

# Arizona Dairy Market Trends



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S O U T H W E S T



# Dairy Industry Overview

- First ½ of 2016 was not profitable, 2<sup>nd</sup> ½ prices milk price improved to above breakeven
- US milk production increased 2.4% from 4<sup>th</sup> qrtr 2015 to qrtr 2016.
- US dairy herd increased 26,000 hd (.28%) year over year in 4<sup>th</sup> quarter 2016

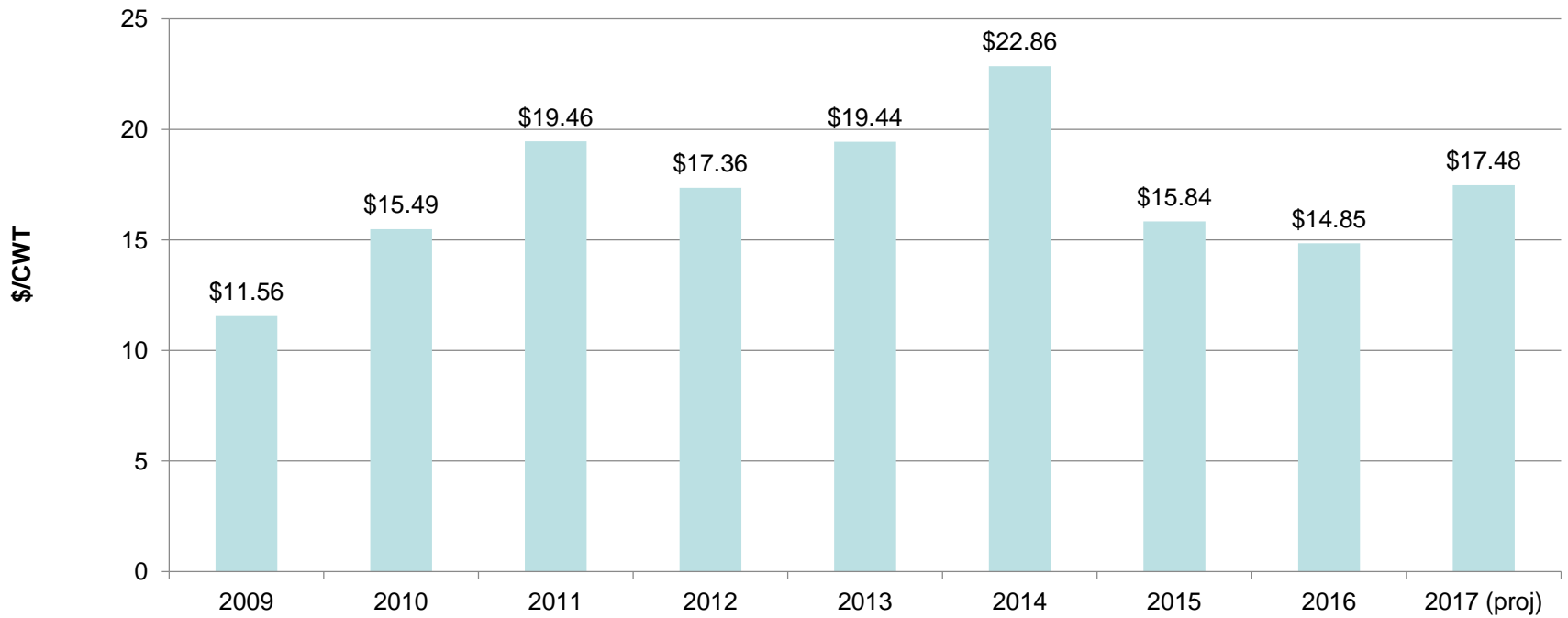
# Dairy Income & Expense Trends

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

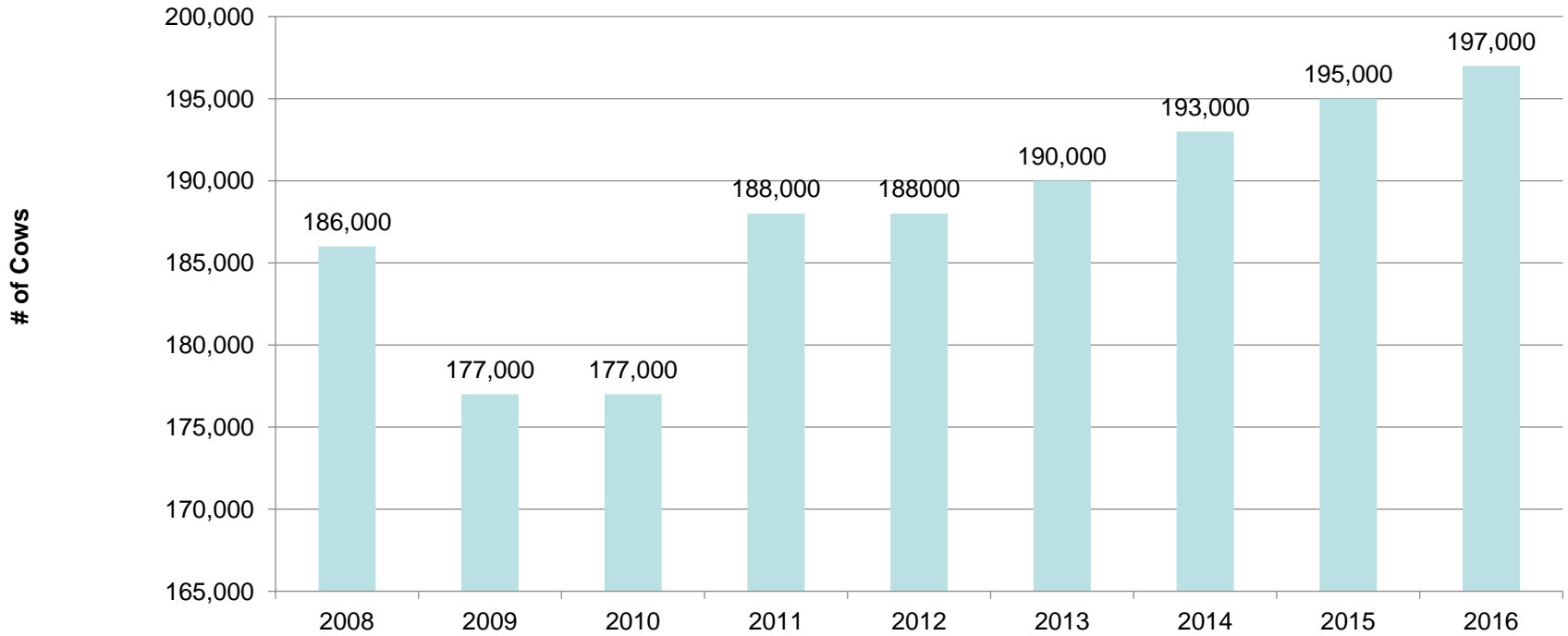
Income/ Cow	2011	2012	2013	2014	2015	2016 (1 <sup>st</sup> 6 Months)
<b>Milk</b>	\$4,253	\$4,001	\$4,351	\$5,113	\$3,703	\$1,705
<b><u>Calves-other</u></b>	<u>54</u>	<u>67</u>	<u>80</u>	<u>263</u>	<u>203</u>	103
<b>Gross Income/ Cow</b>	\$4,307	\$4,068	\$4,431	\$5,376	\$3,906	\$1,808
<b>Expenses/Cow</b>						
<b>Feed</b>	\$2,180	\$2,490	\$2,527	\$2,350	\$2,148	\$1,069
<b>Labor</b>	343	411	408	451	450	227
<b>Herd Repl.</b>	265	221	221	151	198	109
<b><u>Other</u></b>	<u>1,098</u>	<u>1,001</u>	<u>1,068</u>	<u>1,163</u>	<u>1,137</u>	562
<b>Total Ex.</b>	\$3,886	\$4,123	\$4,224	\$4,15	\$3,933	\$1,967
<b>Net Income/ Cow</b>	\$421	(\$55)	\$207	\$1,261	(\$27)	(\$159)



