

BUZZ-ONOMICS

A CLEAR AND ACCESSIBLE GUIDE
TO THE STORIES THAT MATTER



This week brought the news that the number of dairy farmers in the UK has fallen below 7,000 for the first time. For A Level Economics students the dairy industry is a classic case study. Characterised by large powerful supermarkets who have the ability to push down the price they are paying to dairy farmers the risk is that they will do this to such an extent that dairy farmers are forced out of business. The power to set price is called monopsony power.

The chart middle right suggests there is reason to be concerned. Super markets compete keenly on price and milk is a staple item. Ordinarily some consumers may care about suppliers being paid a fair price but in the current cost of living crisis these concerns may be given less weight.

But are other factors also at play? One factor is certainly the increase in costs associated with dairy farming. The war with Iran has driven up the cost of red diesel (used to run farm machinery) and the cost of fertiliser. Another factor is the weather conditions last year which mean farmers have been unable to produce enough silage to feed their own herds. Others are saying that it is currently more profitable for dairy cows to be used for beef as some now regard it as a delicacy.

Ordinarily a fall in domestic production would be replaced by imports from overseas but this is difficult in this case as milk has a relatively short shelf life. In effect the UK is wholly dependent on its domestic dairy herd. All of this is happening against the background of broadly steady dairy demand, with organic particularly strong. According to the Soil Association, dairy is one of the main drivers of increases in organic sales.

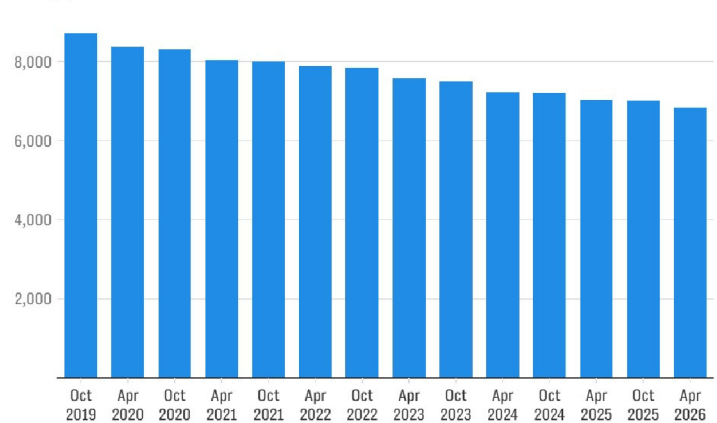
When considering stories such as this it is important to remember the human side. Often dairy farms have been in one family for generations. The bottom picture comes from a BBC article and show two sons who want to work in the family dairy business but worry this will not be possible. Industry figures show dairy farmers are currently paid 32 - 35p per litre with costs of 42-49p. This is not sustainable in the long run. Such is the enthusiasm of the boys that one of them was given their first calf for their 16th birthday.

According to the owner of one dairy farm "Doing another winter at these kind of price gaps is terrifying quite frankly. It just can't be done, and there will be people looking at it and thinking 'I'm done. I'm not going to put myself and my family through that any longer.'"



Source above and below - Independent

Dairy producers are in decline



Farmers' warning as milk prices fall below cost



Source BBC

Seth and Oscar Yates both want to work in farming after college, but worry the low price of milk will make it impossible