Agri Matters

Supporting the Irish Agricultural Industry

Summer 2022

Welcome to our Summer 2022 Edition of Agri Matters

John Farrell

Much has changed since our last edition, which was only six short months ago. While input costs were starting to rise back then, very few could have predicted that they would reach the elevated levels they are at today. The situation has of course been further compounded by the Russian invasion of Ukraine, and the impact of the conflict has extended well beyond the agri sector. While feed and fertiliser prices are at record high levels, rising fuel, energy and food costs are hitting all of society.

Thankfully output prices in most agri sectors were on an upward trend in the first six months of the year, and we would expect margins in most sectors to be maintained at 2021 levels, which in itself was a reasonably good year, if things continue on the same trajectory.

However, as we know only too well, things can change, and change fast. Rising inflation, Covid-19, EU / UK relations which are close to an all-time low and the impending publication of the sector targets under the Government's Climate Action Plan are just some of the headwinds on the horizon.

In this edition of Agri Matters we feature a number of articles under the theme of sustainability. Tommy Boland, ASA vice president, reviews the forage focus event held in UCD earlier this year; Michael Murphy, one of our Agri Advisors shares insights from the latest AIB / Ipsos MRBI Agri survey on farmer attitudes and behaviours in relation to sustainability; and we have an article from Saltrock Dairy on their farm diversification story. We also have the first of our Signpost series articles from Siobhan Kavanagh of Teagasc.

We also have our usual agri review and outlook article, an economic outlook article from Daniel Noonan from the AIB Economic Research Unit, while Stephen Robb, a new addition to the Agri Sector Team in AIB, discusses some of the findings of our AIB / Ipsos MRBI Agri survey in relation to farmers investment intentions.

I hope you find this edition of Agri Matters of interest, and from all on the AIB Agri Team, we urge all our readers to farm safely.

John Farrell
AIB Agri Sector Team

Stephen Robb joins AIB Agri Sector Team

We are delighted to welcome Stephen Robb to the Agri Sector Team in AIB. Stephen is from a tillage farming background in Donegal. He completed his Food and Agribusiness Management undergraduate degree from UCD in 2015 and completed a Masters in Agricultural Innovation support from Teagasc/UCD, with a focus on bioenergy in 2017. He then joined the Irish Farmers Journal editorial team and over the next five years covered all aspects of the tillage, renewables and agri-innovation sector. He also led several projects exploring the feasibility of developing a farm-based anaerobic digestion industry in Ireland.

Despite some challenges facing the sector, farmer's confidence in investing on farm remains strong writes **Sector Specialist Stephen Robb.**

Stephen Robb

The agricultural sector is in a period of uncertainty. The aftermath of the global Covid-19 pandemic coupled with the ongoing impact of the Ukraine-Russia war continues to have significant consequences on all commodity prices. As a result, farmers have never faced into a year where input costs have risen as sharply in such a short space of time. Equally however, the rise in farm gate output prices will lend support to farmers in the short term.

Despite this uncertainty, farmers remain committed to their planned investments and this is reflected in the results of the AIB / Ipsos MRBI Agri-Market Pulse survey which were published in April of this year. As part of the survey over 1,000 farmers across Ireland were surveyed from November to March. The survey found that three in five Irish farmers plan to invest on their farms in the next three years, and on average, farmers plan to invest €53,400 which is down slightly from our last survey in 2019.

Investment plans

When we look at investment intentions over the next three years, the results are interesting. While three in five farmers plan to invest on their farms in the coming years, the highest percentage was tillage farmers, where 74% of respondents said they planned to make an investment on farm. Commercial dairy farmers came in a close second, with 71% saying they would invest at some stage in the next three years. 55% of sheep and 56% of cattle farmers said they had planned an investment.

How much will farmers invest?

The indications are that farmers intend to invest slightly less than when last surveyed in 2019. On average, farmers plan to invest €53,400 over the next three years, back from €66,900 in 2019. The majority of tillage and dairy farmers plan to invest between €30,000-€100,000, while the majority of cattle and sheep farmers plan to invest €30,000 or less.

How will they fund it?

Most respondents (61%) said they would use their own resources or sell stock to fund their investment, while 36% said they would avail of a bank loan. When we delve deeper into this, a higher proportion of those intending to invest €30,000 or less said they would use savings or sell stock to fund the investment. The majority of those who intend on investing over €100,000 said they would avail of a bank loan. Interestingly, the age profile of farmers had little impact on whether they would consider bank loans or not. Across three different age demographics (<40, 41-60 and 61+), the majority intend on using their own resources to fund the investment.

What will farmers fund with bank loans?

Bank loans tend to be tied into equipment and machinery upgrades or purchases. General upgrading of existing infrastructure also featured highly in investment plans for those intending to avail of bank finance. Again, investment to meet compliance requirements came in third in farmers bank finance investing intentions. Interestingly, changing farm systems came in second from the bottom in terms of bank finance intentions, which is possibly signalling a slowdown in dairy conversions.

Outlook

The rising costs of inputs, particularly feed and fertiliser were among the chief concerns for the majority of farmers over the next two-three years. This concern was indicatively higher amongst dairy farmers. Environmental/weather/climate change challenges came in second, ahead of farm profitability and margins.

Respondents saw increased output prices and new agri-environmental schemes as the biggest opportunities in agriculture over the coming years.

Head of Agri Sector at AIB, Donal Whelton takes a look back at the past six months in agriculture and asks what the next six has in store.

Donal Whelton

If the last six months has taught us anything, it's that things can change fast. In our last Agri Matters in December 2021, the country was in the midst of a post-pandemic recovery period and who would have known that we would be now facing the largest inflationary crisis in nearly 40 years.

The beginning of the Russian invasion of Ukraine in February signalled a new era of uncertainty for the world. While the economic, political and social upheaval of the Russian invasion is being felt most severely by the people of Ukraine, the conflict will have far reaching consequences for everyone over the coming years. Nearly five months into the conflict, the prices of energy, feed, fuel and most other key agri inputs remain at record highs.

