



Northeast Farm Economy – Mid-Year Update

Northeast Net Farm Income Projection

We expect net farm income to fall in 2018 and come in somewhat below 2016 levels, due mainly to weak commodity prices. A significant factor in this decrease is milk prices, which are now rising, but were extremely low during the first half of the year. In addition, prices for grains and oilseeds remain weak. Relatively good performance is expected from the green industry, vegetables and ag retail, but this is outweighed by declines in the commodity sectors.

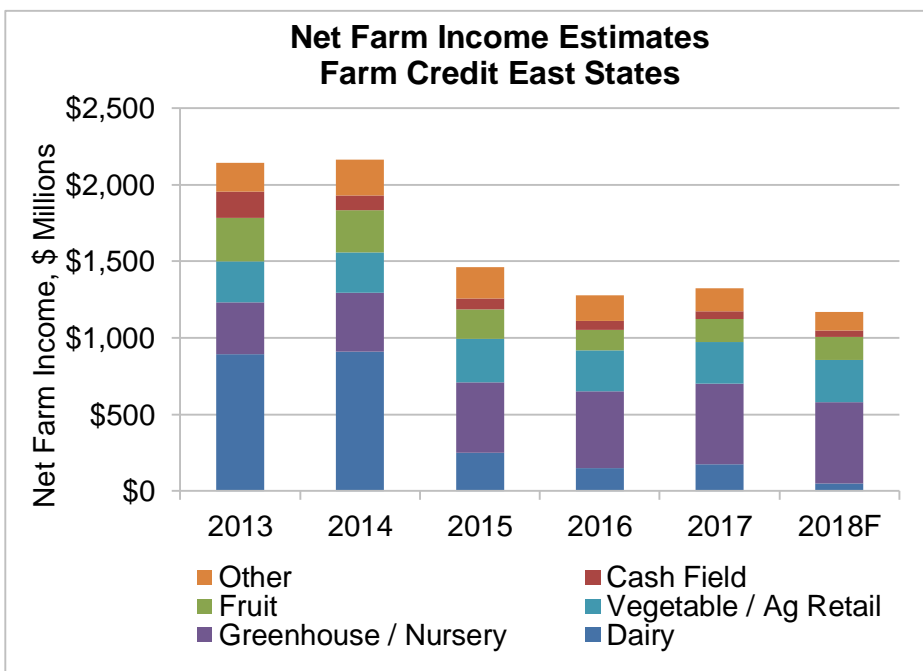


Figure 1: Farm Credit East Knowledge Exchange Estimates. States included: CT, ME, MA, NH, NJ, NY, RI

The Farm Economy: Overall trends

Inflation is starting to show up in many input costs. One of the major cost increases is energy and related expenses. Crude oil is expected to average \$64.53 per barrel for 2018¹, an increase of 27 percent over 2017. This is forecast to bring summer gasoline prices to their highest

2018 net farm income expected to be lower than '16 and '17

Increasing input costs

¹ U.S. Energy Information Administration, West Texas Intermediate Crude Oil



level in four years, at \$2.87/gallon nationwide. Anecdotal reports indicate that prices for supplies from plastics to cardboard boxes have increased. Tighter labor markets and increases in some state minimum wages have contributed to rising labor costs. Transportation costs (and availability) are a factor as well not just because of fuel costs, but also because of a continuing nationwide driver shortage, and the implementation of electronic driver logs for long-haul truckers.

Figure 2 depicts the Farm Credit East Northeast Production Cost Index, an index of prices paid by farmers for various inputs, ranging from fuel, to fertilizer, to labor. It is a relative index, with the price levels for 2011 set at a value of 100. As one can see on the right side of the chart, while input costs remain slightly below their peak in early 2014, they have crept up, and are now the highest they have been in about four years. This increase in costs, coupled with low commodity prices, has squeezed margins for many producers.

