Arizona Dairy Market Trends

Tom Van Hofwegen

Farm Credit Services
SOUTHWEST

AMERICAN SOCIETY OF FARM MANAGERS AND RURAL APPRAISERS®

Dairy Industry Overview

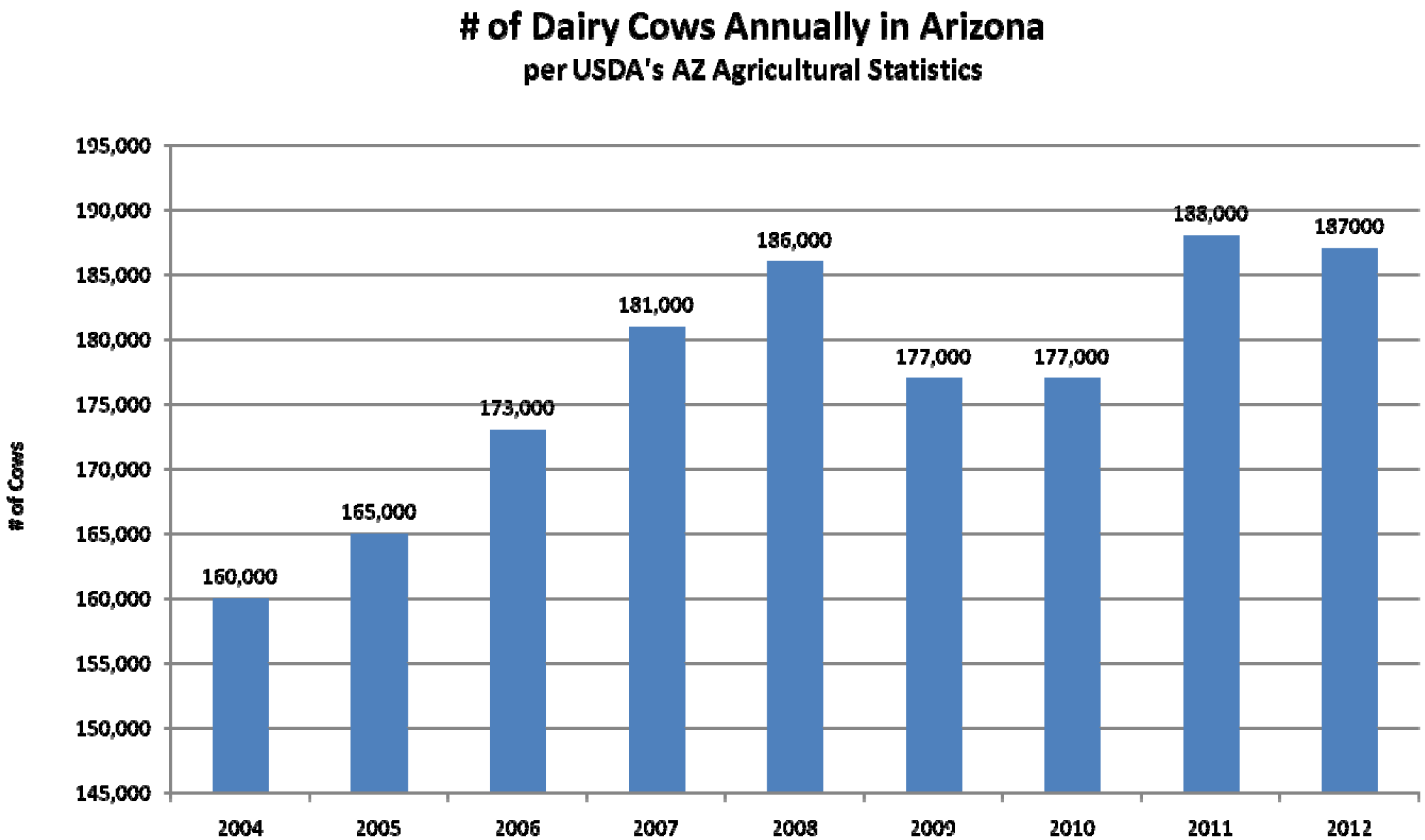
- Economic recovery has increased the middle class, allowing for an increase in protein consumption and foreign trade.
- Export market remains strong
- Still oversupply of milk