Fertiliser prices alone soared by almost 178% in April compared to the same month last year according to the CSO. However, output prices have risen sharply across most sectors which will soften the impact to farmers' incomes this year. The uncertainty has resulted in some farmers changing farm management, with some opting to reduce fertiliser rates or reduce stock numbers to combat costs. We've also seen a number of new schemes introduced including the Tillage Incentive Scheme and the Fodder Support Scheme which are to help reduce the likelihood of any potential fodder shortages for winter 2022.

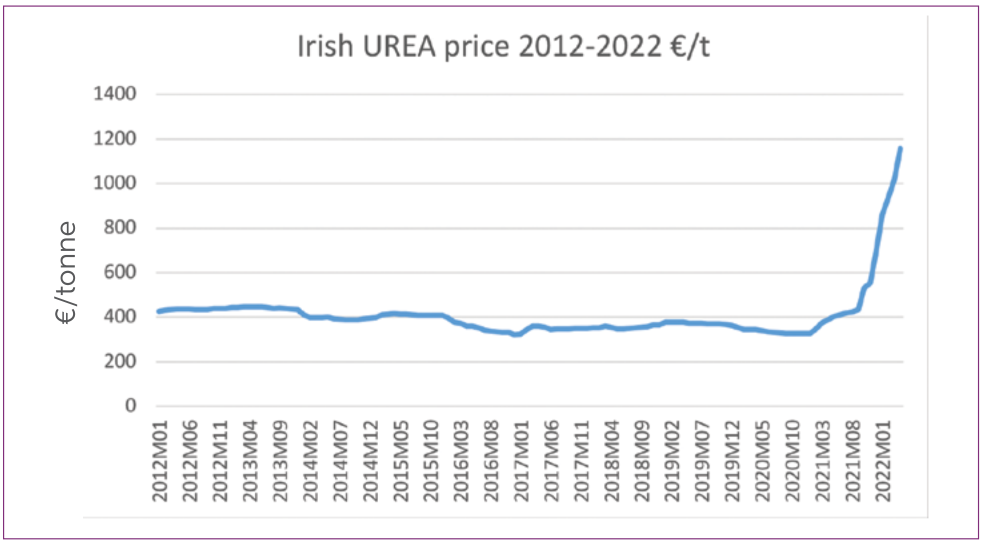
Brexit, which had taken a backseat as Europe grappled with Covid-19 and the Russian invasion, resurfaced again in June as the British Government introduced a bill to override parts of the Northern Ireland Protocol. The move once again adds yet more uncertainty, which is unwelcome for agri-food businesses. And this is all in the context of the sector inching closer to learning the emissions reduction target for agriculture as part of our obligations in the Climate Action Plan.

Beef

Irish production costs are dominated by purchased feed and fertiliser costs. Feed prices, motor fuel prices and particularly fertiliser prices are substantially higher this year. However, at the time of writing, beef prices are at historically high levels.

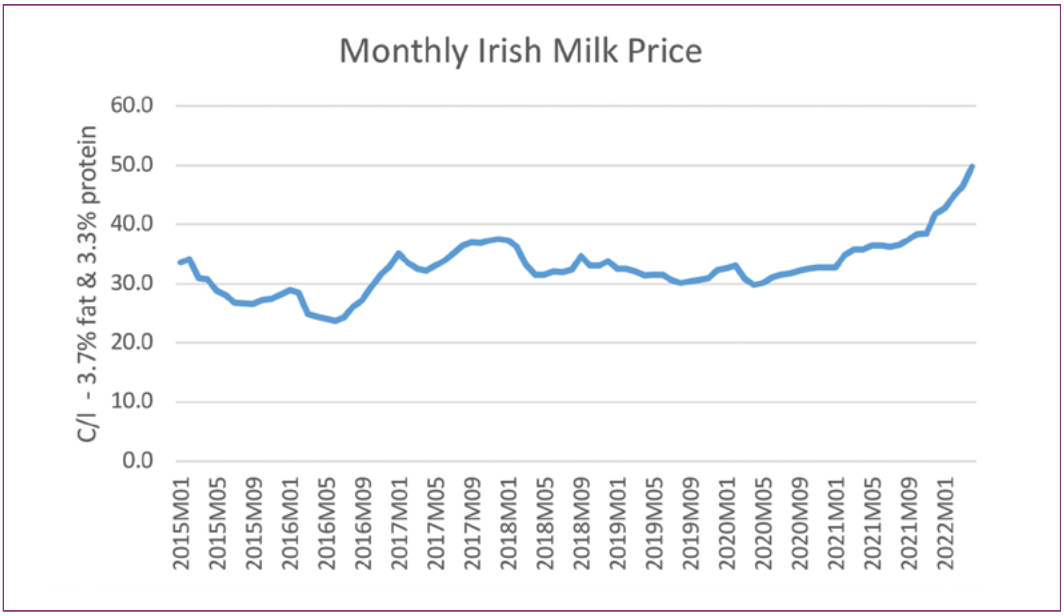
Base prices for R3 steers at the start of June were €5.25-5.30/kg with heifer prices 5-10c/kg higher (excluding bonuses). Prices in the corresponding

Figure 1: Irish UREA prices 2012-2022 €/t



Source: CSO

Figure 2: Monthly Irish milk prices 2015-2022



Source: CSO

week in 2021, for R3 steers were in the region of €4.05-€4.15/kg, an increase of close to 30%, however there has been some easing of prices in recent weeks.

These soaring prices were as a result of tightened supplies coupled with high demand for finished animals, as well as strong market conditions across Europe and the UK. EU beef supply is expected to be 0.5% lower in 2022, mainly due to a reduction in the size of herds.

However, higher prices along with multiple other inflationary pressures on household expenditure has led some European customers to put a greater focus on other proteins such as pigmeat and poultry, which remain more competitive in price terms. It remains to be seen if the same will happen in Ireland.

Cattle throughput (mid-June) is up 12% on the same period in 2021. This increase in throughput has been driven by prime cattle (+9%) and a strong increase in the cow throughput (+20%), the latter a likely impact of the rising production costs.

