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THIS ISSUE:

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Sneak Peek: 2017 Dairy Farm Summary

The Northeast *Dairy Farm Summary* (DFS) is scheduled for release on April 30. Here are a few key findings from the report.

Snapshot of the Northeast Dairy Farm Summary

	2016	2017
Number of Cows[1]	403	470
Milk Sold per Cow (lbs)	25,239	25,493
Milk Sold per Worker (lbs)	1,210,871	1,200,611
Milk Price per Cwt	$16.85	$18.32
Breakeven Milk Price[2]	$16.95	$18.33
NCOP per Cwt	$16.79	$17.18
Net Accrual Earnings per Cow	$15	$291
Shortfall after Debt Principal Payments (per cow)	-$592	-$317

1 Average number of cows of the farms in our sample
2 Breakeven Milk Price is Net Cost of Production, less depreciation, plus debt principal payments

Figure 1: Farm Credit East, 2017 Northeast *Dairy Farm Summary*

The past three years have been exceptionally challenging for Northeast dairy producers. While milk prices increased in 2017 from the prior year, margins and cash flow remained tight for many farms. Northeast dairy producers have responded to these challenges with a remarkable ability to economize, cut costs and gain further efficiencies in their already well-run operations. Results have shown increased accrual earnings from the prior year, in spite of persistent low prices.

This year's *DFS* sample included 320 farms, which represents a solid cross-section of Northeast dairy producers.[3]

There continues to be a wide variation in earnings between farms. Farms of varying sizes have reported both positive and negative financial results. Approximately 30 percent of our sample had negative net earnings.

3 This year's DFS does not contain farm data from Vermont.

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Milk prices were higher, on average, in 2017 than in 2016 (and higher than they are currently, as well). This resulted in improved profitability for the average farm in the study. Net earnings rose from a gain of $15 per cow in 2016 to $291 per cow in 2017. This was because milk price increased by $1.47/cwt while farmers managed to keep cost increases to only $0.33/cwt over the prior year.

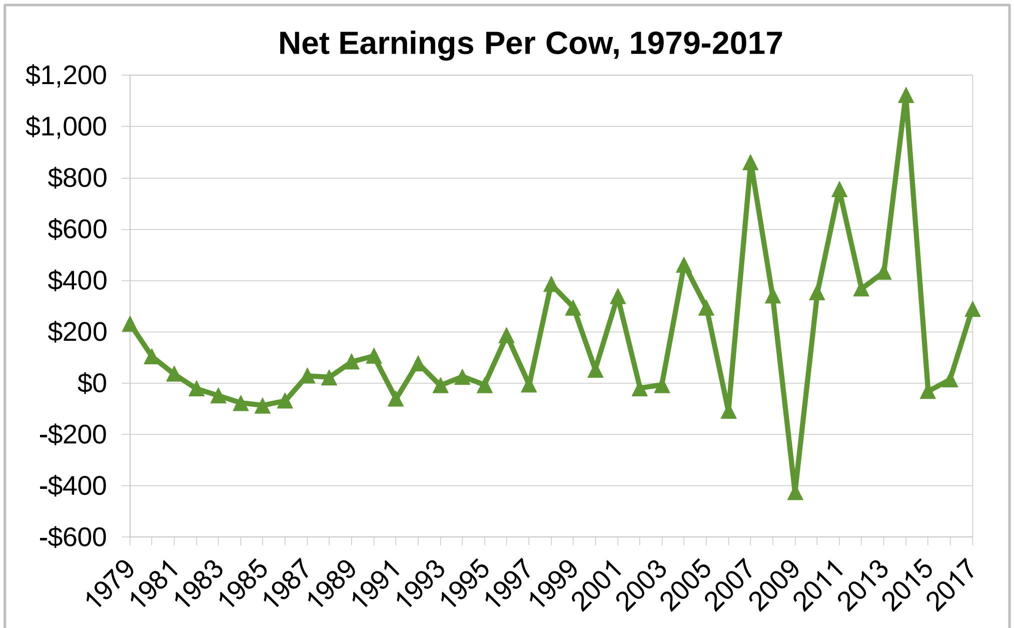

Figure 2: Farm Credit East, 2017 Northeast *Dairy Farm Summary*, not adjusted for inflation

Total cash costs (excluding depreciation and including debt principal payments) rose to $21.64/cwt, well above the average milk price received. Subtracting other income from this figure results in an average cash margin of -$0.01/cwt, just below break-even. While this is a small deficit, it represents the third consecutive year of negative cash margins.

Given the trend of negative cash margins, some dairy producers have had to restructure existing debt or take on additional debt. Total liabilities per farm increased by $102,423 over last year's sample to a total of $1,792,421.