Dairy Production Trends

- National milk production
  - Up 1.7% from December, 2012 to January 2013.
  - Up .5% from January, 2012 to January 2013 (expected +-1.5%)
  - Added 7k cows in January, 2012
- Arizona production
  - down .3% from December 2011, to December 2012
  - 2.5% fewer cows in Arizona from December 2011, to December 2012

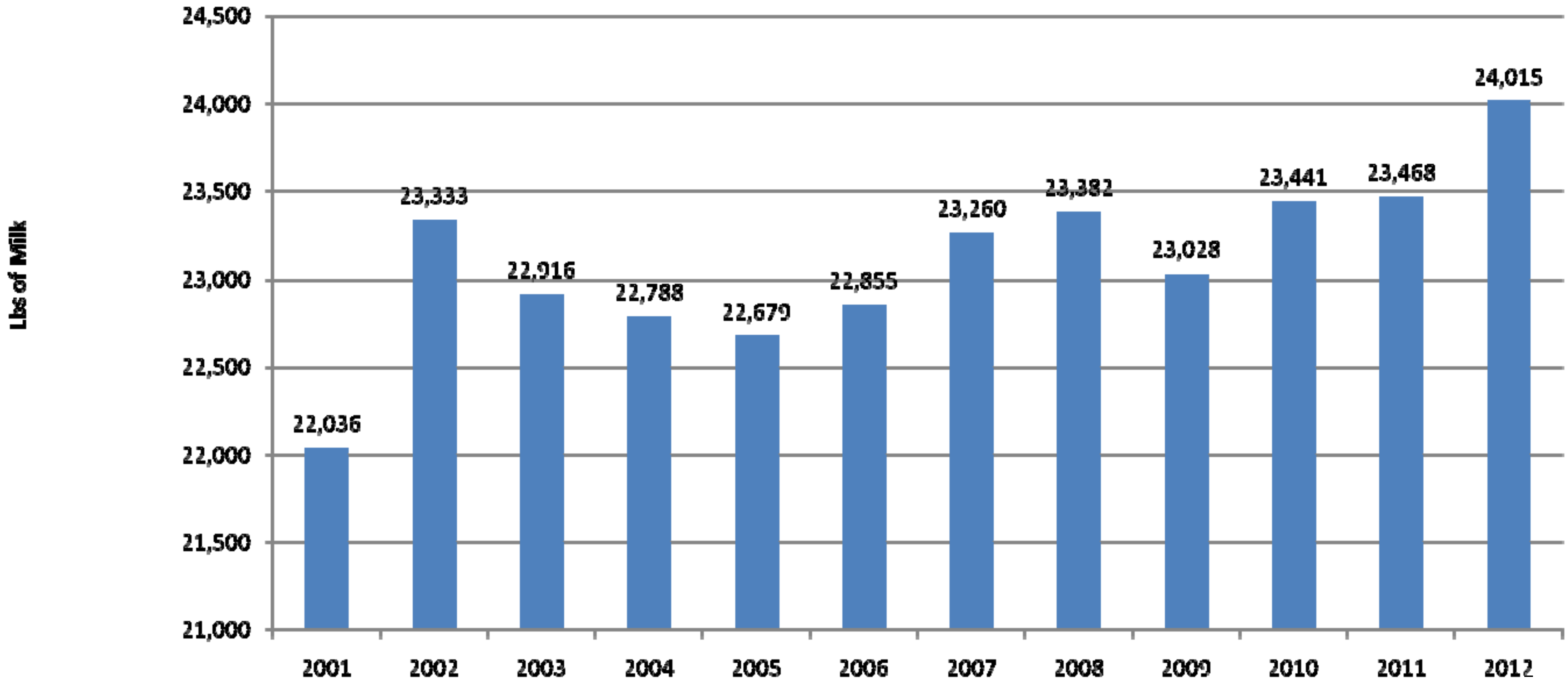
Dairy Industry Overview

- Though current dairy prices remain above historical averages, it is possible we will see a fall in product values through 2013, as it is projected that supply will continue to outpace demand.
- Even the most efficient operations will be challenged from a profitability standpoint with high feed costs.
- Continue to trend towards growing your own feed