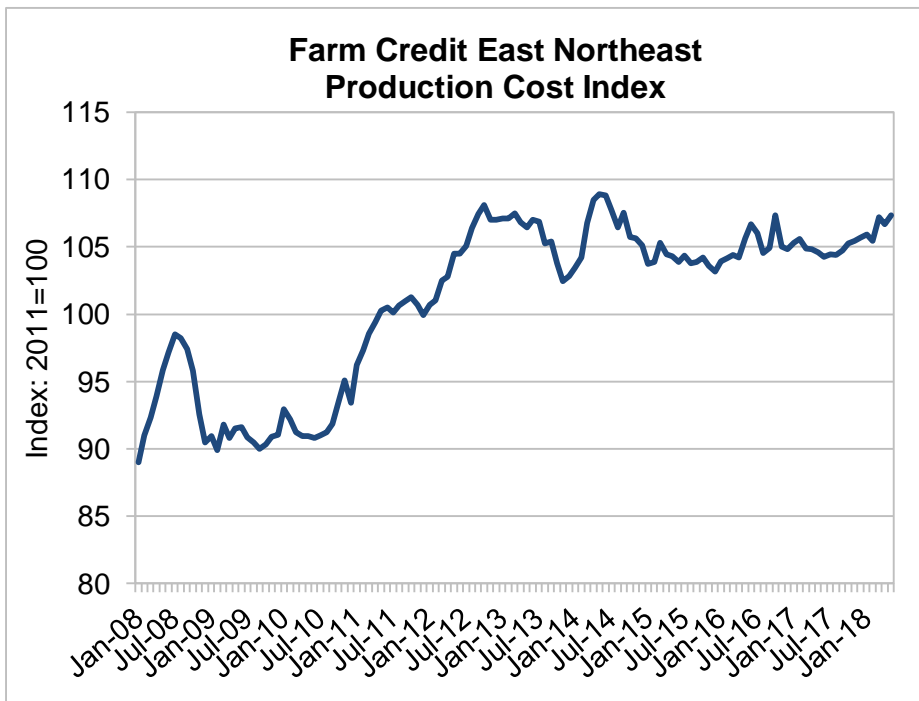


Figure 2: Farm Credit East Knowledge Exchange Index

Continued tough rhetoric between the U.S., China and other nations about trade and tariffs, as well as ongoing discussions regarding NAFTA, has many in the agriculture community concerned. Many sectors of U.S. agriculture, forestry and commercial fishing have become highly dependent on exports. Even for those producers whose products are not directly exported, the price they receive domestically may be heavily influenced by international trade.

Multiple factors contribute to rising labor costs

Lower commodity prices and increased costs squeeze margins

Trade talks continue to concern producers

On the other side of the coin, prices for some imported goods from China as well as Europe have already started to reflect import tariffs. As negotiations continue, this will be an area to watch in the coming weeks and months.

Dairy

Prices were extremely low this spring, dropping below \$14/cwt for many farms in February. Since then, prices have improved, and could continue to do so for the remainder of the year. However, due to the poor prices in the first half of 2018, the year average will still be below last year. There is growing concern about the impact of tariffs on exports of products like yogurt and cheese to Canada and Mexico.

| Price per cwt | 2016 | 2017 | 2018 (March forecast) | 2018 (June/July forecast) |
|---|-------|-------|-----------------------------|---------------------------------|
| Boston Blend Price² | 15.90 | 17.44 | 16.02 | 16.12 |
| Avg. WNY Blend³ | 14.84 | 16.40 | 15.32 | 15.26 |

- 2017 farm gate milk prices averaged about \$1.55/cwt above 2016. 2018 prices are forecast to average \$0.60-0.85 below 2017.
- U.S. milk production grew 1.2 percent year-over-year in June. Regionally, there were gains in California (+0.5%), Washington (+2.2%), Idaho (+1.0%), Wisconsin (+1.2%) and New York (+1.4%).
- National cow numbers were flat, year-over-year, at 9.4 million head. New York was down slightly from last year at 623,000.
- New tariffs notwithstanding, U.S. dairy exports set a new record this spring, with an all-time volume record in April, and strong shipments continuing into May. May exports were 18 percent greater by volume than May 2017. Milk powder led the gains, with shipments of NDM/SMP increasing by 20 percent compared to the prior year. On a milk solids basis, exports were equivalent to 17.2 percent of U.S. milk production in May.⁴
- Overall, modest production growth, strong domestic sales and increased exports would generally support higher milk prices, but

Given current
trade talks,
milk price
outlook
uncertain

US dairy
exports set
new record,
spring 2018

² Agrimark Price Forecast, March 26, 2018, and June 25, 2018

³ Upstate Niagara Price Forecast, March 26, 2018 and July 19, 2018

⁴ U.S. Dairy Export Council

rising trade tensions have weighed on both spot and futures markets. Some believe markets are overreacting to the current “war of words”. Depending on what tariffs actually end up taking effect, milk prices may wind up higher than current futures indicate.