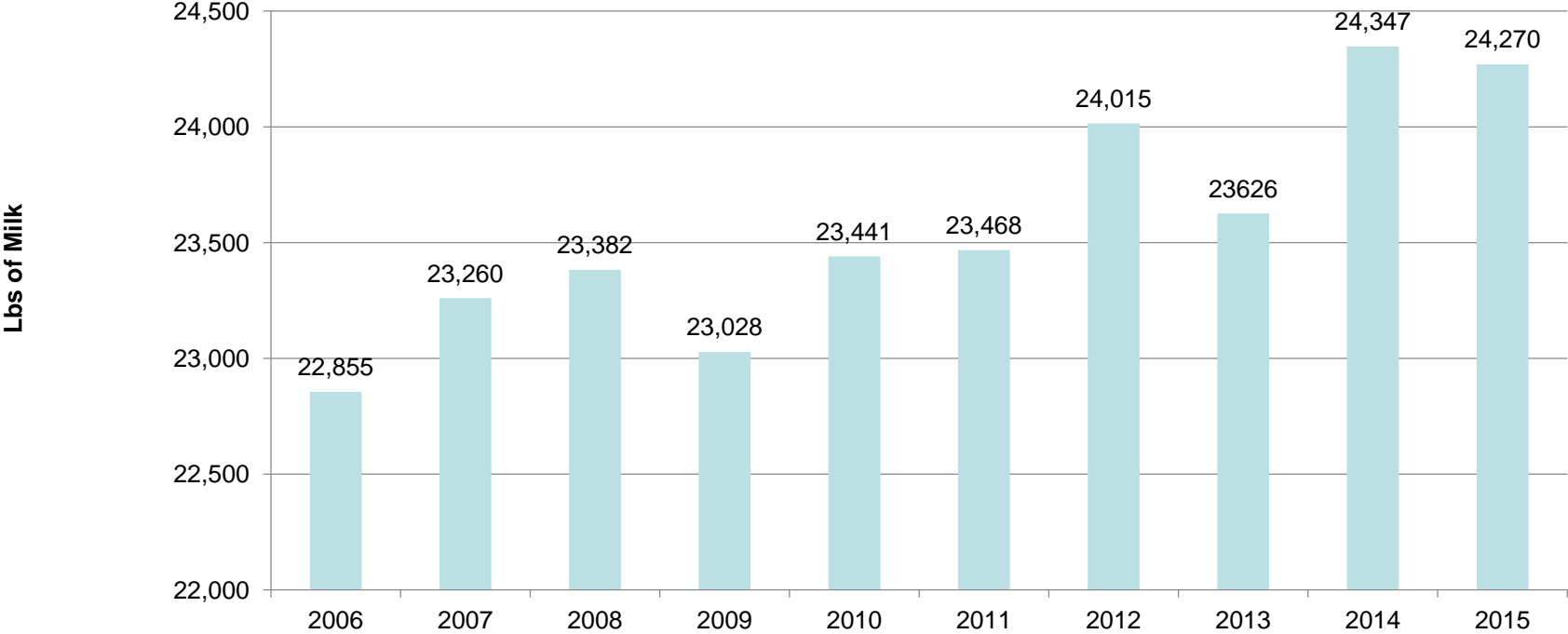
## AZ Milk Price 50-50 Blend Quota/Over Quota