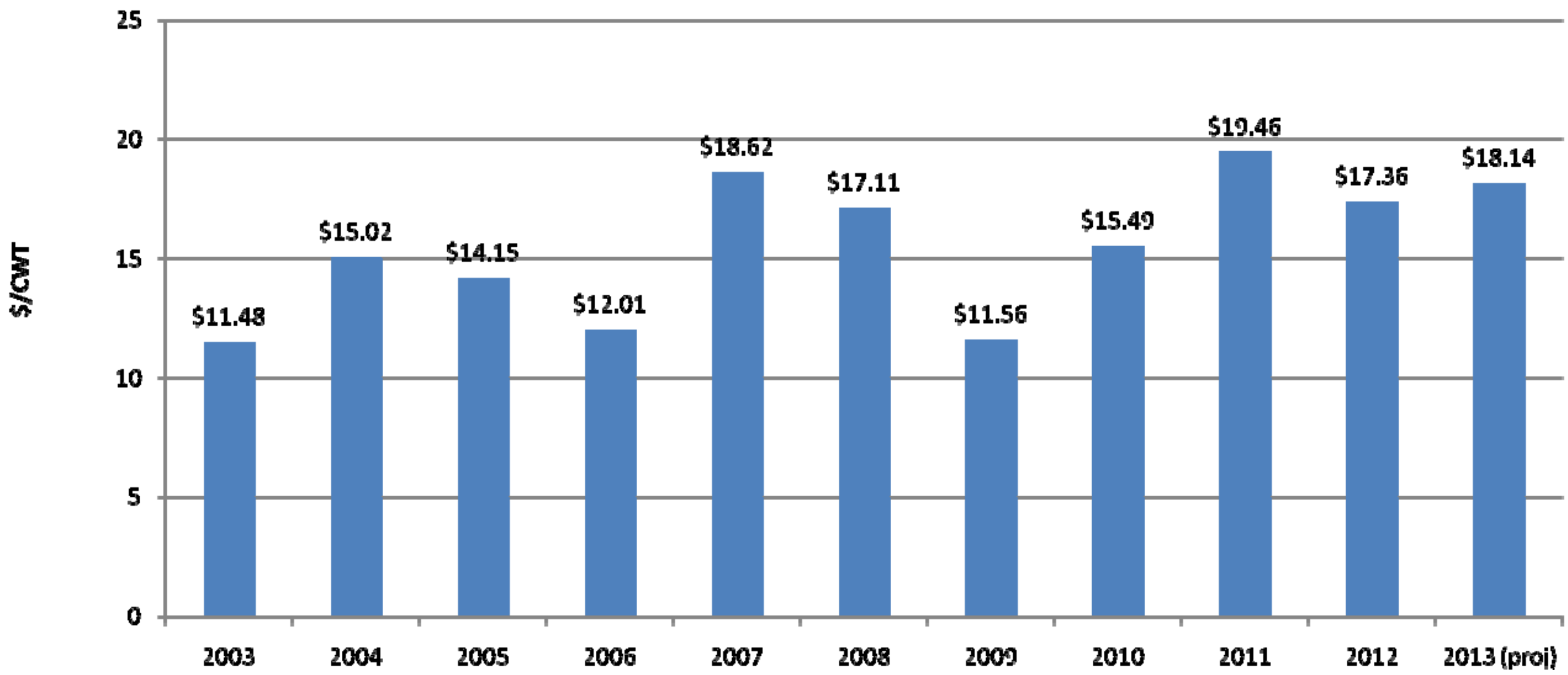


January 1, 2012, there were 191,000 head in the AZ, compared to 185,000 on January 1, 2013