- Despite strong exports and domestic demand for processed dairy products, issues continue regarding milk marketing arrangements. Some farms have either lost markets or are concerned that they will lose markets for their milk due to ongoing adjustments by processors and handlers.

Cash Field Crops

USDA/NASS reports that farmers planted 89.1 million acres of corn (down one percent from last year) and 89.6 million acres of soybeans (also down one percent) this spring, in line with trade estimates. However, farmers planted 322 million acres of “principal crops,” the highest level since 2014, and three percent more than last year. This indicates that growers are diversifying into crops other than corn and soybeans, such as wheat, hay, cotton, sorghum and rice.

- The nation’s corn crop is off to a good start, with 72 percent in good-to-excellent condition, compared with 62 percent similarly rated this time last year. Of course, depending on late summer weather conditions, there is still considerable room for the crop to turn out above or below average, as well as for regional variation.
- 70 percent of the nation’s soybeans are in good-to-excellent condition, compared with 57 percent similarly rated last year.
- Pennsylvania (the only Northeast state in the report) had 69 percent of corn good or excellent.
- USDA forecasts corn prices for the 2018/19 market year at \$3.30-4.30 (\$0.10 below their June estimate), and soybeans at \$8.00-10.50 (\$0.75 below their June estimate).⁵
- Trade and tariffs remain a large wildcard, particularly with soybeans, although tariff impacts have already largely been factored in by markets.

Crop
conditions
strong in
early 2018

Trade and
tariffs remain
large
wildcard for
crop price
outlook

⁵ USDA World Agricultural Supply and Demand Estimates, July 12, 2018

Timber and Forest Products

Lumber

Prices have continued to move upward. Spruce/fir hit a recent high of \$715 per million board feet (mbf) Boston, compared to \$450/mbf a year ago. Tight supplies around the country have kept order files long and price movement upward, and pushed prices into record territory for all major producing areas in North America. Some of this is tied to strong housing demand as well as rebuilding efforts from natural disasters in 2017/2018. Transportation challenges in other areas of the country, and rail disruptions in Western Canada, have also impacted pricing and brought opportunity to areas with fewer transportation constraints, such as the Northeast.

Eastern White Pine has benefitted as well from improving demand, and with constrained supply, especially in Ponderosa Pine (which drives the pine market), prices have been at very favorable levels since early 2016, however, not as strong as the current Spruce/fir market.

Hardwood prices are more variable and location dependent, driven by species and market mix. Recent trade issues with China, which consumes significant volumes of U.S. hardwood logs and lumber, has raised concerns in the marketplace.

Sawmills, particularly softwood mills, are seeing strong lumber prices and demand, and improving residual markets. Profitability in 2018 will be strong.

A relatively mild 2017-18 winter has kept pellet pricing constrained. Some producers have exited or mothballed facilities, bringing some margin relief for those still producing. With the constrained supply, some of the excess pellet inventories in the Northeast have been reduced, bringing some positive price movement to the market.

Pulp and Paper

Although the Northeast has experienced a number of pulp mill closures, announced capacity increases and investment in a number of mills has added some optimism. All-paper prices have been moving upward, including pulp prices which have been comparatively strong for some time now, bringing margin relief to those mills left operating in the Northeast. Recent price improvements on both hardwood and softwood pulp have been welcomed by land owners.

Lumber
prices on the
rise

Hardwood
prices more
variable

Some margin
relief for
Northeast
mills



Mill operator Verso recently announced plans to restart one of its paper lines at its mill in Maine, possibly in the third quarter of this year, after \$17 million in capital improvements. This would significantly increase the mill's consumption of softwood pulp and could further improve local markets. Sappi is also moving forward with expansion of its Skowhegan plant (largest in the Northeast). This expansion has already been felt in the marketplace as the mill has been aggressively seeking the added volumes of pulp it will need. Stumpage prices in most species and products have been moving upward since mid-winter, with further improvement expected.

Logging

Northern Maine loggers have faced substantial challenges, but recent improvement in pulp markets – and capacity curtailment in the logging sector – has brought improvement to this economically challenged industry. Those contractors that remain are seeing more opportunities to increase harvest levels, which will positively impact their profitability. As in the past, Northern Maine contractors have been more adversely impacted by this recent downturn than those in other regions of the Northeast.

