



FARM CREDIT EAST





2020 – Summary & Outlook

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FARM CREDIT EAST

First Half 2020

As of this week, we have **62 farms** included through June 30, 2020

Average milk Income	\$18.29
Average Variable Costs	\$11.27
Average Overhead Costs	\$5.22
Average Net Margin	\$2.03

Dairy Profit Analyzer (DPA) provides dairies with financial information on a real-time basis.

The DPA is a **monthly budgeting tool** to help dairy farms see real-time cash flow and accrual data. This program also **applies seasonality** to price, production and expenses to help a farm **budget accurately**.

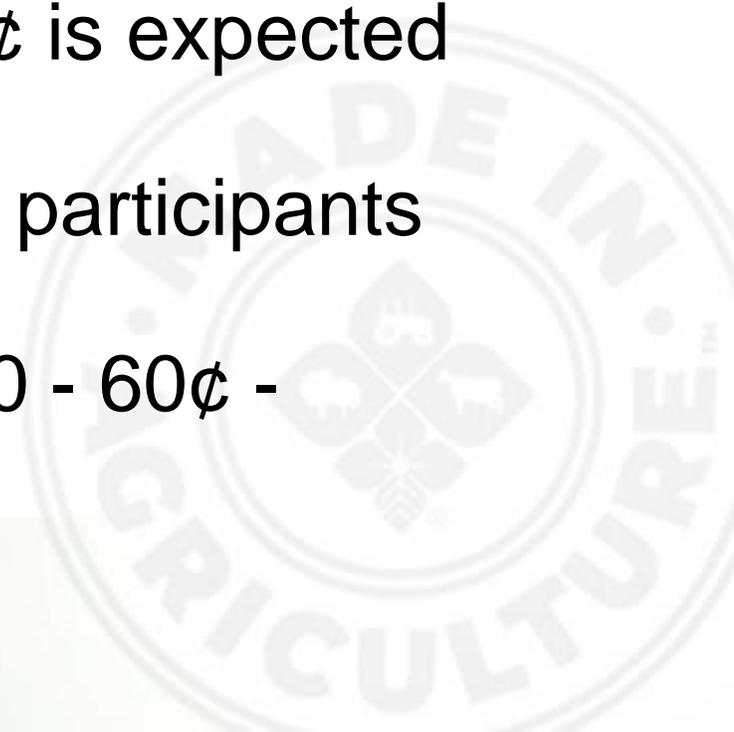
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First Half 2020

What changed compared to first half 2019?

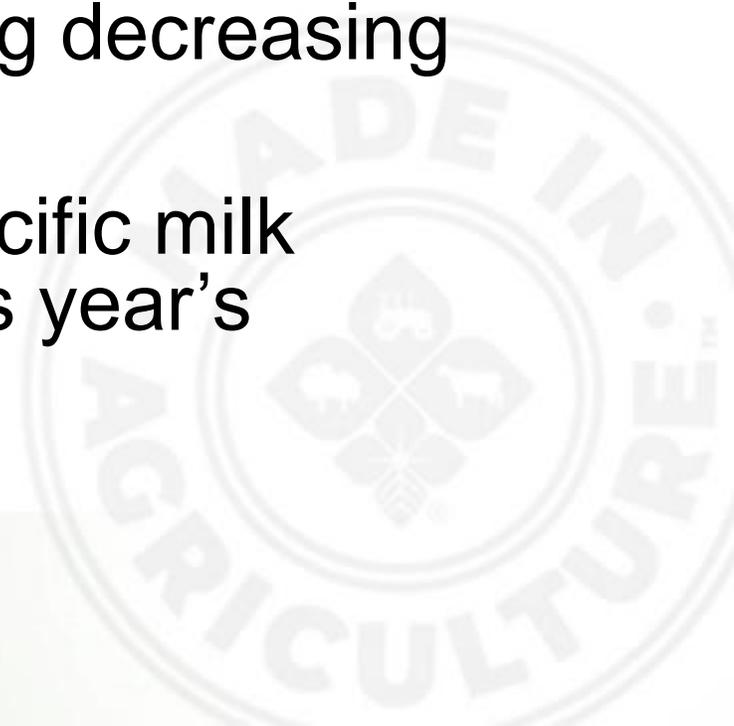
Income on a per hundredweight basis:

- Milk income is about 35¢ higher
- CFAP contributed approximately \$1.25
- Another CFAP payment of approximately 30¢ is expected by the end of this month
- Dairy Margin Coverage paid out up to 66¢ to participants (capped)
- Dairy Revenue Protection paid out between 0 - 60¢ - included in Milk Income