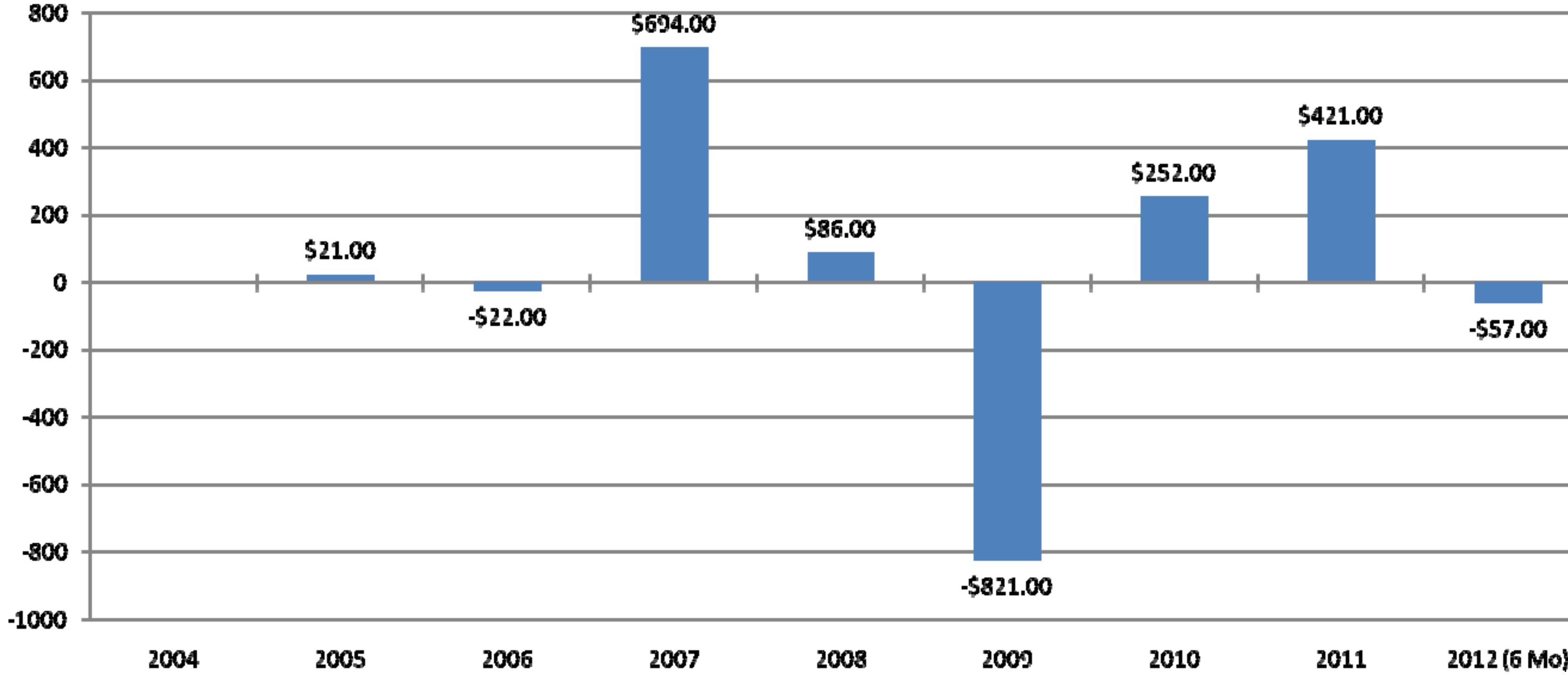
AZ Milk Production Per Cow
per USDA's AZ Agricultural Statistics



UDA Blended Milk Price
50-50 Blend Quota/Over Quota



Dairy Net Income Chart
$ Per Cow
Data Provided by Frazer, Frost LLLP



Dairy Income & Expense Trends

Data Provided by Frazer, Frost LLLP's "Dairy Farm Operating Trends"

