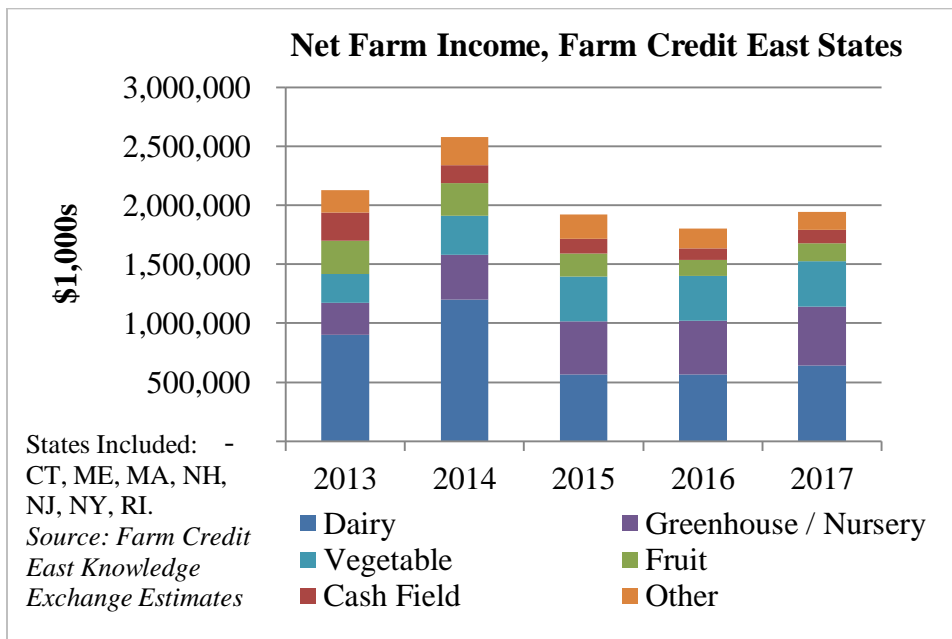


## Knowledge Exchange Report Northeast Ag Credit Conditions

### The Farm Economy: Summer 2017 Outlook

The most recent update reports that overall, U.S. agriculture, as well as that of the Northeast, continues to face some challenging market conditions, but there are also a number of bright spots and some improvements are in the forecast. Cash field crops in particular are dealing with adverse pricing and while dairy prices are improving, there continue to be marketing challenges in some areas. Nursery and greenhouse, which have had improving economic conditions for the past few years and reported relatively good spring results..



#### Dairy:

Dairy farms continue to show a wide range of operating results, with many farms remaining profitable, while others struggle to cover expenses. There has been a moderate recovery year-to-date in 2017, with prices expected to average about \$2/cwt above last year.

- The Northeast Dairy Farm Summary (DFS) results showed slightly higher earnings in 2016 than in the prior year. Though both years

*Bright spots in the outlook include Nursery and Greenhouse*

*There has been moderate recovery year-to-date in 2017*

were both about break even, the average farm in the DFS earned \$15/cow for 2016 compared to a loss of \$30/cow in 2015.

- The U.S. dairy herd continues to grow, and milk production increased 2.0 percent nationally and 3.9 percent higher in New York through April, year-over-year.
- Increases in milk production continue to vary significantly by region, with many Western states lower or flat (California is 1.1 percent lower), while Midwestern and Eastern states show increases. This adds more milk to already-saturated regional markets.
- Global milk production has slowed somewhat, with major exporting regions such as the EU and New Zealand experiencing production declines. Meanwhile, China and other major importers have been more active. This has led to rising international prices for dairy products, making U.S. products more competitive. While the overall value of dairy exports hit a low point in early 2016, it has increased for 11 straight months and was 23 percent higher by value through April, year-over-year. Projections are for exports to continue to increase through the remainder of the year.
- There is currently a trade dispute between the US and Canada over Canadian imports of “ultra-filtered” milk, which the Canadian government has recently acted to discourage by introducing a new pricing scheme which makes US product uncompetitive. As a result, some dairy processors in the upper Midwest and New York must find new customers for their milk which had been going to Canada.

## **Timber:**

There is a tremendous diversity of businesses in the forest products industry, and their economics often do not track together. We are currently seeing a divergence in financial performance within the industry, driven heavily by the regional impact of a significant number of pulp and paper mill closings in Maine.

