

Arizona Dairy Market Trends



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Farm Credit Services
S O U T H W E S T



Dairy Industry Overview

- 2014 was very profitable
 - Record high milk prices over \$24/cwt for period
 - Lower grain, hay remains high
 - \$17-\$18 per cwt breakeven
 - Asian countries consuming more dairy without ability to produce it
 - Stockpiled exports 1st half 2014



Dairy Industry Overview

- US herd and milk supply increased towards 2nd half 2014
 - Nationwide dairy herd increased 1% from 1/1/2014 to 1/1/2015
 - 4 quarter 2014 US milk supply increased 3.8%
- Arizona herd and milk supply
 - 4th Quarter 2014 AZ milk production increased 4.8% from 4th quarter 2013
 - AZ Dairy herd increased about 2% in 2014



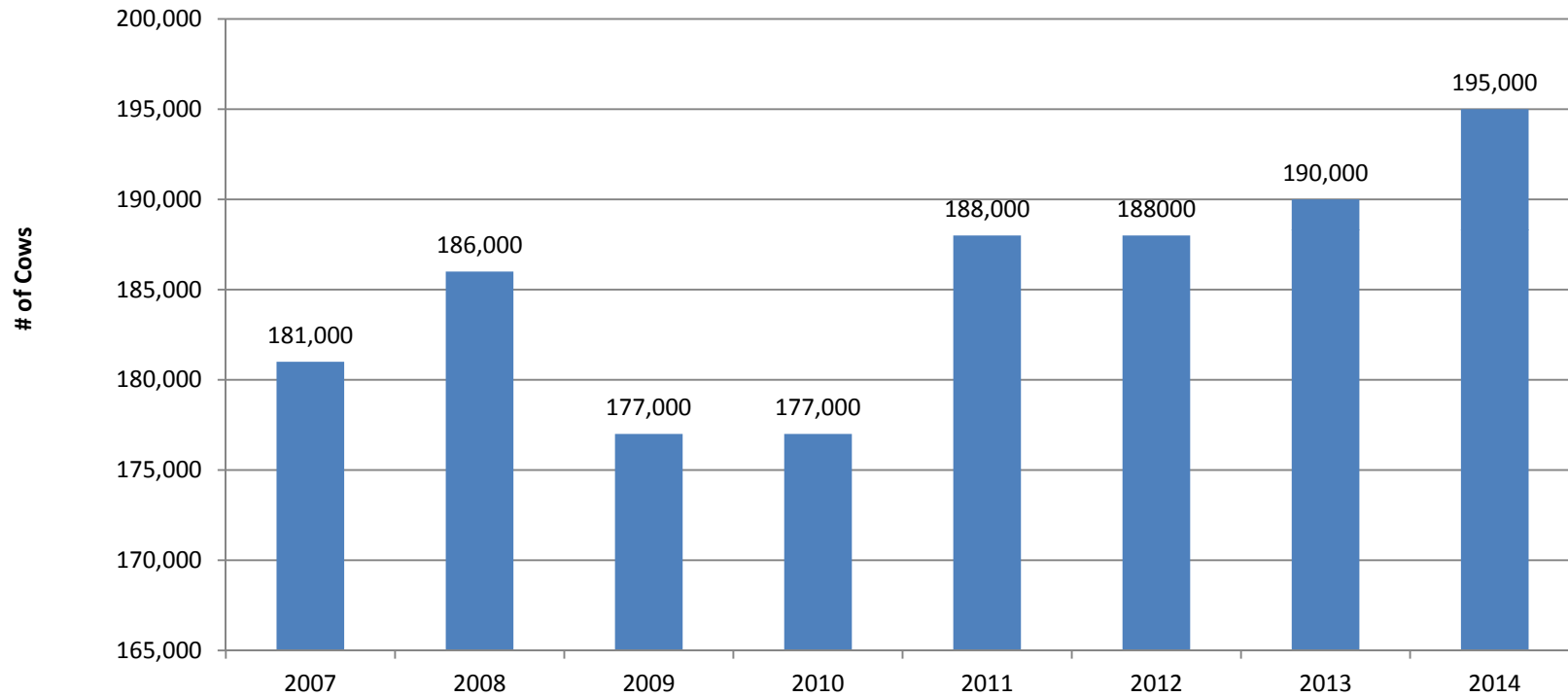
Dairy Income & Expense Trends

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

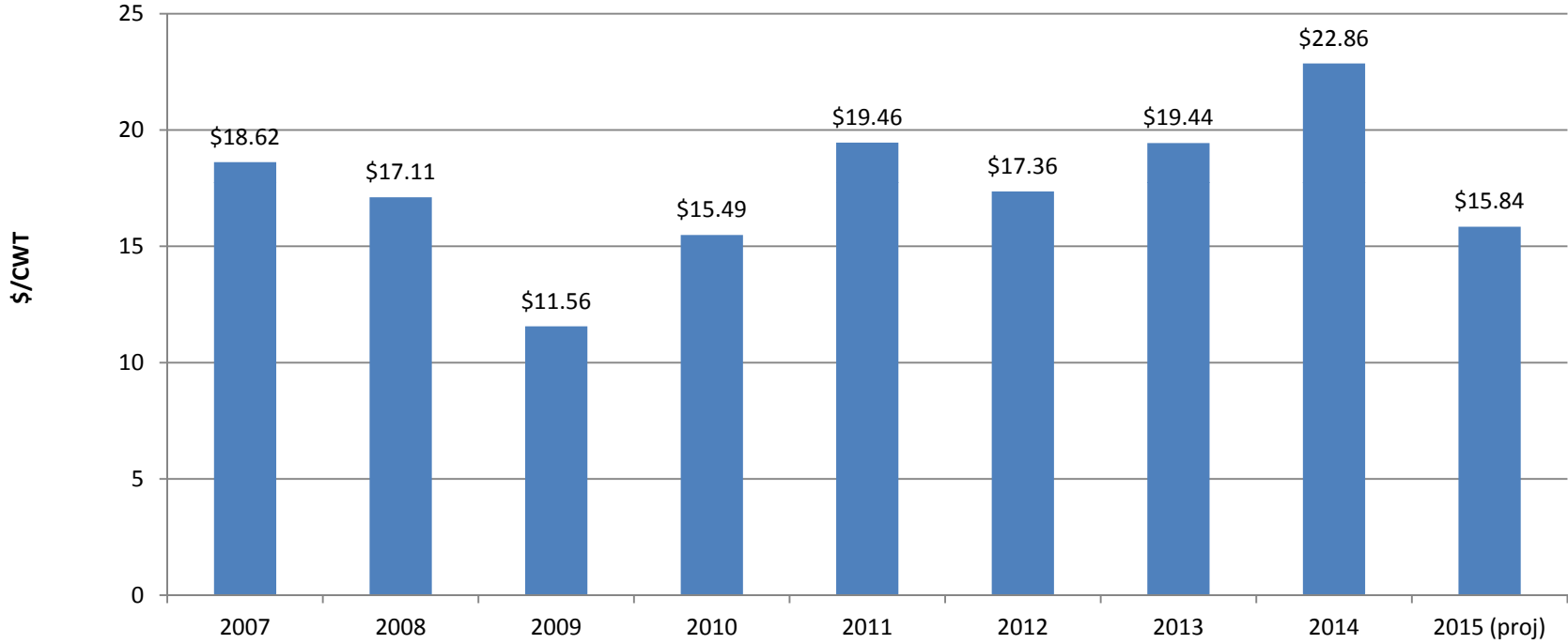
Income/ Cow	2009	2010	2011	2012	2013	2014 (1 st 6 months)
Milk	\$2,569	\$3,510	\$4,253	\$4,001	\$4,351	\$2,900
<u>Calves-other</u>	<u>52</u>	<u>22</u>	<u>54</u>	<u>67</u>	<u>80</u>	<u>77</u>
Gross Income/cow	\$2,621	\$3,532	\$4,307	\$4,068	\$4,431	\$2,977
Expenses/Cow						
Feed	\$1,728	\$1,549	\$2,180	\$2,490	\$2,527	\$1,318
Labor	323	334	343	411	408	212
Herd Repl.	399	316	265	221	221	95
<u>Other</u>	<u>992</u>	<u>1,036</u>	<u>1,098</u>	<u>1,001</u>	<u>1,068</u>	<u>527</u>
Total Ex.	\$3,442	\$3,280	\$3,886	\$4,123	\$4,224	\$2,152
Net Income/Cow	(821)	\$252	\$421	(55)	207	825