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



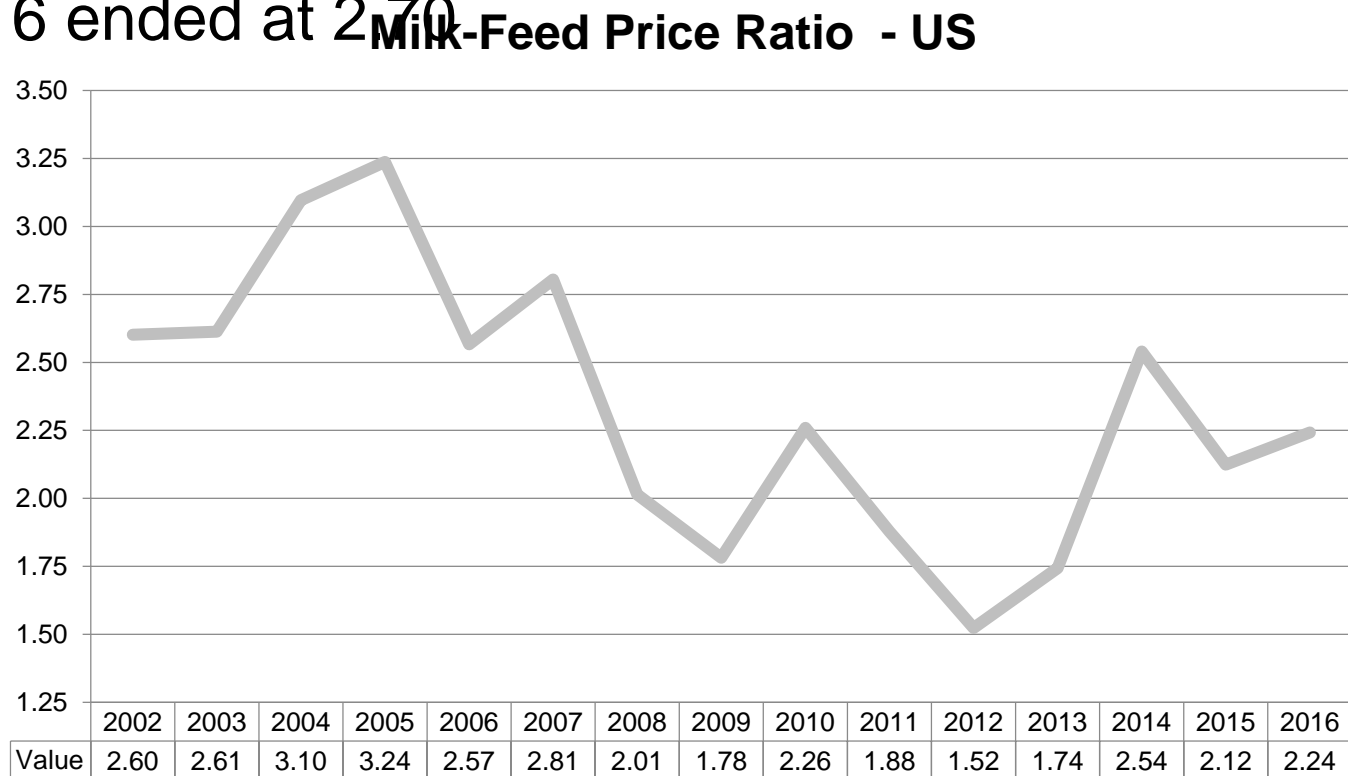
# AZ Milk Production Per Cow per USDA's AZ Agricultural Statistics



# Milk to Feed Ratio- US

Source- UW Madison

- Measures how much feed can be purchased with 1lb of milk
- Historically 2.5 or higher means profit/expansion, 2 or lower means contraction
- 2016 ended at 2.24



# Arizona Dairy Values

- Sales activity very limited
- Saudi style facilities
  - 4 Sales in 2010: \$1,700 to \$2,737 per cow
  - 2015 sale of a Cochise County dairy with very large land base. Isolating dairy on 640 acres of land equates to about \$2,080 per cow
- Older conventional style dairies
  - No recent sales noted.
  - 2014 sale \$1,480 per cow
  - 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
- Conventional dairies
  - \$8-13 per wet head/month
- Saudi style dairies- I've not seen any new Saudi barn rental rates in several years.
  - \$15-\$17 per wet head/month
- Above average cow cooling, on-site housing and calf/heifer facilities command more rent per cow



# Dairy Industry Outlook

- 2017 outlook more optimistic
  - Milk futures are higher and feed costs remain low
- Arizona dairy industry continues consolidation trend
- Concerns include changes in immigration policy