- Housing starts continue to improve, but added lumber capacity, especially in the US, will continue to bolster supply, holding additional price improvement in check to some degree.
- Softwood Lumber Trade Dispute: In late 2016 several softwood lumber trade organizations filed a dispute with the US Department of Commerce’s (DOC) International Trade Administration alleging softwood lumber dumping by Canadian lumber producers and unfair subsidies of the industry by the Canadian Government. DOC, in two separate rulings has found in favor of the US lumber producers, and assessed duties and tariffs averaging 26 percent on

*China and other major importers have been more active*

*Housing starts continue to improve*

Canadian imports, which has elevated the floor under US softwood lumber prices.

- Lumber: Manufacturers in general have had a strong 2017, with Eastern White Pine and Spruce/Fir leading the way, with hardwood holding steady, supported by exports. Recent significant price improvements in the Spruce/Fir markets appear to have legs and should hold throughout much of 2017. Prices for Spruce/Fir are currently 14 percent higher, year-over-year. Countervailing and anti-dumping duties discussed above are credited for most of this price gain.
- Eastern White Pine has benefitted as well from improving demand, and with constrained supply, prices have been at very favorable levels since early 2016. Hardwood prices are more variable and location dependent, driven by species and market mix.
- Sawmills continue to see limited markets and significant price reductions for sawmill residuals, but recent lumber price improvements have more than offset the lost residuals revenue.
- Biomass generation plants have struggled as natural gas and wholesale electricity prices remain low. Consequently, three biomass plants in Maine ceased power production in mid-2016.
- Low oil prices and a relatively mild 2016-17 winter resulted in an oversupply of wood pellets and the idling of several mills. Wholesale pellet prices remain low.

### **Pulp and Paper**

- Maine has seen four pulp and paper mills close in the last 18 months, and one idle half of its capacity. This has negatively impacted both pulpwood prices and sawmill residuals.

### **Logging**

- Loggers in Northern Maine have faced substantial challenges. Many contractors have been unable to harvest sufficient volumes of wood to generate positive cash flows, with some idling their operations. Contractors further south have fared generally better.

### **Cash Field Crops:**

For 2017, nationally, farmers planted four percent fewer acres in corn (90.0 million acres), and 7 percent more acres in soybeans (a record high of 89.5 million acres).

- Domestic inventory of major grains, including corn, remains high, and South American growers harvested another record corn crop

*Prices for  
Spruce/Fir  
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*For 2017,  
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this season, contributing to a global abundance of grains and oilseeds.

- Weather typically plays a major role in crop progress and yields and this year is no exception.

As of July 9, the 65 percent of the nation's corn crop was rated "good" or "excellent" by the USDA, compared to 76 percent similarly rated at this time last year. This is partly due to drought conditions in the upper Midwest and excessive rain in the eastern part of the corn belt. Overall Northeast crops are somewhat behind national crop progress.

- In general, the recent USDA crop progress reports have been bullish for grains, but large inventories of old-crop grains have kept a lid on price gains. It is unclear what will happen when we approach harvest time and bin space needs to be cleared for new crops.
- While persistent low prices have not been good for corn growers, they have helped to spur demand in livestock, ethanol, and export markets. In global export markets, Japan has seized the opportunity to stock up, and become the leading destination for U.S. corn, ahead of Mexico, where U.S. exports are down 7 percent, as that nation looks to South America to cover its supply needs amidst NAFTA uncertainty.
- In soybean markets, China's seemingly insatiable demand for oilseeds has helped hold prices firm. China has exceeded last year's record imports of soybeans by 20 percent so far this year. So even with record large soybean crops in North and South America, prices have held relatively firm so far this year. USDA expects that Chinese imports will continue, totaling a record 93 million metric tons, up from 89 MMTs the prior year.
- All in all, the outlook is for close to cost-of-production prices for corn, and slightly higher margins for soybeans for the 2017 crop year. Northeast grower returns will depend on what happens with yields globally and locally. If adverse weather continues in major growing regions, this may boost prices, but if growing conditions improve, there is still time for crops to recover, and it may be another year of close to break-even for Northeast cash crop growers.
- USDA projects the season average price received for corn for the 2016/17 season at \$3.35/bu. and a midpoint estimate of \$3.40/bu. for 2017/18. Average price received for soybeans is forecast at \$9.55/bu for 2016/17 and \$9.30/bu for 2017/18.