Brexit has once again come into sharp focus but it remains too early to tell what impact the UK Governments move to dismantle parts of the NI protocol will have on the sector.

Sheep

The sheep sector enjoyed a profitable year in 2021, helped by strong prices, and prices for the first 6 months of 2022 have remained strong. Lamb prices as of the start of June were running 45c/kg, or 6% above the 2021 price for the same period. Similar to the beef sector, prices have eased in recent weeks, but remain high by historical standards.

Sheep throughput is up about 15% on 2021 levels, driven primarily by the higher carryover of hoggets into this year.

Despite the strong prices this year to date, Teagasc estimate that 2022 margins in the sector will decline from the record levels in 2021. Higher lamb prices will be insufficient to cover the increased costs of production in 2022, as stated in their April outlook update.

Pigs

The pig sector has come under significant pressure over the past year due to rising feed and energy prices. Feed is the largest input in pig production, currently representing c.76% of the total cost of production. The invasion of Ukraine has resulted in further increases in feed and energy costs which continues to outstrip the increase in pigmeat prices.

Across the EU, pigmeat supply is declining due to the negative margins over the last 18 months. The same trend is seen in Ireland. Since the start of March, the national herd is estimated to have reduced by well over 10,000 sows. Composite feed prices rose €50/tonne in January 2022 and rose a further €70-80/tonne during April and May 2022. With feed prices up over 40% from 2021, margin over feed in Q1 2022 was the lowest in over 30 years.

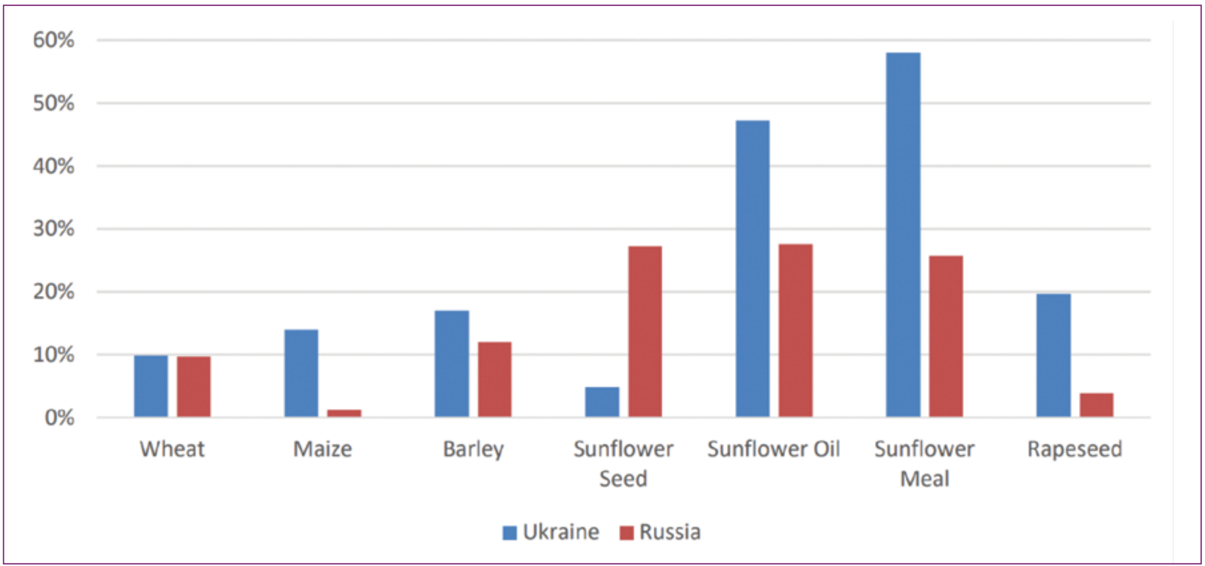
While at the time of writing, Irish prices are up 12% on the same period in 2021, they are 5c/kg below the EU average and well below the level that is required to cover production costs.

Dairy

Despite record levels of input costs, the outlook in dairy markets remain positive. This is partially driven by tight international milks supplies. Global milk production continued to record a year-on-year deficit in April, with total milk deliveries across the key producing countries down 1% year on year.

Dairy prices have strengthened considerably

Figure 3: Ukraine and Russia share of world export volume for various crop outputs



Source: Teagasc

throughout 2022, with prices expected to remain at elevated levels. Cheddar cheese is now trading at over €5,500 per tonne while over the last 12 months, butter has risen by 69%, skimmed milk powder by 62% and whole milk powder by 64%. Base milk prices have now exceeded 50c/l. If maintained, current prices should be sufficient to avoid a negative impact on dairy margins and income on most farms.

However, some producers have significant amounts of their output in fixed milk price contracts which are well below the current milk price. A number of processors have sought to support these customers, with top-ups to their contracted price.

No significant increase in milk production is envisaged in 2022 (with output down by 1.1% in the first five months of the year).

Tillage

Global crop demand and supply is experiencing the highest level of disruption in decades as a result of the Ukraine - Russian war. Ukraine and Russia are major exporters of grains and oilseeds and the likelihood of a reduced supply of grains and oilseeds on world markets has led to a sharp increase in international wheat, maize, barley, sunflower seed, soya bean and rapeseed markets.

As a result, green harvest prices offered in Ireland at the end of May came in at €340/t and €355/t for barley and wheat respectively. This compares to €210/t and €220/t at the same time last year. However, prices have come under pressure in recent weeks. At the time of writing, green barley harvest prices look like they will be in the region of €270/t.

However, total costs on the average tillage farm in 2022 will be up over 30% compared to 2021. The tillage industry remains particularly exposed to fertiliser price increases as it represents the largest single input on tillage crops.

Many tillage farmers chose to reduce chemical fertiliser rates but to date, crops remain in very good condition. 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 Tillage Incentive Scheme (TIS) was introduced to increase the national tillage area by 25,000ha. According to provisional crop area figures from the Department of Agriculture, Food and the Marine, the tillage area has increased by 19,791ha (6.1%) in 2022 compared with 2021 or 79% of the TIS target area.

