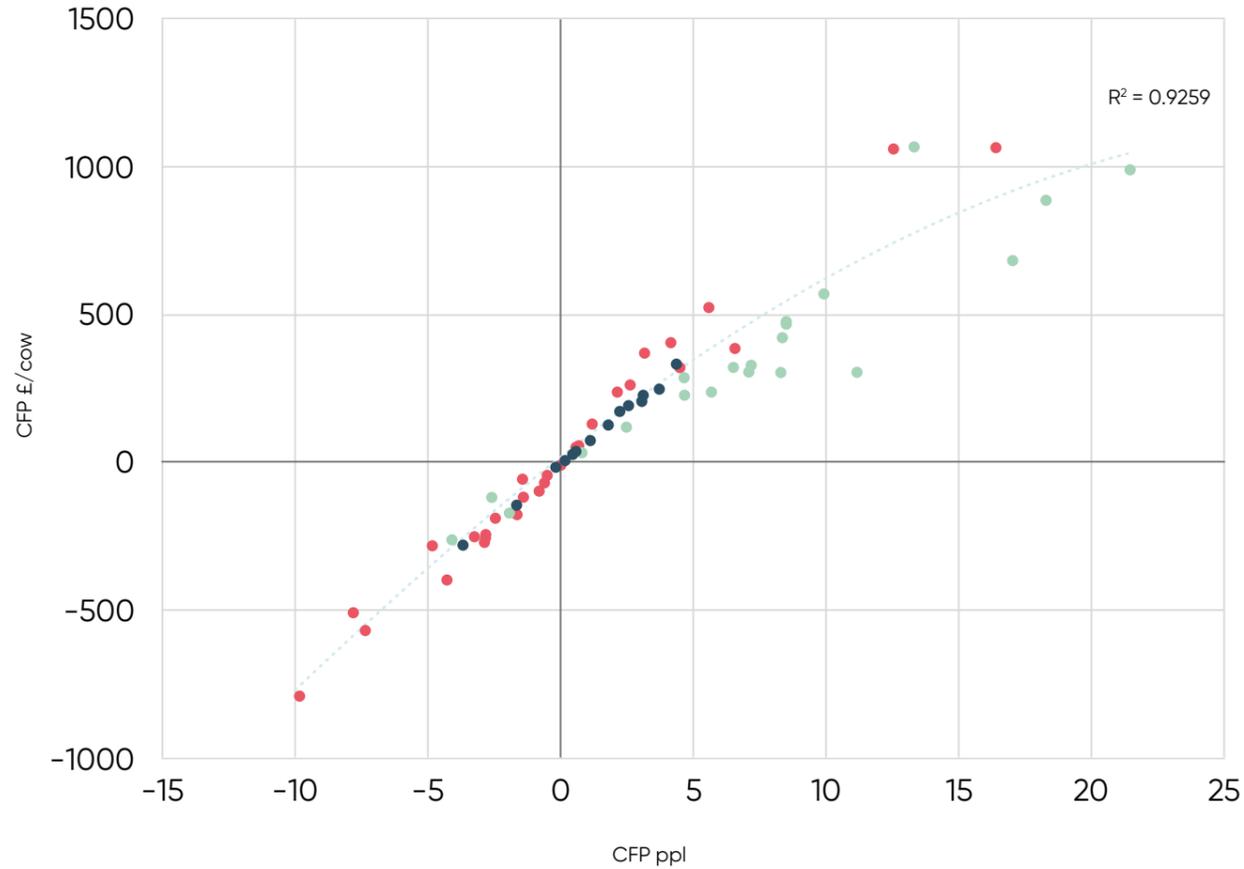


**“Adaptable farmers fared better over drought of 2018 as profitability was hit by dry weather.**

## Key points

1. The top 10% received £83/cow less for their milk, cutting back on marginal litres that were not economical to produce.
2. There was a difference of £1,085/cow in the costs of production between the top 10% and the bottom 10%, with the top 10% producing less milk and keeping control of costs.
3. All of the key cost categories are significantly higher for the bottom 10%.
4. The average comparable farm profit for the top 10% was 12.13p/litre compared with a loss of 6.46p/litre for the bottom 10%.
5. The top 10% has a slightly larger non-milk income than the bottom 10%, at £304/cow compared to £249/cow.
6. The average yield per cow is 690 litres lower in the top 10% than the bottom 10%, reflecting the top 10% adapting to the conditions and allowing yields to fall back.
7. The top 10% spent £285 less on concentrates, and £34 more on forage, indicating a choice to plug the gap in home produced forage with purchased forage rather than higher cost concentrates.
8. The top 10% has a herd on average of 119 head larger than the bottom 10%, showing that small herds were less able to adapt to market and climatic conditions.
9. There is a variety of systems and calving patterns in the top 10%, showing all can be profitable if done well with a keen eye on costs.
10. Aside from a single autumn block herd, the bottom 10% of herds calve all year round.

## Farm profitability by £/cow vs farm profitability by pence/litre shown by calving pattern



- All year round calving
- Spring calving
- Autumn calving

## Key points

1. There are profitable farms with all calving patterns, and also loss making farms on all farming systems.
2. The trendline shows that as CFP/litre increases, so does CFP/cow. However, this is not a linear relationship as yields fall when focusing on maximising margin/litre.
3. Spring calving herds do make the most profit on a pence/litre basis, showing their ability to produce cheap milk. This does insulate them against lower milk prices.
4. Spring calving herds tend to sit below the trendline for CFP/cow, indicating lower than average yields.
5. As yields climb, a lower margin is needed to maintain profit per cow. The best farms integrate careful monitoring of the costs of producing marginal litres to pre-empt these margins getting squeezed.
6. It has been a challenging year, and many farms are sitting around the break-even point, with a need to rebuild profitability next year.



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Financial experts, fuelling ambition



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**Financial experts, Old Mill, offer specialist farming accountancy, tax and financial planning services.**

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