Income/ Cow	*2007*	*2008*	*2009*	*2010*	*2011*	*2012 (Through 6 Months)*
Milk	**$4,115**	**$3,702**	**$2,569**	**$3,510**	**$4,253**	**$1,979**
Calves-other	**82**	**63**	**52**	**22**	**54**	**38**
Gross/cow	***$4,197***	***$3,765***	***$2,621***	***$3,532***	***$4,307***	***$2,017***
Expenses/Cow						
Feed	**$1,622**	**$1,853**	**$1,728**	**$1,549**	**$2,180**	**$1,317** **($2,634 annualized)**
Labor	**318**	**322**	**323**	**334**	**343**	**194**
Herd Repl.	**368**	**351**	**399**	**316**	**265**	**109**
Other	**1,195**	**1,153**	**992**	**1,036**	**1,098**	**440**
Total Ex.	**$3,503**	**$3,679**	**$3,442**	**$3,280**	**$3,886**	**$2,060**
Net Income/Cow	**$694**	**$86**	**(821)**	**$252**	**$421**	**(9.50)**
Net Income/Cow/ Month	**$58**	**$7**	**($68)**	**$21**	**$35**	**(57)**

Income and Cost Comparison by Area Through First 6 Months of 2012							
	Southern California	San Joaquin Valley	Kern County	Arizona	Idaho	New Mexico	Panhandle
Income:							
Milk Sales	$ 1,763	$ 1,681	$ 1,790	$ 1,979	$ 1,805	$ 1,770	$ 1,733
Other	$ 24	$ 33	$ 25	$ 23	$ 38	$ 56	$ 33
TOTAL INCOME	**$ 1,787**	**$ 1,714**	**$ 1,815**	**$ 2,003**	**$ 1,843**	**$ 1,826**	**$ 1,766**
Expenses:							
Feed	$ 1,287	$ 1,216	$ 1,268	$ 1,317	$ 1,057	$ 1,252	$ 1,117
Labor	$ 187	$ 146	$ 137	$ 194	$ 172	$ 171	$ 184
Herd Replacement Costs	$ 156	$ 111	$ 120	$ 109	$ 107	$ 70	$ 120
Other	$ 399	$ 426	$ 393	$ 440	$ 493	$ 509	$ 477
TOTAL EXPENSES	**$ 2,029**	**$ 1,899**	**$ 1,918**	**$ 2,060**	**$ 1,829**	**$ 2,002**	**$ 1,898**
NET INCOME	**$ (242)**	**$ (185)**	**$ (103)**	**$ (57)**	**$ 14**	**$ (176)**	**$ (132)**

Note that Arizona has highest income/cow, and also highest cost per cow.

Milk to Feed Ratio- US

- Measures the price of milk vs feed costs
- Average results: A ratio of 2.5 or better allows room for herd expansion, 2.0-2.49 is a stable area, and 1.99 or worse depicts a time of retraction.
- Measured across US

Month	2011	2012
January	1.96	1.72
February	2.01	1.56
March	2.12	1.48
April	1.81	1.41
May	1.71	1.34
June	1.86	1.38
July	1.88	1.34
August	1.83	1.36
September	1.84	1.58
October	1.82	1.73
November	1.89	1.73
December	1.81	1.65

Arizona Dairy Sales

- No dairy sales in 2011 or 2012
- Prior to 2010, no true dairy sales since 2001
- 4 Dairy Sales in 2010
  - 2 lender owned facilities
  - 2 conventional buyer/seller transactions
  - Sale prices range from $1,705 per cow to $2,737 per cow
    - Higher costs per cow include Saudi style corrals/shades, full heifer replacement facilities and housing
    - Lower sale price per cow is partial Saudi style, partial conventional corrals

Arizona Dairy Sales

  - All 4 were newer, modern at least partially Saudi style
  - These sales indicate estimated external depreciation/ obsolescence of -3.23% through -42%, average of -20%
  - Capitalization rates estimated between 5.24%-7.57%
- No recent older dairy facility sales for purely dairy value since 2001 to show current value
  - Below 2010 newer dairy sale prices

Rental Rates

- Recently negotiated leases indicate rental rates maintained historical levels despite loss in profitability.
- Newer dairies with Saudi style shades/corrals
  - $15-$17 per wet head per month
- Conventional style dairies
  - Typical rental rate $8-12 per wet head/month
- Above average cow cooling, on-site housing and calf facilities command more rent per cow

Dairy Listings

- 1 current listing of newer, over 10k head, conventional corral dairy including housing and farmland for about $1,900/cow

Dairy Industry Outlook

- Still cautious
- High feed prices are not softening
- New construction almost non-existent

AZ Dairy Industry

- Questions??