PRESS INFORMATION from

The Dairy Group

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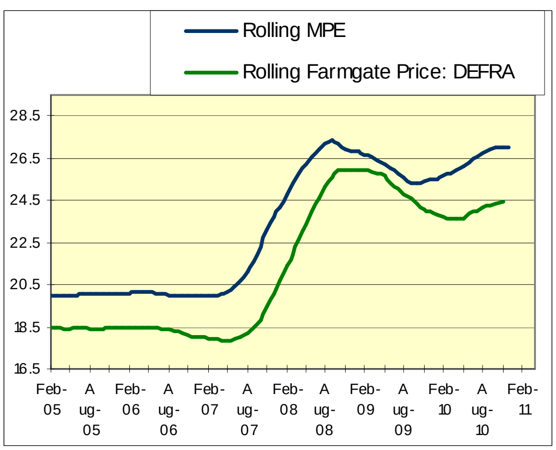
The Market Price Equivalent (MPE) November 2010

***By Nick-Holt Martyn, Director,* The Dairy Group**

Half Year Figures Bow to Retailer Pressure

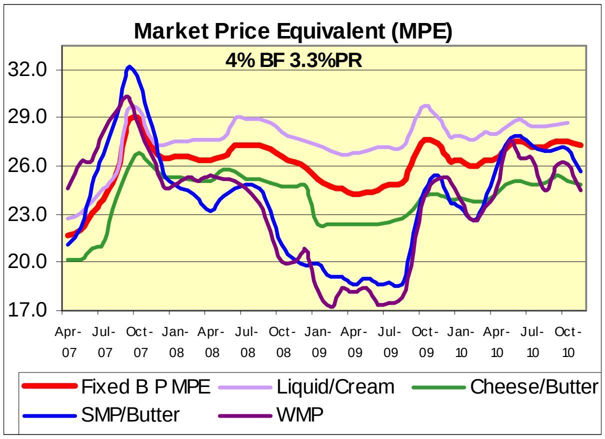
"The release of half year figures by both Wiseman Dairies and Dairy Crest indicate the pressure being felt in the processing sector from the recent price war and changes in contract volumes" says Nick Holt-Martyn, Director of The Dairy Group. He goes on to say "the pursuit of volume at the expense of margin as indicated by Wiseman should ring warning bells for farmers who know all about the difficulty of selling more for less! Turnover growth lagging behind volume growth indicates a decline in average sale values which looks set to deteriorate further in the coming months if DairyCo's suggested 10% reduction in wholesale values comes true. Since a peak in 2008-9 Wiseman's average sale price has fallen by 6% and their profit margin has fallen by 20%, so the full years figures are unlikely to look much better.

He goes on to say "Dairy Crest has a mixed portfolio business making it harder to pick apart, but their liquid business has seen static turnover and a 22% decline in margin while the cheese business has seen a recovery in margin to 11.5%. This suggests that the troubled area is the liquid sector which has been subject to intense retailer pressure in 2010, with the result that if/when the price war ends the retailers will have increased their margins at the expense of everybody else in the supply chain.

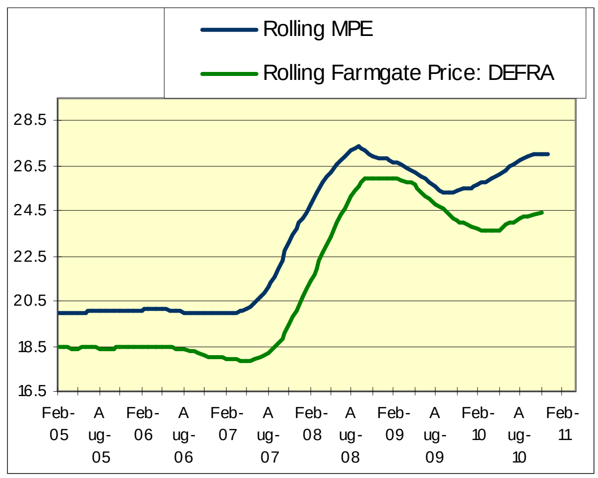


As the graph shows farmers are the real losers as the long standing relationship between wholesale market returns and farm gate price, which stretches back for most of the last 10 years is broken, the gap has widened and there seems little prospect for the usual narrowing to occur. Dedicated supply chains may well be the answer for the PLCs, but there will always be a proportion of dairy farmers on much lower milk prices who will struggle to be profitable, especially with increasing production costs and the prospect of NVZ compliance infrastructure investment in 2011."

Market Prices



UK Commodity markets have slipped as Sterling firms on the back of Eurozone worries together with a softening of prices. There is a small fall in the cream price, but a much bigger fall in butter which suggests values for butterfat may be weaker in the New Year, but weakness in SMP, WMP is only marginally reflected in whey values. The Northern Ireland auction price slips 2.23ppl to 26.77ppl which is below last year and indicates a decline in demand and value. The Market Price Equivalent (MPE) slips to 27.32ppl, up 0.05ppl since May 2010 but edging below last year. Most of the price indices have slipped back as production in the southern hemisphere hits peak and the production trough is passed in the EU. The prognosis for 2011 remains less favourable, but a harsh EU winter may be helpful.



Farm-gate Prices

The drip of milk price rises has faltered, but the gap between market returns and farm gate prices still hasn't narrowed, indicating further farm gate price rises are over due. The gap between market returns and the farm gate price is resolutely 2.5 ppl, 0.7 ppl above the 10 year average. With production cost rising from this winter's feed bill and next season's fertiliser purchases, dairy margins will come under increased pressure as the winter progresses. At least one retailer has recognised the increased cost of production, with Sainsbury's suppliers to receive an extra 0.6ppl from 1st December. Compliance with NVZ regulations loom on the horizon for some and there is a risk of an increase in herd retirements during 2011 if dairy farmers decide not to continue milk production.

- Ends -

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- **Visit www.thedairygroup.co.uk**
- The MPE is calculated from the weighted actual wholesale prices for liquid milk, cheese, butter and powders after the normal processing costs. The MPE accounts for 90% of the UK market utilisation of milk. The MPE is calculated from wholesale market values, whereas IMPE (Intervention Milk Price Equivalent) accounts for just 11% of UK milk production and is effectively determined by the Council of Ministers and the prevailing exchange rate. The MPE provides a far superior indicator of the wholesale value of milk and therefore the likely market returns available to the dairy farmer.