# Arizona Nut Crops

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## Young and Old Pecans





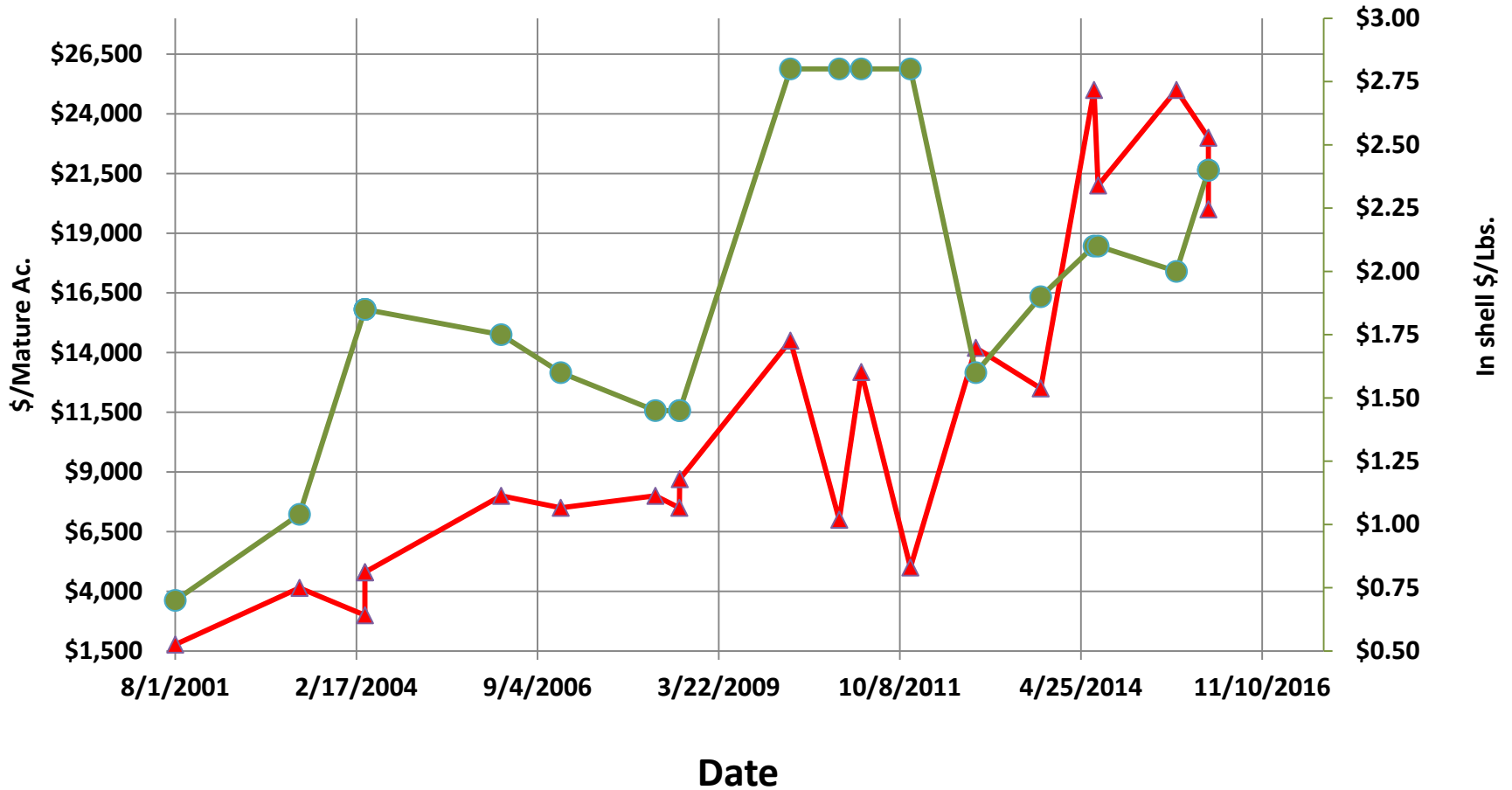