Per cow productivity increased slightly to 25,493 pounds/year. However, milk sold per worker decreased slightly due to fewer cows per worker.

It should be noted that the *DFS* reports on dairy farm performance from the prior year. Since August 2017's peak, milk prices have fallen. As of April 2018, milk prices are now nearly $3/cwt below their level eight months ago. While prices are expected to climb for the rest of the year, the 2018 average is still projected to be about $1.28/cwt lower than 2017.

Farm Credit East Resources

BUSINESS ANALYSIS report

Farm Credit East customers can receive a personalized **MyFarm Business Analysis Report** that compares your individual farm's financials against other Northeast dairy farms. The **MyFarm** report looks at specific metrics of interest and can include a direct size category comparison. Contact your relationship manager for more information.

The **2017 *Dairy Farm Summary* webinar** is scheduled for May 1, 11AM – 12:15PM EDT. We will review the complete results and hear from a panel of dairy industry experts. Visit **FarmCreditEast.com/webinars** to register.

Strong Outlook for the Green Industry

On March 13, Farm Credit East hosted a Green Industry Outlook webinar with industry expert Dr. Charles Hall from Texas A&M University. His key message: 2018 looks to be a very good year for the industry, assuming weather cooperates. The following article summarizes his main points.

Demographics

- Although the Baby Boomers (ages 54-72) are retiring and downsizing, and Generation X (35-54) tend to purchase less plant material than them, the Millennials (18-34) are the largest generation in the U.S. and represent tremendous potential.
- While Millennials have not been large buyers of horticultural products – only 30 percent compared to 51 percent for Baby Boomers – they are reaching the prime age of household formation. Millennials represent a huge potential market. Dr. Hall suggested the industry needs to strengthen efforts to educate this generation on the beneficial investment in plants to enhance the quality of life.