While the Northeast has been spared by some of the transportation challenges faced in other regions, it has not been immune from trucker shortages and the impact of electronic driver logs. Some producers report that transportation bottlenecks have cut into production capacity.

Livestock

- Average prices for Choice Steers in 2017 came in at \$121.52 per hundredweight (cwt), slightly higher than 2016. Prices for 2018 are forecast at \$114-117/cwt. However, many Northeast beef producers serve specialty markets and receive significantly higher prices than national averages.
- Dairy cull cows have averaged \$60-65/cwt at auction.
- 2018 beef production is projected to be 3.7 percent greater than 2017. However, beef exports in May were 20.7 percent above last year, helping to support domestic prices.⁶
- Most livestock product prices for 2018 are expected to average below prior year levels due to larger supply. Eggs are an exception, which should continue receiving relatively high prices, compared

Opportunity
to reinvest
seen by
Northeast
mills

Transportation
bottlenecks
cut into
production
capacity

⁶ USDA Economic Research Service, Livestock, Dairy and Poultry Outlook. July 18, 2018

to year-earlier extreme lows due to an oversupply in the market last spring.

- Recreational equine markets are supported principally by local recreational demand and nonfarm income, and have been tracking upward along with the general economy. Money and investment has been flowing into the industry.
- Standardbred horse racing in NY is quite stable. Not a lot of new entrants, but existing participants doing well. Thoroughbred sales kick off with Saratoga in early August. Prices have been improving and continue to climb. Quality of NY-bred horses continues to improve.

Fruit

Apples

New York's 2017 apple production came in at 31 million bushels, or 1.30 billion pounds, better than the 2016 harvest, although the yield varied by region. Despite some severe weather during the growing season, New York's Hudson Valley and some other regions harvested a large crop.

The total 2017 U.S. apple crop was eight percent lower, partly due to sharp reductions in Michigan and Washington. Despite the smaller U.S. apple crop, plentiful supplies in cold storage have weakened fresh apple prices. The average price for April 2018 declined to \$0.297/lb., 17 percent lower than the same period last year.⁷ Lower prices, however, have helped increase sales, especially in the export market. Fresh apple movement was 15 percent higher in Jan/Feb.⁸

In the processing apple market, prices have improved slightly, but have not kept pace with rising costs of production.

Juice Grapes

Favorable growing conditions led to an above average crop in the east for 2017. New York produced 350 million pounds of juice grapes, two percent more than in 2016, and nearly 21 percent more than in 2015. So far this season, wood growth has been good which generally means a good fruit crop. Juice grape prices have been low for years, but so far cash market prices have improved this year, and

Despite some severe weather in 2017, NY had large apple crop

Juice grape production continues to grow

⁷ USDA/NASS, QuickStat

⁸ USDA/ERS, Fruit and Tree Nuts Outlook, March 29, 2018

major buyers are forecasting higher pay prices for this year's harvest, which is welcome news.

Wine

The 2017 growing season resulted in a bumper crop of grapes in New York. Seemingly all available capacity was used to contain the large crop, and wineries openly discussed what was the right strategy (short of dropping prices) to get the product sold. This was a welcome change compared to the past several years of poor crop results. Early 2018 reports indicate that visitor counts continue to decline slightly, but overall retail spending is keeping pace or slightly higher than last year. This means visitors are spending more at each winery which could be due to overall improved economic conditions in the general economy. The increase in retail sales is mainly in increased tasting fees, non-wine sales and slightly increased wine prices rather than increase in wine sold.

Small Fruits

While U.S. demand for fresh blueberries continues to increase each year, prices for 2018 may be lower than last year's excellent prices which were heavily influenced by poor weather in other growing regions. Meanwhile in Maine, the wild blueberry market is oversupplied with prices at a 10-year low. Highbush blueberries are generally sold on the fresh market, and lowbush, "wild" blueberries are generally sold for processing, which explains the price disparity.

Cranberries

The cranberry market continues to struggle with low prices from independent handlers, below cost of production. The economics of cranberry producers are mainly influenced by how they market their product. USDA/NASS reports 2017 U.S. cranberry production at 8.37 million barrels (bbl), down 13 percent from the record 2016 crop of 9.63 million bbl. Still, supply continues to outpace demand. Continued ample production, and large beginning inventories will limit upward price movement. In an effort to manage supply, USDA passed a 15 percent handler withholding for the 2017 crop. This could increase this year, possibly to 25 percent, although the final decision has not yet been announced.