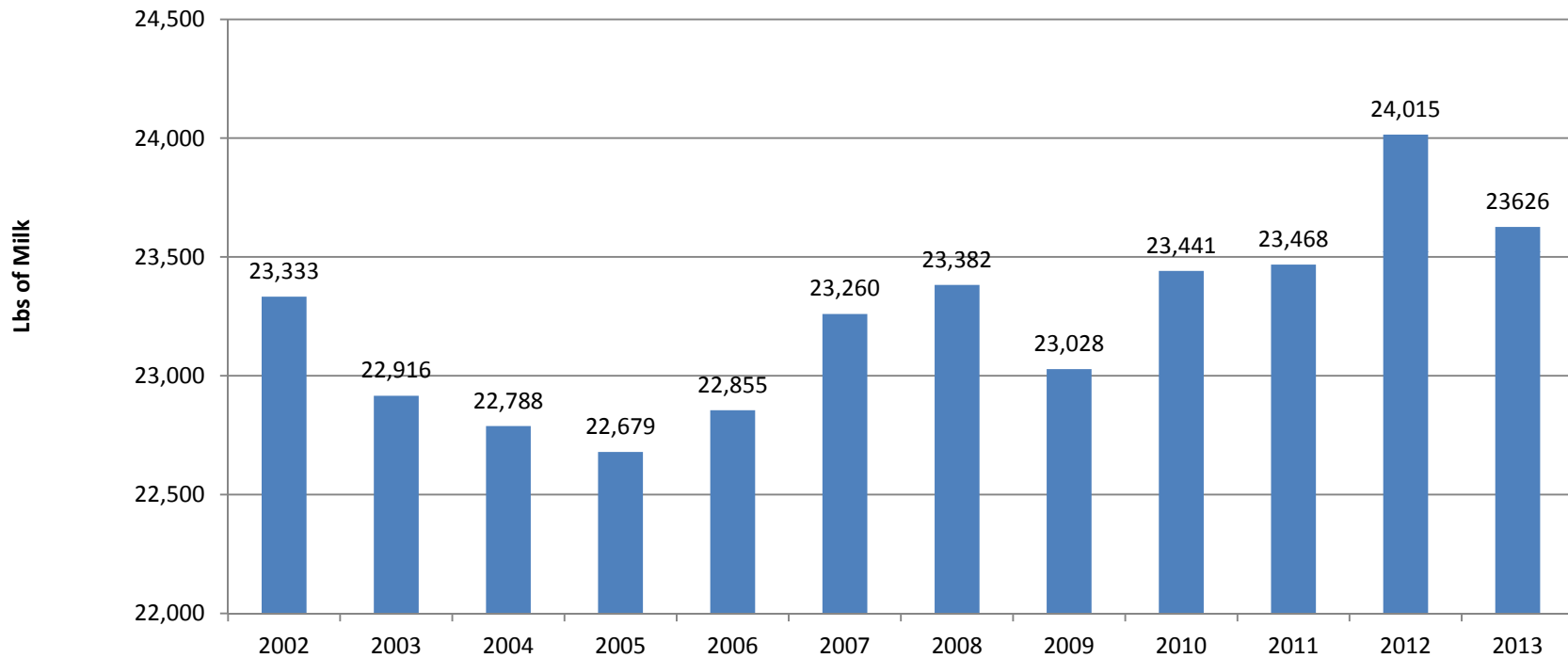
of Dairy Cows in Arizona per USDA's AZ Agricultural Statistics