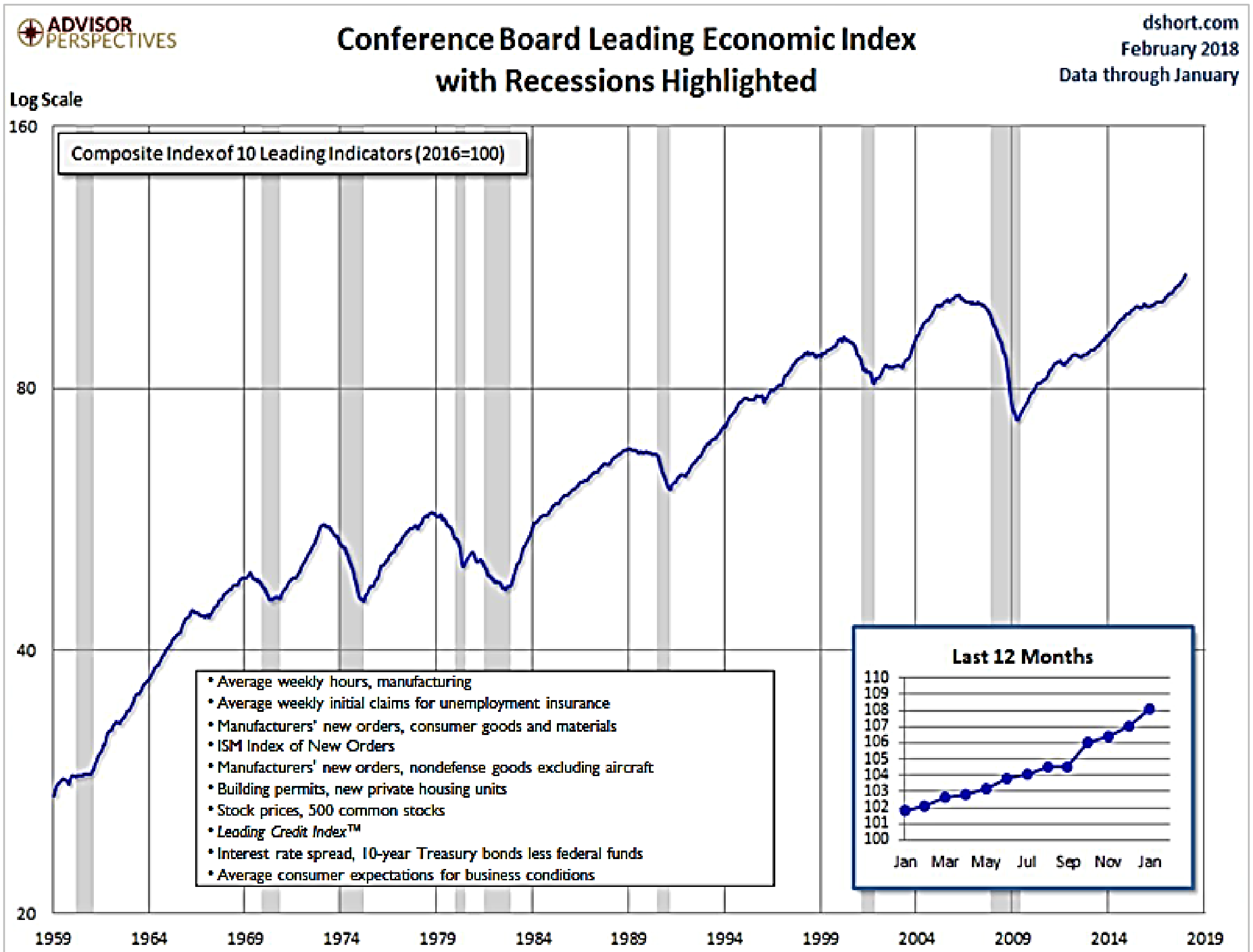

Figure 1: Composite Index of 10 Leading Economic Indicators: Dshort.com, February, 2018

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General Economy

- Dr. Hall warned against equating consumer confidence figures or stock market values with economic performance, preferring to look at actual data. Both stock indexes and consumer confidence measures tend to be more volatile than the underlying economic data.
- He also reviewed economic data concluding that recent economic performance, as indicated by GDP, represented "slow and steady" growth in the industry. While an average annual growth rate of 2.0 percent may not seem like a lot, it is when it relates to the United States' $19 trillion economy.

Economic Indicators

- Reviewing some of the key economic indicators for future economic growth, Dr. Hall highlighted the Conference Board's Leading Economic Index, which is a combination of 10 different indicators that is a good predictor looking 9 to 11 months out. The current indicators are promising.

Other indicators reviewed were also positive:

- **Unemployment Insurance weekly claims report** – levels above 400,000 are cause for concern, but figure has been in the 200,000+ range in recent weeks.
- **Job Openings and Labor Turnover** – there are currently about six million jobs open, so the concern here isn't about unemployment, it's that there isn't enough labor available.

Housing Market

- While still below pre-great recession levels, housing starts have recovered nicely since then, in the range of 1.5 million/year. With a rising number of buyers and limited supply of existing homes, prices in many markets are strong and houses are moving off the market quickly.
- One reason supply hasn't kept up is that this year's hurricanes have led to a shortage in lumber, and like other industries, there's a shortage of skilled labor.
- The Housing Market Index is favorable and home renovation activity is also increasing. While home renovation figures don't include landscaping, it serves as a proxy as the two activities are related. In fact, Dr. Hall states that landscaping is a better value than home renovation, returning $1.09 per $1.00 invested, compared to $0.73 on a project such as a bathroom remodel.
- One cause for concern is that although demographics are in the industry's favor, student loan debt is a problem for Millennials and debt levels in general have been increasing since the great recession, putting home ownership out of reach for some.
- Inflation has been held at bay but is starting to increase. This has led to the Fed increasing rates to hold inflation in check.

When will the next recession start?

- A good sign is the Financial Stress Index from the St. Louis Fed is lower than before the great recession.
- The Chicago Fed National Activity Index compiles 85 different indicators and is currently well above (0.17) the level where it would indicate a recession (-0.70).
- Dr. Hall suggested watching the yield curve, both the difference between the yield on the three month and 10-year Treasury Bill, as well as looking at the difference between the 10-year treasury yield and the Fed Funds rate. When the yield curve is inverted, or the short term rate is higher than the long term rate, it's a cause for concern. The gap has narrowed recently but is not yet at a spot where it's a cause for concern.

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Concluding Thoughts

Dr. Hall forecasts that the next 18 months should be good, but looking further out into 2020, there are risks for the economy. He recommended that producers start putting their contingency plan together now – paying down debt, building working capital and putting reserve lines of credit in place – so they can withstand the next recession when it comes.

A native of North Carolina, Dr. Charlie Hall received a B.S. in Agricultural Economics from the University of Tennessee in 1984, a Master's Degree in Ornamental Horticulture and Landscape Design from the University of Tennessee in 1986, and his Ph.D. from Mississippi State University. He began his academic career at Texas A&M University in 1988, where he spent 13 years on the faculty before joining the faculty at the University of Tennessee in 2002. In August 2007, Dr. Hall returned to Texas A&M University as Professor and Ellison Chair in International Floriculture.

CONTACT INFORMATION

We look forward to your questions about Knowledge Exchange Partner and your feedback:

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