*Corn rated  
"good" or  
"excellent"  
down by 11  
percent from  
previous year*

*China  
exceeds  
soybean  
imports by  
20 percent*

## Livestock:

This is a very diverse sector ranging from beef or other protein producers, both full- and part-time, as well as equine, which itself can be broken down into racing/breeding, and boarding and training enterprises.

- USDA Forecasts prices for Choice Steers at \$122-126/cwt. for 2017, slightly higher than 2016. However, many northeast beef producers serve specialty markets and receive significantly higher prices than national averages.
- Recreational equine markets are supported principally by local recreational demand and nonfarm income, and have been tracking upward along with the general economy. The New York horse racing industry has been doing well for both breeders and owners, with strong purses available at the New York racetracks.

## Fruit, including Cranberries:

- Tree Fruit: New York's 2016 apple production dropped by 12 percent from 2015, coming in at just about the five-year average. There were a number of weather events (freeze, hail) throughout the Northeast during 2016. Total U.S. production was four percent greater than 2015.<sup>1</sup> The fresh market for apples is becoming more bifurcated, with newer varieties commanding premiums, while older types have become commodities. Because of large supplies, average prices received have been below those for the 2015 crop.
- Juice Grapes: Favorable growing conditions led to an above average crop in 2016. A supply-demand imbalance of grape juice continues to be an issue, and has kept prices low, but stable. Above-average rainfall has led to some disease concerns for this year.
- Wineries in N.Y. are generally reporting a somewhat slow start for sales, but conditions are improving. There are some concerns that the craft beverage market is starting to become saturated with an increasing number of wineries opening, as well as farm distilleries and breweries entering the market.
- Small Fruits: Excellent prices, with moderate yields for highbush blueberries in N.J. Meanwhile, in Maine, the wild blueberry market is oversupplied with prices at a 10-year low.
- Cranberries: The cranberry market continues to struggle with oversupply, and low prices from independent handlers, below cost of production. The economics of cranberry producers are mainly driven by how they market their product.

*Choice Steers  
price forecast  
higher than  
2016*

*Total U.S.  
apple  
production  
four percent  
greater than  
2015*

*Concerns  
craft  
beverage  
market is  
becoming  
saturated*

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<sup>1</sup> USA Apple Association 2016 Production & Utilization Analysis

### **Greenhouse and Nursery:**

Greenhouse and Nursery growers throughout the Northeast generally reported an average to above-average spring 2017 season. Sales were somewhat below the optimistic projections but still a solid spring.

- Growers have reported that demand and pricing is trending slightly higher for 2017, particularly in nursery crops.
- Energy costs have remained moderate, helping keep greenhouse production costs in line.
- Big box chains continue to dominate the retail market. Growers who sell to them must be able to be very efficient and manage tight margins in order to survive. These major retailers are increasingly demanding more services from vendors, raising the cost to producers.
- There is growing interest in new technologies, primarily for vegetable production, such as roof top structures, vertical greenhouses etc, particularly in metropolitan areas.
- Shortages of some plant materials, particularly caliper-sized trees are being experienced, and it appears this will continue at least through 2017.

### **Aquatic / Fishing:**

#### **Lobster**

- 2016 landings and prices were strong and most operators had another good year.
- Higher costs of production have squeezed margins for lobstermen over the past several years, but moderate fuel costs have helped somewhat.

#### **Scallops**

- Prices in 2017 are down slightly from last year, due to exceptional catch levels.
- The stock remains strong, is considered to be sustainable, and we do not foresee any major regulatory changes in the near future.

#### **Groundfish**

- Although the stocks of many protected species of groundfish are rebuilt, regulations and quotas remain limiting for the industry.
- Permit trading was limited in 2016 as regulations continued to ratchet down quotas and days-at-sea. The groundfish fleet in the Northeast is aging and with stringent regulations and an unclear