Looking ahead

Looking ahead over the next six months, while the situation is still evolving, it's very likely that commodity prices will remain at elevated levels. This is still mainly driven by the ongoing conflict in Ukraine which appears likely to continue for some time.

There are growing fears that global economies could be entering into a period of stagflation or recession while the increase in prices and reduced availability of staple food ingredients and animal feeds is giving rise to concern about food security and will have the greatest impact on developing countries.

High farm gate prices will help mitigate some of the cost increases for 2022 but it's almost certain that we'll enter the 2023 season from a high-cost base. As a result, farmers could take a more conservative approach to planned spending for the coming year.

We're also entering a pivotal period for agriculture as the sectors 2030 emission reduction target is set and the recommendations from the Food Vision Dairy, Beef and Sheep Groups are finalised. As such, the next few months could play a key role in shaping the next decade of Irish agriculture.

Making the Move to AIB

Switching is not as complicated as you may think. It only takes three steps to switch your business current account to AIB.

Step 1 – Open your new current AIB account

For this, you will need proof of identity and residential address for one signatory, one director and all beneficial owners. Where relevant, you will also need a Certificate of Registration of the Business Name or Certificate of Incorporation plus details of beneficial owners, directors and company secretary. We may also need other documentation, including bank statements, audited business accounts or business plan.

Step 2 - Prepare to switch

Complete the Switching Form (available here), which authorises AIB and your old bank to switch your accounts.

Step 3 – Make the switch

AIB will contact your old bank to close your business current accounts. Your old bank must notify direct debit originators operating under SEPA of your new account details. We will also set up your active standing orders as soon as we receive the list from your old bank. (It's up to you and your direct debit originators to make sure all active direct debits have been transferred to your new AIB account.)

Once you've switched

Your new AIB Business Current Account will be up and running, and your account with your old bank will be closed.

To download our Switching Pack, request a call back or make an appointment in one of our 170 branches nationwide, visit **aib.ie/business**

Congratulations to Colin Doherty, Adare Co. Limerick who was crowned the overall Grassland Farmer of the Year 2022 at an awards ceremony in Teagasc Moorepark earlier this year. The Grassland Farmer of the Year awards are part of the Teagasc Grass10 campaign which is supported by AIB, the Department of Agriculture, Food and the Marine, Teagasc, FBD Insurance, Grassland Agro and the Irish Farmers Journal. Visit teagasc.ie/crops/grassland/grass10/ for further information.

ASA Vice President Tommy Boland reviews the recent ASA Forage Focus event held in Lyons Estate UCD in which delegates got to hear about two long term research projects which are taking place there.

Tommy Boland

A sunny morning on Wednesday April 27th saw over 70 attendees at the ASA Forage Focus event at UCD Lyons Farm. The attendees, who spanned all sectors of the Agri-Food industry, were welcomed to Lyons by ASA vice president Tommy Boland, UCD staff member and Associate Dean of Research, Innovation and Impact in the School of Agriculture and Food Science. ASA President George Ramsbottom officially opened the event and Donal Whelton, from event sponsors AIB, reiterated the support of AIB for the farming sector.

Delegates then visited two long term research projects, the UCD Lyons Systems Herd looking at the management and profitability of a high output pasture based dairy system, and the UCD Lyons Long-term grazing platform, which is currently operating a high-output dairy calf to beef system with a particular focus on the sward, animal, environmental and economic performance of clover and multispecies sward systems. After an informative two hours out on the research platforms, delegates got to enjoy some refreshments and networking prior to departing UCD Lyons Farm.

UCD Lyons Systems Herd

The Systems Herd Study has been ongoing at UCD's Lyons Farm since 2016, focussing on cow and grassland performance for a grazing system based on high output per cow. The main objective at the start of the project was to develop a profitable high output grass-based spring milk production system incorporating the most recent advances in dairy cow genetics, grassland management, nutrition, and management technologies.

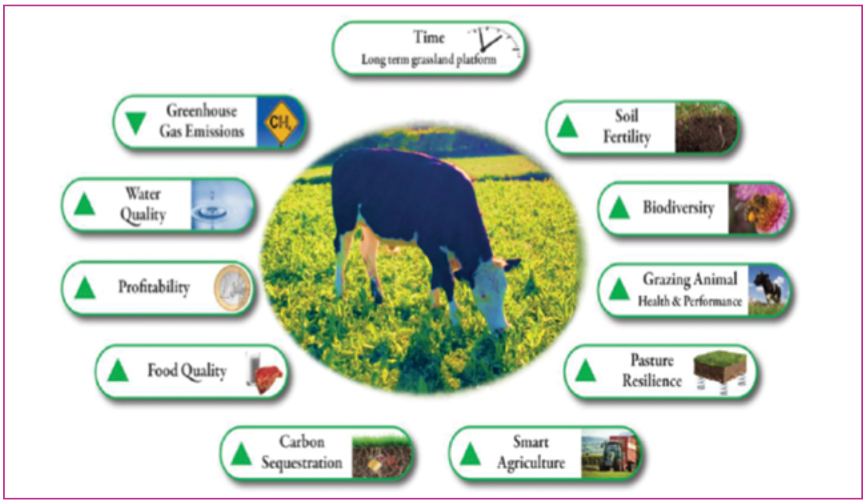
Targets for the system include milk output per cow of 625kg milk solids (kgs of fat and protein) and high fertility rates (75% six week in calf rate) and these targets have been achieved or exceeded in the last two years. Importantly, profitability figures compare favourably with an efficiently run lower input system. In 2021 milk solids yield was 629 kg/cow and 2057 kg/ha (Table 1).