First Half 2020

- Base/quota programs were instituted by some milk handlers
- The effect of marketing organizations will be greater this year than any other in recent history
- Impacts depend on decisions made regarding decreasing production or not
- Risk management choices, weather and specific milk handlers will have a significant impact on this year's financial performance

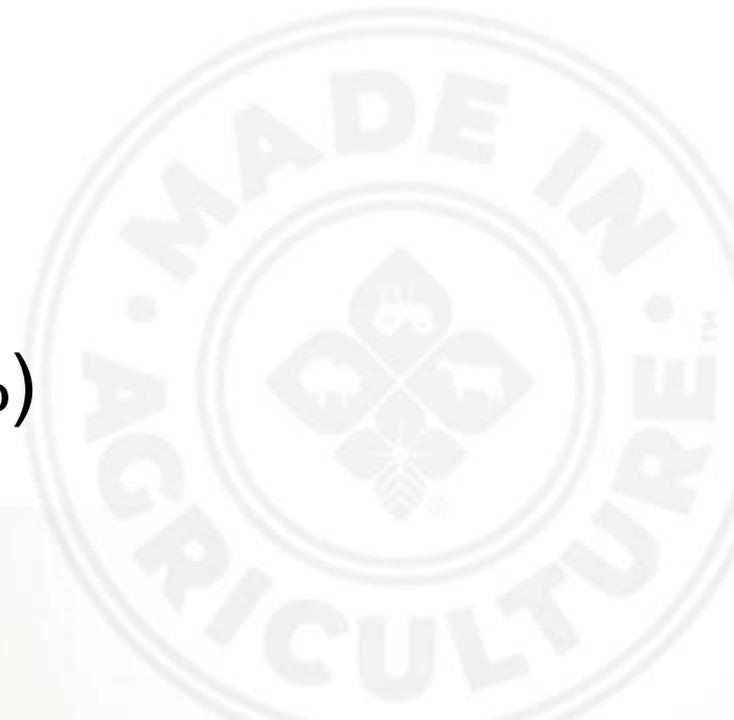


First Half 2020

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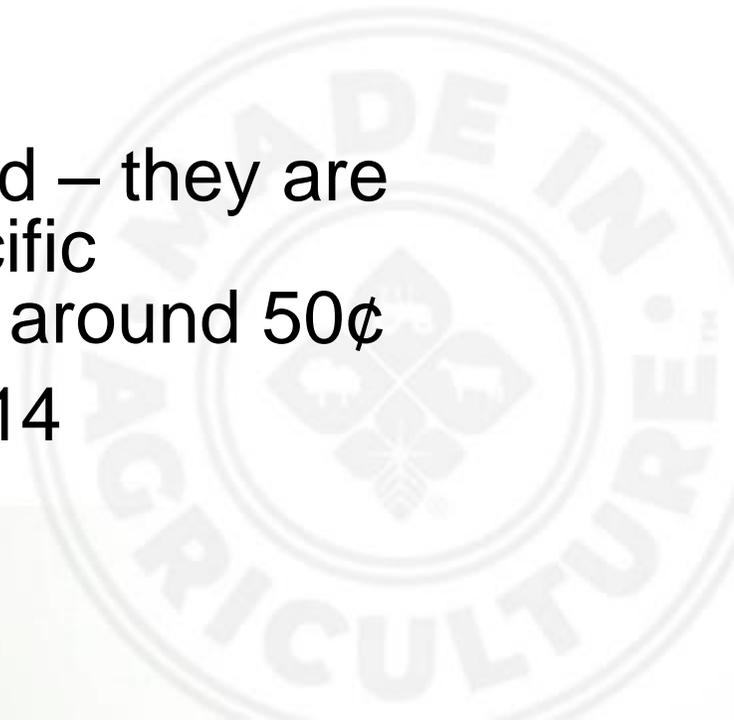
On a per hundredweight basis:

- Milk income is 35¢ higher
- Crop exp + forage purchases 20¢ lower
- Grain 45¢ higher
- Labor slightly higher
- Milk Marketing 5¢ higher
- Total variable expenses increased 40¢ (2.8%)



First Half 2020

- Completely offset by non-milk income increase of \$1.85
 - Mostly CFAP of approximately \$1.25
 - Additionally more cull cows, crop sales & misc.
- Gross Margin up \$1.80
- Overhead flat
- Net Margin up \$1.80
- Paycheck Protection Program funds not included – they are extraordinary income, variable due to farm-specific circumstances and (for most larger farms) were around 50¢
- Will likely be the best year we've seen since 2014



Outlook for the rest of this year

Second half milk income anticipated to be approximately 30¢ lower than first half with full year average of \$18.00 - \$18.50