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



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



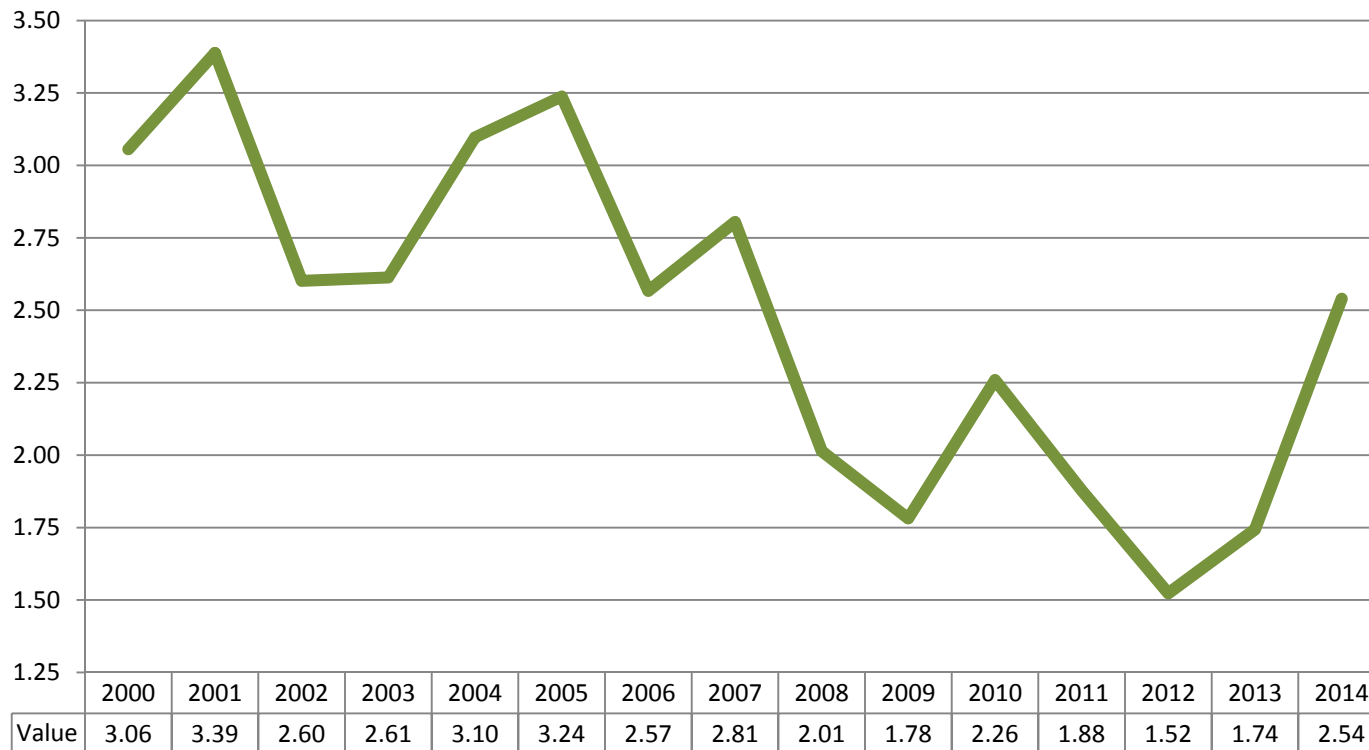
**2014 per cow data not available, but USDA reports 4.8% increase in 4th quarter
With only +-2% increase in herd.**



Milk to Feed Ratio- US

- Measures how much feed can be purchased with 1lb of milk
- Historically 2.5 or higher means profit/expansion, 2 or lower means contraction
- 2014 was highest since 2006

Milk-Feed Price Ratio - US



Arizona Dairy Values

- Sales activity still limited
- Saudi style facilities
 - 4 Sales in 2010: \$1,700 to \$2,737 per cow
 - Cochise County dairy recent sold with very large land base
- Older conventional style dairies
 - 1 arm's length sale in 2014, included large land base
 - Older sales for \$1,000 to \$1,500 per cow
- Values vary depending land base, replacement facilities and on-site housing



Rental Rates

- Rental rates remain steady
- Older conventional dairies
 - \$8-12 per wet head/month
- Newer Saudi style dairies
 - \$15-\$17 per wet head/month
- Above average cow cooling, on-site housing and calf/heifer facilities command more rent per COW



Heifer & Cow Prices

- Day old Holstein heifer calves
 - \$400-\$500
- Holstein Springers and Cows
 - Peaked at \$2,500-\$3k in 2014
 - Currently \$2,000-\$2,500



Dairy Industry Outlook

- Lower milk prices in 2015
 - US milk supply increased 2nd half of 2014 and continues into 2015.
 - Increase production in EU and Australia
 - Exports slowed late 2014
- Domestic consumption relatively flat
- Feed prices lower