Given the legally binding emission reduction targets for the dairy sector as set out in the Climate Action Act 2021, the focus for the project has now shifted more to environmental sustainability targets including nitrogen use, clover and multispecies grasslands, use of native Irish feed ingredients and low protein feeds for the cows. Results from the Systems Study have shown that chemical nitrogen can be reduced, the use of native ingredients such as oats can be

Table 1. Target and achieved performance of UCD Lyons System herd from 2016 to 2021

Parameter	Target	2016	2017	2018	2019	2020	2021
Average lactation days	305	301	305	298	302	305	298
Yield kg/cow (305d)	7,750	7,441	7,548	6,939	7,541	7,771	7,744
Milk solids kg/cow (305d)	625	592	602	554	597	621	630
Yield kg/cow (actual)	7,750	7,407	7,466	6,790	7,381	7,503	7,733
Milk solids kg/cow (actual)	625	588	595	544	586	606	629
Milk solids kg/ha MP (actual)	2,125	1,940	2,023	1,850	1,940	1,980	2,057
Milk solids kg/ha whole farm (actual)	1,500	1,294	1,428	1,306	1,371	1,413	1,468

Figure 1. Multidisciplinary research approach of the UCD Lyons Long-term grazing platform.



increased, and the environmental footprint of Irish dairy production can be improved without impacting negatively on important production metrics such as milk production.

UCD Lyons long-term grazing platform

The UCD Lyons long-term grazing platform (LTGP), Figure 1, is a globally unique facility supporting the long term assessment of the impacts of sward type, on soil, sward, animal and environmental variables.

Established in 2019 the UCD Lyons LTGP consists of 24 hectares, divided into 12 x 2ha paddocks, with each two hectare paddock hydrologically isolated from the surrounding land mass. This means that any drainage water leaving an individual two-hectare paddock can be measured and analysed for its nutrient composition. The LTGP is currently supporting two DAFM funded research projects called SMARTSWARD (twitter handle @smartsward1) and FASTEN.

During the ASA Forage Focus event, delegates heard from the SMARTSWARD research team about the latest results emanating from the LTGP. The study underway is investigating the impact of three sward types (perennial ryegrass only, a perennial ryegrass and white clover sward and a six species multispecies sward) on sward and animal performance in a dairy calf to beef production system with Hereford steers being the animal of choice.

Swards containing legumes are fertilised at a rate of 90kg N/ha per annum with no fertiliser nitrogen application taking place after the first week of May, while the perennial ryegrass sward receives 210kg N/ha per annum. The beef cattle system is operated as a leader follower system, with calves entering the system in June each year at approximately 15 weeks of age, with animals slaughtered from the shed at approximately 22 months of age. Each sward type is stocked at 2.5 livestock units per hectare with 20 calves and 20 finishers per sward type. When housed indoors, animals receive silage produced from their respective treatments.

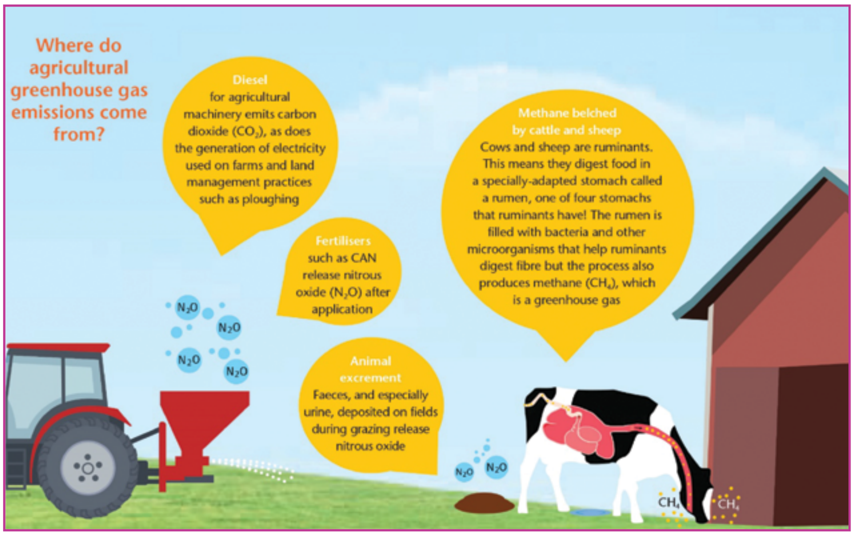
Animals offered either the perennial ryegrass plus white clover treatment, or the multispecies sward treatment achieved accelerated growth rates and a reduced period to slaughter compared to animals grazing the perennial ryegrass monoculture.

The ASA would like to thank our sponsors AIB and all staff at UCD Lyons Farm for ensuring the success of the event.

Congratulations to Cotter Agritech who were named the AIB and Yield Lab AgTech Start-up 2022, as part of the AgTechUCD Innovation Centre inaugural accelerator programme dedicated to early-stage AgTech and FoodTech start-up companies. Cotter Agritech, a Limerick-based start-up, was founded by brothers Jack and Nick Cotter, with a vision of dramatically reducing chemical use in agriculture while improving productivity and profitability. See ucd.ie/innovation/about-agtechucd/ for further information.

In the first of our Signpost Series articles, **Siobhan Kavanagh** from Teagasc looks at the main Green House Gases relevant to the agricultural sector and where they come from.

Siobhan Kavanagh



What is climate change?

Climate is the average weather in a place over many years. Climate change is a shift in those average conditions. It is driven predominately by an increase in global temperatures caused by the emission of greenhouse gases (GHGs) from human activities.

What are the main GHGs relevant to agriculture?

There are three main GHGs:

- carbon dioxide (CO2);
- methane (CH4); and,
- nitrous oxide (N2O).

While CO2 is released mostly from burning fossil fuels, for agriculture, the main GHGs are methane (65%) and nitrous oxide (30%).

In Ireland, agriculture currently contributes 37% of the total GHGs emitted. GHG emissions on Irish farms come primarily from:

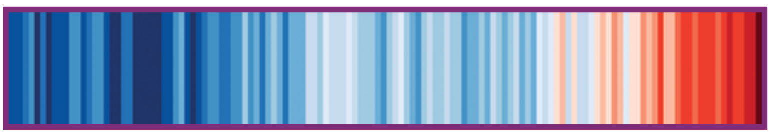
- methane belched by cattle and sheep;
- fertiliser use;
- animal excrement; and,
- diesel.