Pistachio Trees



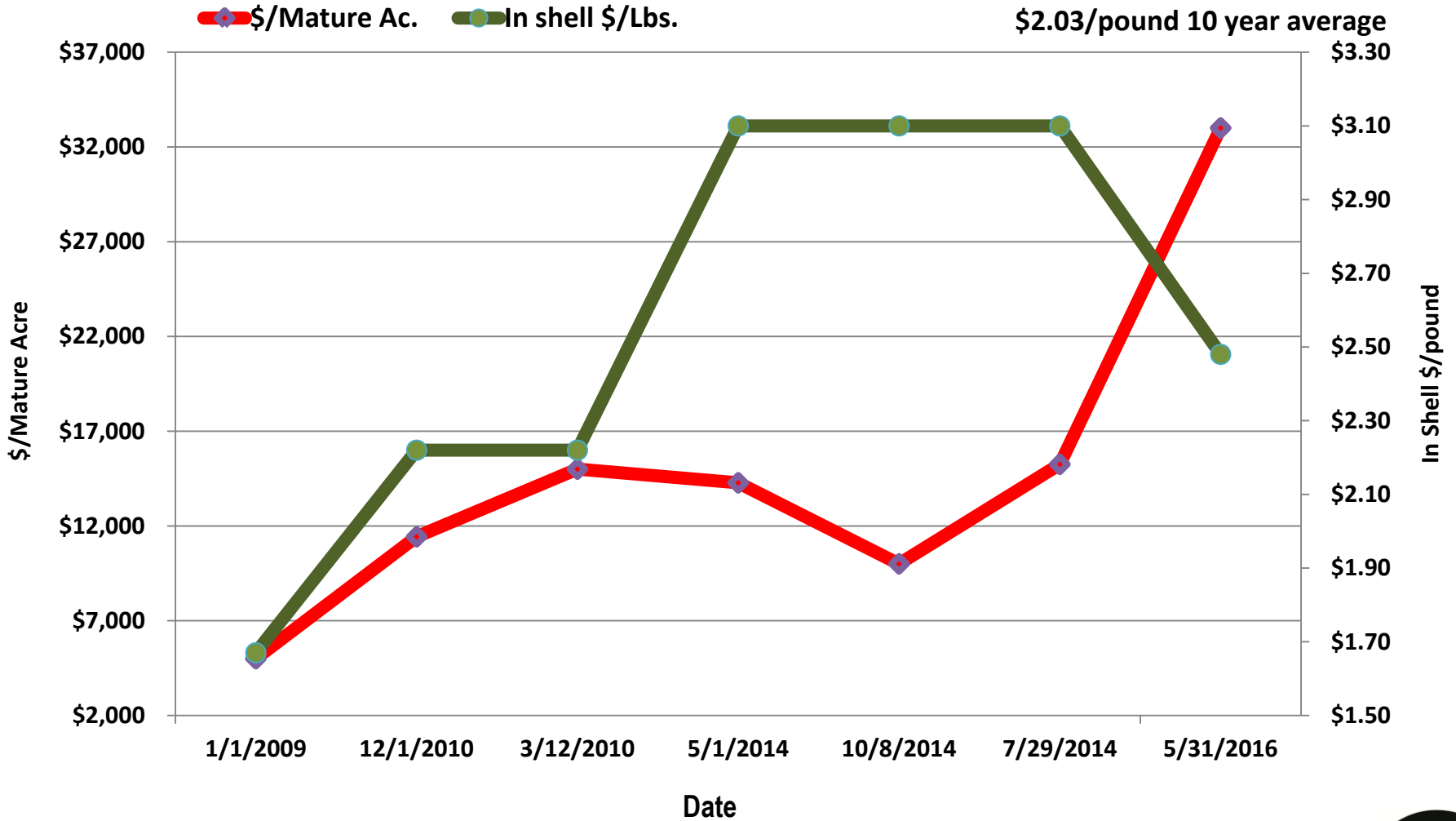
# Pecan Sales

\$1.89/pound 13 year average

▲ \$/Mature Ac.      ● In shell \$/Lbs.