Massachusetts and Wisconsin had an excellent bloom season, which usually indicates a large crop. Eastern Canada is facing an early-season drought, but things may change with summer weather.

2017 wine
grape
production
strains
capacity

Demand for
blueberries
continues to
increase

Cranberry
supply
continues to
outpace
demand

Aquatic / Fishing

The main piece of legislation controlling the nation's fisheries, the Magnuson-Stevens Fishery Conservation and Management Act, is in the process of reauthorization in Congress right now. To date, more than 25 amendments, many of them contentious, have been proposed, but it is too early to tell what may come out of the reauthorization debate at this point.

Lobster

In 2017, a cold spring and a stormy summer combined for a somewhat disappointing season. Catch levels were down by 15-20 percent. While it is still too early to judge the 2018 season, lobstermen are optimistic for a better year, as catch levels have been fairly strong in Maine. There are concerns about trade issues, as a sizeable portion of the catch is exported.

Scallops

Prices are down from last year due to exceptional catch levels and flat demand. Permit values, however, are holding strong. The wild stock remains ample.

Groundfish

Although the stocks of many protected species of groundfish are rebuilt, regulations and quotas remain limiting for the industry.

- Permit trading continued to be limited in 2017; regulations continue to push down quotas and days-at-sea.
- Of the species vessel owners are allowed to land, prices have held steady and the catch has been good.

Greenhouse and Nursery

Spring 2018 was tough for many greenhouse and nursery growers due to prolonged cool and wet weather. Sales were poor from April into May, but most growers have made up for their losses and then some, closing out with a strong finish to the spring season and a good start to summer.

- Wholesale nursery growers reported a good 2018 spring season (at least for the later portion of it). Landscapers have been very busy.
- Big box chains continue to dominate the retail market, and growers who sell to them must be able to be very efficient and manage tight

Trade
remains a
concern for
lobstermen

Wholesale
nursery
growers
report a good
spring
season

margins in order to survive. For garden centers and retail growers, results have been more varied. The rainy spring and tough competition from chain stores was a challenge for some.

- Interest in new technologies, such as Controlled Environment Agriculture, continue to develop in metropolitan areas. This technology primarily focuses on vegetable production, such as roof top structures, vertical greenhouses and more. However, questions remain about the profit potential of many of the more high-tech operations.
- Shortages of some plant materials, particularly larger-sized trees, are being experienced, however this situation will largely resolve itself over the next couple of seasons as new plantings come up to size.
- As with other agricultural sectors, labor supply continues to be a major issue.

Vegetables

- In the New York processing market, vegetable acres appear to be stable for the coming year. The trend for fresh produce has continued to lead to declines in this sector.
- A cold, wet spring caused a bit of a delay in many areas, but most growers caught up as the weather improved.
- Lost sales of greens, due to the Romaine lettuce food safety incident, have led to some ripple effects.
- 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.
- The availability of seasonal farm labor continues to be an issue for many vegetable growers.
- The 2018 Maine potato crop went into the ground on a timely basis, despite a notably late snow pack. Most processing growers started planting potatoes by the twelfth of May and finished by Memorial Day, which is typical. Potato planting finished in early June, with seed growers finishing their planting by the tenth of June. Crop emergence has been good and the crop is growing rapidly. Soil moisture levels are somewhat on the dry side, but this is allowing growers to cultivate their crops as needed.

Growing
interest in
Controlled
Environment
Agriculture
(CEA)

“Buy local”
still a hot
button with
consumers

Despite late
snow pack,
Maine
potatoes
planted on
time

- 2018 processing contracts have been settled with McCain Foods with an increase of \$0.60 per cwt and a two-year contract. Contract volumes are up slightly for 2018 and growers have a guarantee of at least 90 percent of 2018 contract volume for 2019. The Pineland and Frito Lay contracts are essentially flat in price. Contract volumes with Pineland are increasing slightly, while Frito Lay volumes are the same. Tablestock prices generally remain above the previous year's level, with the exception of Reds, which are below the previous year. Maine growers have essentially finished shipping tablestock production.

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