How do the GHGs cause an increase in temperature?

GHGs act like a blanket around the Earth. That's because heat from the sun reflects off the Earth and is trapped by layers of these gases in the atmosphere. Without this, the Earth would be frozen. Increased amounts of GHGs in the atmosphere in recent decades have meant that more heat is trapped within the atmosphere, leading to the so-called greenhouse effect. This has caused global temperatures to rise, which causes climate change.

Temperature change in Ireland over the last 120 years

Below is a visual representation of the change in temperature in Ireland as measured over the past 120 years. Each stripe represents the average temperature over a year. The blue indicates cooler than average annual averages, and red warmer than average. Similar to most nations, the warming being observed for Ireland has intensified in the past two decades. Ireland's average air temperature in 2019 was around 10.5°C, which was 0.9°C above the 1961-1981 long-term average.



Temperature warming stripes (1901-2020). (Source: Met Eireann, 2021.)

Saltrock Dairy – lessons learned along a farm diversification journey

Paul and Catherine Kinsella run a dairy farm in Tara Hill, Gorey, Co Wexford. The Kinsella's made the decision in 2013 to diversify their family farm and move from sucklers to dairy. It was a big decision, but with the benefit of hindsight, it is one that has paid off for them. They initially started with 40 cows and they secured a contract to supply Strathroy Dairies. The initial transition was positive so Paul and Catherine decided to continue to grow numbers to a point where they now milk 80 cows.

Whilst the Kinsella's were delighted with the success of the transition from beef to dairy, they also have a passion to evolve and improve their farm's sustainability. This created the need to go on another diversification journey.

Catherine was keen on the idea of selling their own milk locally, and came up with the idea of selling milk from mobile vending machines based on their farm and busy locations around the Gorey area. Essentially Paul and Catherine wanted to be able to give customers the chance to source their milk (fully pasteurised) straight from the farm and into their fridge.

Up to this point Catherine was working off farm as a nurse, so it was a big decision when she decided to take time out to concentrate on the new business venture, Saltrock Dairy.

Paul and Catherine have always been very interested in sustainability and producing a high quality product. The vending machine was a great way of eliminating the need for Tetra Packs with the proposed plan of reverting to re-usable bottles. It was also a simple way of reducing the food miles on their milk produce.

Sourced from Unison Engineering in Limerick, the mobile self-service vending unit can hold 200l of milk. Customers can bring their own bottles or purchase branded "Saltrock" bottles which they can re-use each week. The unit is located at the Gorey Farmers Market every Saturday as well as other busy footfall locations. Customers can also go directly to the farm where the unit is based from Sunday – Tuesday. Saltrock also offer the option of flavoured milk which is a hit with the younger customers.

Catherine and Paul have been blown away by the amount of local support and loyal repeat customers that they see week in week out. They feel that customers really understand the importance of trying to cut down on plastics and also getting locally produced high quality milk.

Lessons/insights along the way

Like any start-up, this new venture took a lot of blood, sweat and tears to get off the ground. Paul and Catherine admit to having underestimated the amount of time and energy that was required to set up and establish the business. Catherine decided to take a career break from her nursing career to fully immerse herself and focus on establishing the business. This gave her the time and space to allow her to liaise with the many and varied stakeholders to drum up the financial and technical support to bring the business to the next level. Support in the early days came from far and wide but Catherine specifically called out the Department of Agriculture, Food and the Marine, the Local Enterprise Office, Doyle Kelly Accountants as well as many others.

Paul and Catherine also utilised the skills of their own children to promote the business on social media platforms such as Facebook and Instagram – Catherine advised that she had initially underestimated the impact that social media can have on a business. Her own children were a great asset as they understood what would work and bring customers to the site.

Plans for the future

The initial plans are to increase the volume and the protein levels of the milk. This will include some changes to the breeding of replacement cows in the Saltrock Farm herd and ongoing grassland management.

The bigger plans include expanding the units into local coffee shops and hotels. This would involve setting up smaller branded units within the shops and hotels. They are also looking at providing farm experiences for individuals or groups, expanding their offering of local produce for sale on site and low impact hospitality.

Advice to others who are thinking of doing something similar

The main message from Paul and Catherine is not to be afraid to try something new on your farm. Give it a go and you might be surprised with the outcome. Let the business grow organically and make sure to keep a close eye on finances – cashflow is key!

The above article was prepared in conjunction with Rachael Dagg and Roisin Clancy, AIB Gorey.

Daniel Noonan from the AIB Economic Research Unit, discusses the strong start to 2022 for the Irish economy.

Daniel Noonan

The Irish economy has come through the Covid crisis in good shape. Very substantial fiscal support amounting to circa 20% of national income played a key role in limiting the damage to the economy. Ireland has also benefitted from the favourable product mix in its large multinational sector, with a large presence of pharma, medical, ICT and financial services companies, which have seen very strong export growth over the past two years. This saw exports rise by 16.6% last year. CSO data show that GDP increased by 13.5% in 2021, with GNP increasing by 11.5%. Modified final domestic demand, a better measure of the domestic economy's performance expanded by 6.5% last year, having contracted by 4.9% in 2020.

The country found itself still dealing with a number of Covid restrictions at the start of the first quarter in 2022. However, the Omicron Covid variant proved to be much less impactful on activity generally than earlier strains of the virus. Furthermore, the removal of all Covid related restrictions as the first three months of the year progressed has meant the economy has enjoyed a strong start to 2022. Indeed, GDP rose by 10.8% in the first quarter.

The strength of the economy this year is best exemplified by data on tax receipts and the labour market. Tax revenues have been very buoyant, rising by over 27% to the end of May versus last year. Overall, an Exchequer surplus of €1.4bn was recorded to the end of May, meaning on a 12-month rolling basis, the Exchequer accounts were broadly in balance. Meanwhile, the unemployment rate has fallen back below its pre-pandemic level of 4.8%. In May it declined to 4.7%. Unlike in many other economies, both the labour force and employment have risen well above pre-Covid levels. Both metrics have increased by close to 7% on their levels in the first quarter of 2020, a highly impressive performance given what the economy has been through over the past two years.