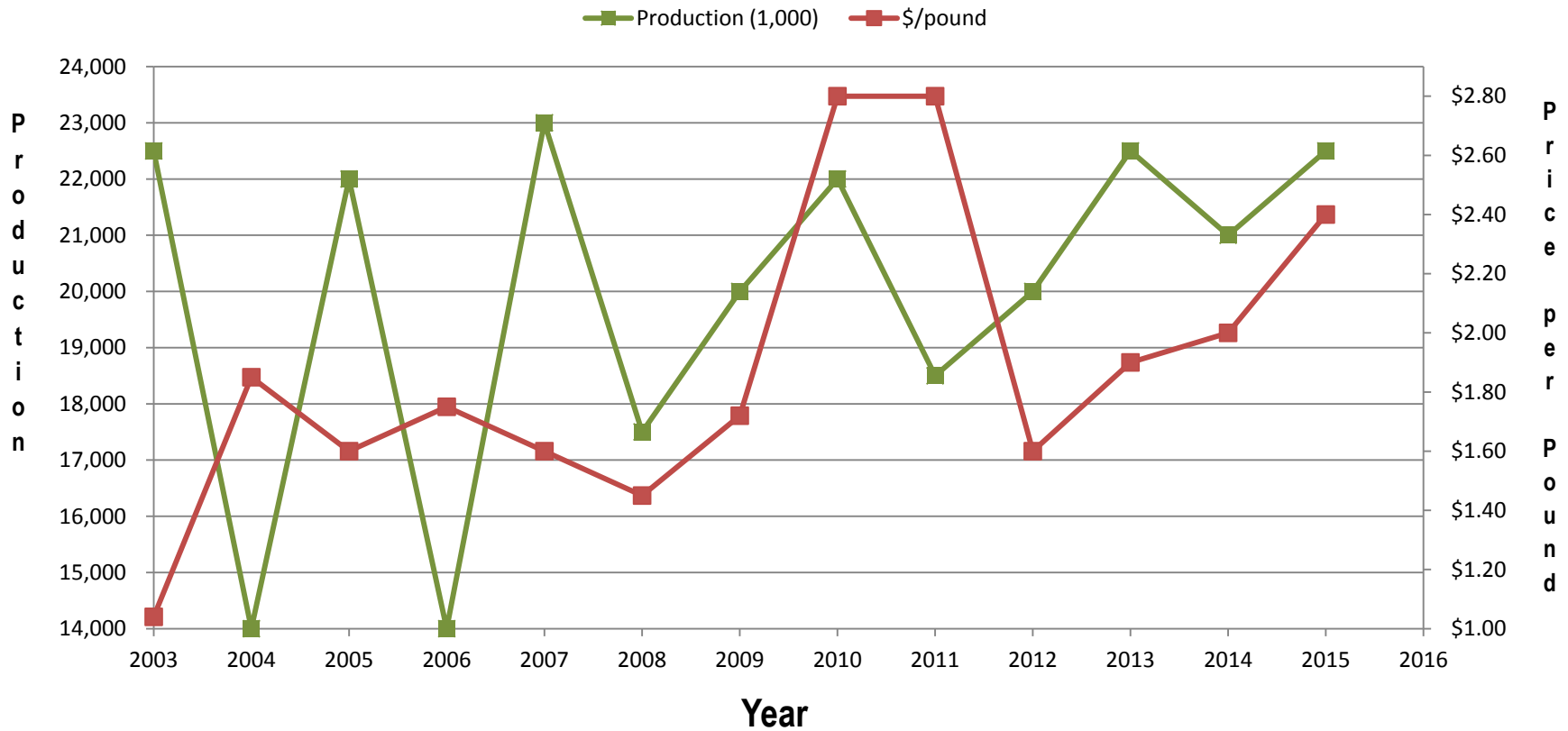
# Pistachio Sales



# Arizona Pecan

## Price per Pound & Production per Year

### Pecan Statistics Improved Varieties





# Arizona Pecans

- Arizona is the 4th largest producer of Pecans in the US averaging over 20 million pounds per year of utilized production
- This is 1/2 of the production of the 3rd largest producer which is New Mexico. Georgia Produces nearly 50% of total US improved variety nuts
- There are 20,000+- acres of pecans in Arizona with 13,500 acres bearing age



# Arizona Pecans

- There will likely be 27,000 to 30,000 planted acres by 2020 with 20k acres bearing
  - 1/3 of the plantings are in the Cochise County (Elfrida, Kansas Settlement, San Simon and Bowie) with other plantings noted in Pima, Pinal, Maricopa, Yavapai and Graham Counties
  - Most pecans planted 2,500-4,200 feet with good air drainage
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# Arizona Pecans

- 400-500 accumulated chilling hours in late fall to end of February required, 32-45°F ideal range
- Good mature production averages from 1,800 to 2,500 pounds/acre in-shell with breakeven prices being roughly \$.90 to 1/lb (in-shell). Best orchards may average 2,700+ lbs/acre
- Pecans are alternate bearing. Primary varieties are Westerns and Wichita's, Indian varieties increasing
- Primary challenge: matching up an adequate water supply with other elevation and climactic conditions



# Arizona Pistachios

- California is the largest pistachio producing State with 302K acres of which 233K acres are bearing
- Arizona has a very limited amount of Pistachio acreage with 4,300+- acres total. Mostly in Cochise County, lesser acreages in Graham & La Paz County (Wenden-Salome)
- Roughly 1,900 acres are mature bearing
- There are several thousand more acres which have been cleared or are in process in Cochise/Graham Counties mainly in the Bowie-San Simon area (Cochise) and Bonita (Graham)



# Arizona Pistachios

- Desired climate: similar to Pecans but Pistachios use less water and can tolerate lower quality water. Chilling hours required are reportedly 500+- hours between 32 and 45°F, November-February
- Good mature production exceeds 2,800-3,000 lbs/acre with a breakeven price of \$.70-\$1.00/lb
- Pistachios are alternate bearing similar to pecans
- Same challenges exist for water supply and climate as with pecans



# Market Expectations for local Pecans and Pistachios

Continued profitability for the foreseeable future. Pistachio plantings primarily in California may eventually put downward pressure on prices. China is a big nut buyer; downturns in that economy place pressure on nut prices. Cyclical commodity prices with 2015 being a down cycle for pistachio price at \$2.48/pound, down from \$3.10 in 2014. Pecans trended up during the same period from \$2.20 to \$2.40/pound.

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