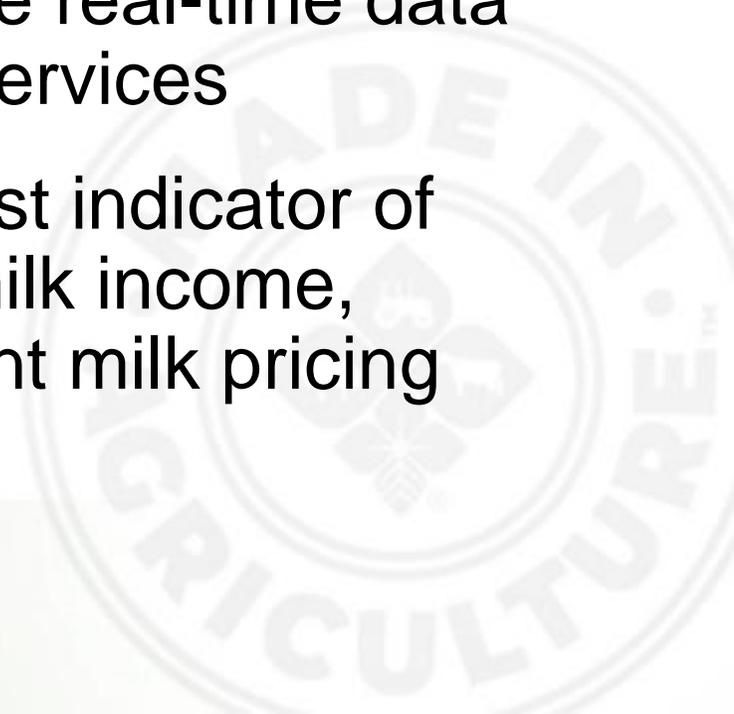
Caveat – we are still in a period of extreme milk price volatility

Factors include retail demand, food service demand, supply chain disruptions, inventory builds, export markets, recession, government policies and what farmers do to influence total supply



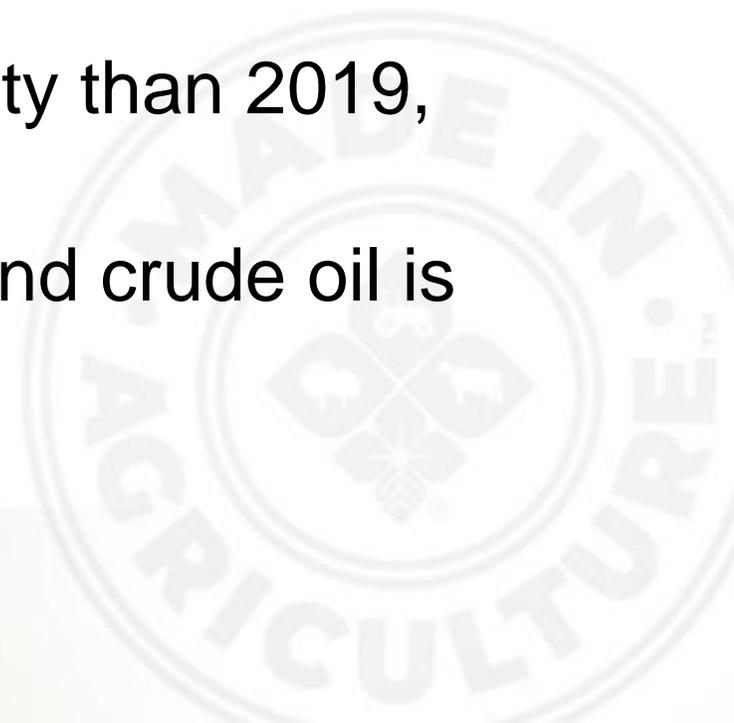
Outlook for the rest of this year

- Possibility of additional direct assistance to ag in next COVID bill currently be worked on in Congress
- U.S. milk prices had the biggest downward response to COVID of any country in the world. Perhaps due to more real-time data or perhaps due to impact of lockdown on food services
- Net Cost of Production is not going to be the best indicator of profitability in a year with extremely large non-milk income, revenue protection proceeds and wildly divergent milk pricing



Outlook for the rest of this year

- High unemployment will likely keep pressure on wages to remain steady
- Grain cost index is down 4.5% through June and futures markets give no indication of increases.
- Local crops look like forages will be higher quality than 2019, but some localized drought areas exist
- Fuel index for first half of 2020 is down 13.9% and crude oil is sticking around \$40 so far



Outlook for the rest of this year

- Full year expectations are for average Net Margin to be in the range of \$1.50 - \$2.50
- Specific circumstances for each farm will play a large factor





Questions?

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