Purchasing Managers' Index (PMI) survey data for the services and manufacturing sectors indicate that the economy has continued to perform strongly so far in the second quarter. Although, capacity constraints and higher costs (both input and output) remained evident across both sectors.

Indeed, the latest CSO inflation data, showed Irish inflation continuing to surge higher, in keeping with the trend from the main advanced economies, against the backdrop of higher energy costs and supply shortages/disruptions, which have been amplified by the war in Ukraine. Inflation is currently running around 8-9% in the Eurozone, the US and the UK, respectively. Headline Irish HICP inflation rose by 8.2% in May. Higher energy and transport costs have been the main source of upward pressure in recent months, but there are signs inflation is becoming more broad based. It is also important to note that further increases in prices appear likely over the summer months.

Although, the Irish economy has enjoyed a robust start to the year, the global macroeconomic backdrop has deteriorated. Growth has been muted in the Eurozone, and appears to have stagnated in the UK, although, the US economy appears to have held up relatively well so far. The added supply shock from the war in Ukraine and stringent lockdowns in China, at a time when supply chains were already stretched has led to increased inflationary pressures through higher energy and commodity prices. Oil for example, has been well above $100 per barrel for most of the year. Central banks have turned increasingly hawkish in the face of surging inflation. The US Federal Reserve and the Bank of England have already hiked rates aggressively this year. The ECB also appears ready to do so over the second half of the year. As a result of the elevated levels of inflation and tighter monetary policy, growth forecasts have been cut for most of the advanced economies this year and next.

The war in Ukraine is also having a direct impact on global food supplies. Between them, Russia and Ukraine produce around an eighth of total food traded worldwide. They are the world's first and fifth largest exporters of wheat, and they also provide a lot of grain used for animal feed. Food exports from both countries has been curtailed since the conflict has ignited. Russia has blockaded the port of Odessa making it more difficult for Ukraine to ship its produce abroad, while Russian food exports have been hampered by the indirect effect of sanctions. Wheat prices are up by around 40% year to date currently.

The war is making farming inputs more expensive as well. Farms run on fuel, of which Russia is the world's second biggest exporter of oil and its biggest exporter of natural gas. Prices of both have shot higher in 2022. Of the three main types of industrial fertiliser, Russia is the largest exporter of nitrogen-based fertilisers, the second largest of potash, and the third largest of phosphates. Prices of all three types have increased markedly since the start of the year. In Ireland, data from the CSO indicate fertiliser prices were up 178% on a year-on-year basis in April.

Other CSO data shows that farm incomes grew by a robust 18.9% in 2021. Looking at the key underlying trends from last year, milk output rose by 23.2%, aided by an increase in volumes and prices. In terms of livestock, there were strong performances in the beef and sheep meat sectors. Elsewhere, crop production rose by circa 9%, in large part due to a significant rebound in cereal output.

The agricultural sector has been boosted this year by the easing of Covid restrictions. For example, the reopening of food services, both domestically and internationally, has seen increased demand for produce such as beef. Meantime, as previously mentioned, the sector is also experiencing significant inflationary conditions. The latest data on agricultural prices, available for April, show input prices rising by around 40% on a year-on-year basis, with higher fertiliser, feed and energy prices. Output prices were up by 24%, driven by higher milk, grain and cattle prices.

The outlook for the agricultural sector over the next 12 months, much like the wider economy, will depend on the evolution of inflation. The 'Brexit' risk also remains, with tensions between the EU and UK over the Northern Ireland protocol. The UK introduced domestic legislation ahead of potential unilateral action to amend the Protocol recently. The European Commission has resumed legal action against the UK in retaliation. In a worst case scenario, tensions could put the Free Trade Agreement at risk, although this would involve a 12-month notice period.

However, while risks remain, there are also elements in place to underpin growth not only in the overall Irish economy, but the agricultural sector also. Some of the large scale build-up of private sector savings that have accumulated during the pandemic can be expected to be run-down, adding fuel to the recovery in the domestic economy.

Both fiscal and monetary policy remains supportive of growth and the global economy has also recovered strongly, which augurs well for export orientated industries such as the Agri-food sector.

Launching the Irish Grassland Association Dairy Summer Tour (IGA DST) for 2022 which will take place on Tuesday the 19th of July were Tom Walsh, host farmer; Christy Watson, Irish Grassland Association President; John Farrell, Agri Sector Team, AIB; Denis Cody, host farmer and Ed Payne, farmer and IGA DST Chairperson. The theme of this year's tour is 'doing the basics right to fulfil potential'. See irishgrassland.ie for further event details.

Michael Murphy, AIB Agri Advisor shares some insights on farmer attitudes and behaviours in relation to sustainability from a recent AIB / Ipsos MRBI Agri survey.

Micheal Murphy, AIB Agri Advisor

The results of the latest AIB / Ipsos MRBI Agri-Market Pulse survey which were presented in April this year, provided an insight into farmer attitudes and behaviours on a range of items, including sustainability. The survey of over 1,000 farmers took place between November 2021 and March 2022.

The Irish Government's Climate Action Plan sets a framework for delivering the Government's target of a 51% reduction (relative to 2018) in greenhouse gas emissions by 2030. While discussions are ongoing to finalise individual sector targets, the agri sector will be tasked with reducing emissions by somewhere between 22 and 30%, the exact figure is expected to be published in the coming months. Whatever the final figure is, there is no doubt that the Climate Action Plan sector target will play a key role in influencing Irish agriculture into the future.

Indeed, it is fair to say that the Climate Action and Low Carbon Development Bill is already playing a significant part in decision making for farm investments. From land purchase to machinery, and infrastructure improvements, sustainability is now a key consideration, not only for farmers, but for other stakeholders, including financial institutions.