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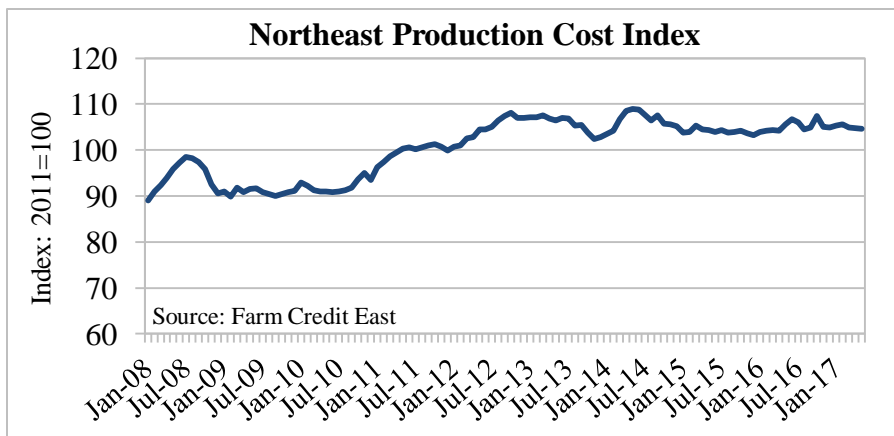
future, reinvestment is difficult. That being said, there are some large multi-national corporations looking to buy existing groundfish boats in order to vertically integrate their business models. Also, some of the larger players with plenty of quota have invested into upgrading their equipment.

- Prices have held steady, and the catch has been good on the species they are allowed to land.

**Vegetables, Including Potatoes:**

- In the New York processing market, vegetable acres appear stable. Pricing may be somewhat lower as it tends to follow the grain market.
- Throughout most of the Northeast, crops are about two weeks behind, due to a cool, damp spring. Prices for vegetable crops have been extremely variable, depending on the specific variety and week – some high, some low. Sweet corn has started out at low prices in N.J., higher in New England.
- Wholesale buyers and consumers increasingly seek out local product. “Buy local” has become a significant trend, especially in metro areas. However, this does not necessarily translate into a willingness to pay higher prices.
- 2016 showed excellent growing conditions for potatoes in Northern Maine. Yields were average to slightly above average. Potato prices were generally better than last year.

**Input Costs:<sup>2</sup>**



**Energy:**

Despite considerable global turmoil, energy price increases are expected to remain relatively modest over the coming year. The price of West Texas

<sup>2</sup> The Farm Credit East Production Cost Index takes into account a number of inputs such as energy, labor, feed and fertilizer, in order to make relative comparisons between years.

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Intermediate (WTI) crude oil fell by nearly half from 2014 to 2015, falling from an average price of \$93.17/bbl for 2014 to an average of \$48.67 for 2015.<sup>3</sup> Prices dipped further in 2016, and have since recovered. WTI crude is expected to average \$48.95/bbl for 2017.

Other energy sources have remained affordable, although they are beginning to climb. Heating oil is expected to average \$2.48/gal for the year, an 18 percent increase over 2016, but still well below 2014's average of over \$4.00. Natural gas is expected to average \$10.94/thousand cubic feet for 2017, a nine percent increase over last year.

### **Labor:**

Labor and related costs are generally rising faster than inflation. Minimum wage increases and declining unemployment are putting upward pressure on wages, particularly at the lower end of the pay scale. Beyond cost, the availability of reliable labor remains a challenge at all levels. The ongoing uncertainty regarding immigration enforcement as well as a difficult to use and expensive H-2A guest worker program causes this to be a source of tremendous uncertainty to farm employers. Some H-2A users had workers' arrivals delayed this year due to problems at the US Department of Labor. While Congress debates a "repeal and replace" healthcare plan for the country, the Affordable Care Act remains in place for now, adding increasing costs to employers.

### **Interest Rates and Credit Availability:**

The U.S. Federal Reserve Bank raised the federal funds rate by ¼ point at both their March and June meetings, bringing the target to a range of 1 to 1 ¼ percent. This has translated into a prime rate of 4.25 percent. With inflation continuing to run below the Fed's two percent goal, further rate increases are likely as they continue their transition to a more normal interest rate environment.

Credit to Northeast agriculture remains readily available from the Farm Credit System, as well as commercial banks in some parts of the region. Factors such as credit score, profitability, cash flow and collateral remain key considerations, but for businesses with positive net earnings, the loan market is increasingly competitive. New offerings for young, beginning, small, and veteran farmers, such as FarmStart, FSA's microloan program, and other alternative financing vehicles are making credit increasingly available to start-up producers as well.

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<sup>3</sup> U.S. Energy Information Administration

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