Farmers view of Sustainability

In terms of sustainability, 67% of farmers view their own farm as economically sustainable, while 70% and 71% of farmers view their own farms as socially and environmentally sustainable respectively.

Almost 9 in 10 dairy farmers (88%) and 78% of tillage farmers view their farms as economically sustainable, while the corresponding figure on cattle farms was 63% and 56% on sheep farms. It was interesting that a higher number of tillage, beef and sheep farmers thought their own farms were more environmentally sustainable than economically sustainable.

When asked about the importance of sustainability in their daily farm life, over 75% of the respondents considered it 'important' or 'very important' with a very limited number of farmers considering it 'not important at all'.

When farmers were asked about their understanding of the Climate Action and Low Carbon Development Bill and Net Zero emissions it was evident that there is much to do. 15% of farmers indicated they understood a lot, while 62% of farmers said they understood a little. Almost one quarter of farmers indicated they didn't understand or were not sure about it. The results demonstrate a need for farming organisations and representative bodies to increase awareness and understanding of this topic, given the impending sector targets.

CAP 2023-2027

Over half of the farmers (55%) surveyed remain undecided regarding participating in the new eco-schemes that will be part of the CAP 2023-2027 programme. While 28% indicated they intend to participate at this juncture, the main reasons sighted included; better for the environment; increase income/funding; benefit to the farm and to get/maintain CAP payment. Of the 17% that indicated they would not be participating, some of the main reasons included not seeing any benefit from it/not yet; being too old/retiring; don't know enough/need to research; too much extra work/red tape and too costly/not viable.

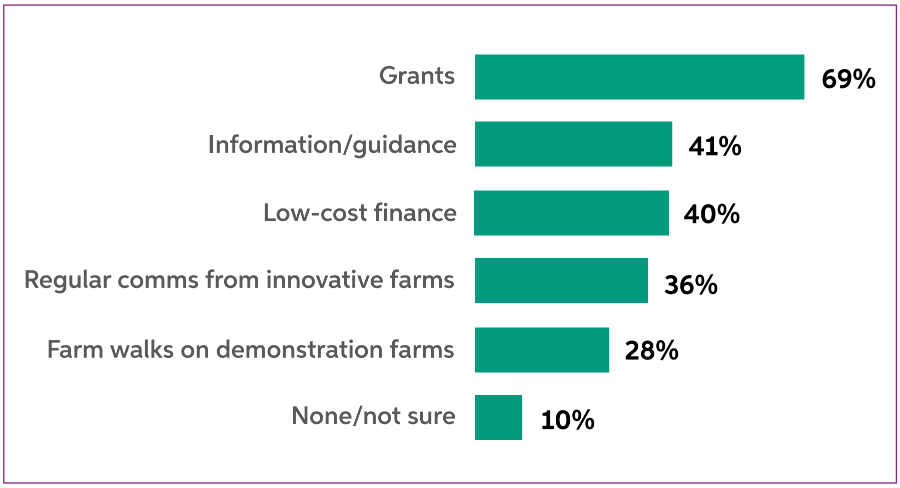
Impact on Farm Income

Over 60% of farmers believe that sustainability would be 'income enhancing', with no great variation between the different farm sectors. When asked about the supports to improve environmental sustainability, as can be seen below, farmers view grants as the most beneficial support. Information/guidance and low cost finance were the two other top items identified to help improve a farm's environmental sustainability.

Ways that farmers are improving environmental sustainability

Farmers were asked about the measures currently employed on their own farms to improve its environmental sustainability. The most popular measures include the introduction/maintenance

Figure 1: Most beneficial information and supports to improve environmental sustainability



Source: AIB / Ipsos MRBI Agri Market Research, April 2022

of hedgerows, increasing the proportion of slurry spreading in the spring, extending the grazing season, use of low emission slurry spreading and measures to improve water quality. Over 40% of farmers identified the incorporation of clover into swards and the use of protected urea.

When asked about measures that farmers were prepared to introduce to improve their environmental sustainability efforts in the future, the main measures identified include the incorporation of clover, extension of the grazing season, more slurry in the spring, use of protected urea, measures to improve water quality and solar panels.

Looking to the future

As noted above, most respondents are of the view that their farms are sustainable from an economic, social and environmental perspective. Sustainability is very important in the daily life of most farmers and many farmers see it as income enhancing.

It is also very positive to see an improvement in farmer behaviour (since our last survey in 2019) in terms of adopting on-farm measures to improve their environmental sustainability, and indeed their willingness to introduce new measures to enhance their sustainability further.

There is no doubt that the sector will have a significant road to travel in the years ahead to meet our emission reduction targets. However, as the research clearly demonstrates, many farmers are already well down the road on their journeys.

AIB will continue to work with our farming customers in supporting them through the transition to net zero.

The AIB/SETU Rural Sustainability awards in Sustainable Farm Management and Agribusiness were presented to the winning students in April. Pictured at the awards ceremony are (L to R) Eamon Nolan Lecturer, South East Technological University; Liam Phelan, Agri Advisor, AIB; Peter Cogan, runner-up; Maree Lyng, AIB Hub Manager Wexford; Seán Gallagher, overall winner; Sean Moloney, runner-up; Gaye O'Connell, Head of AIB Wexford/Wicklow/Carlow and Stephen Whelan Programme Director, South East Technological University.
Picture: Ger Hore Photo

South East Technological University held its inaugural award ceremony for students from the Departments of Science and Land Science at the Waterford Campus in June. Pictured is Craig Buttimer, Cork, winner of the Land Management (Agriculture), Final Year Project Award, sponsored by AIB receiving his award from Kelley Lyons, AIB Agri Advisor.
Picture: Patrick Browne

AIB Agri Team

We have a dedicated Agri Advisor Team based around the country who support the needs of our farming customers.

We are from farming backgrounds ourselves, so we have a practical understanding of the sector and bring a wealth of experience when looking at farm finance. Our team provide strong, objective farm financial and technical analysis on individual farm cases as needed.

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