Agri-Service Industry Report

January 2017 Dan Hassler

Improving Confidence Amongst Ag Producers

Two consecutive months of significant jumps in the Purdue/CME Ag Economy Barometer shows that agricultural producer sentiment is improving. December's reading of 132 was an increase of 13.8 percent relative to November and 40 points higher compared to October. The Index of Current Conditions and the Index of Future Conditions both increased in December. Last month's data showed a large increase in future expectations but just a modest two-point bump in the Index of Current Conditions. Responses to the December survey suggests that ag producers now believe that industry conditions are also improving in the present, not just in the future.

The share of respondents that expect "good times" financially for the general agricultural economy increased in the near term and long term. Regarding the next twelve months, 36 percent of respondents believe the ag economy will experience good times financially, compared to just 22 percent in November. In the December survey, 45 percent of respondents reported that they believe the ag economy will experience good times financially over the next five years, up from 37 percent a month earlier and this was also the highest value since the survey began in October 2015.

AEM Ag Tractor and Combine Report

Due to strong sales in the low horsepower category, overall US agricultural tractor sales increased 2.9 percent in 2016. 2WD tractor sales under 40 HP increased 12.1 percent Y/Y, however, mid-range and high horsepower 2WD sales declined in 2016. Unit sales for the 40 < 100 HP category fell by 3.7 percent, while sales for the 100+ HP category were down 22.4 percent compared to 2015. 4WD tractor sales also declined in 2016; at year end, 25.7 percent less 4WD farm tractors were sold in 2016 relative to the year prior.

Crop Production

The Northwest region expanded production for many crops in 2016, according to the USDA Crop Production 2016 Summary. While overall US barley production declined 8.7 percent Y/Y, 2016 production levels increased in Idaho, Oregon and Washington. After ranking second in 2015 behind North Dakota, Idaho ended the year as the nation's top producing state with greater than 62 million bushels harvested. Idaho's share of total U.S. barley production increased from 25.8 percent in 2015 to 31.1 percent in 2016.

Wheat production expanded in 2016 as well. The increase was modest in Oregon (+1.9%), significant in Idaho and Utah (+14.0% and 15.7%, respectively) and drastic in Washington (+40.6%). Surprisingly, acres planted in Washington decreased in 2016 but yields were much stronger (71.5 bu./acre in 2016 compared to 50.3 bu./acre in 2015). Washington finished the year as the fourth largest wheat producer, trailing just Kansas, North Dakota and Montana.

The US produced 58.3 million tons of alfalfa hay in 2016, a Y/Y decrease of 1.2 percent. However, while US farmers as a whole were cutting back, production expanded in Idaho, Oregon, Utah and Washington. Oregon increased production by 420,000 tons in 2016, an increase of 27 percent compared to 2015. Utah and Washington experienced production jumps of 6.5 percent and 10.3 percent, respectively. Of the four states, Idaho had the smallest Y/Y change (+4.8%) but also had the highest level of production. The state produced 4.4 million tons of alfalfa, which ranked second in the nation behind only California.

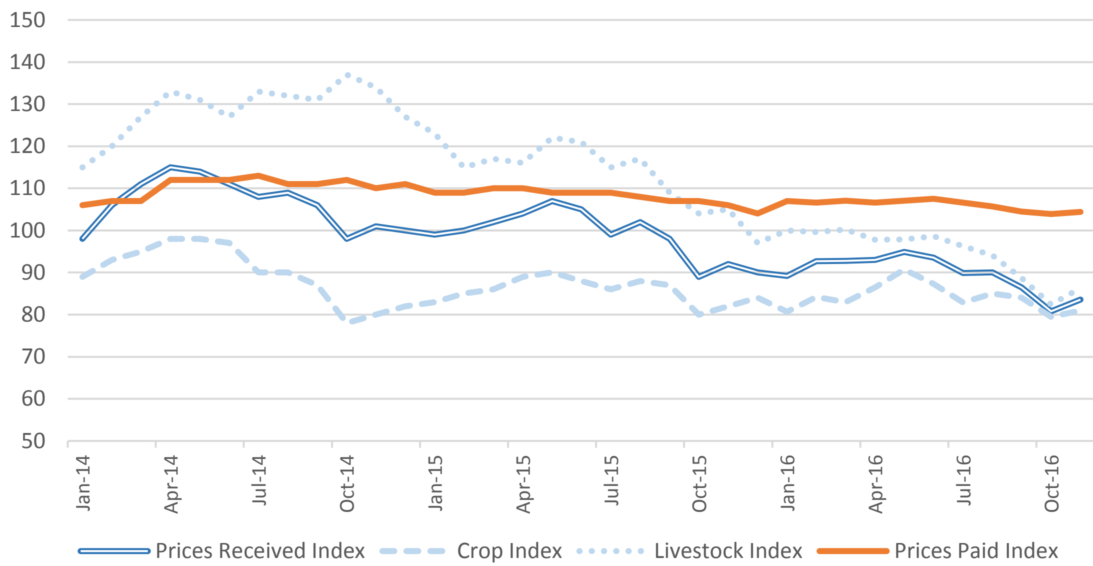
US potato production remained steady in 2016, dropping a mere 0.1 percent from 2015, but the northwestern states all increased production by at least five percent. Idaho, the nation's largest potato producer, generated 8.9 million cwt of additional potatoes in 2016, an increase of 6.8 percent. Oregon and Washington, the only two states yielding greater than 500 cwt/acre, saw production increase 5.3 percent and 5.4 percent, respectively. Combined, Idaho and Washington harvested 55.6 percent of the entire US potato crop in 2016, up from 52.3 percent a year earlier.

The hop and peppermint crops in Idaho also expanded in 2016. Compared to 2015, Idaho hop production increased 6.6 percent, while peppermint production rose 6.1 percent. Idaho harvested three-fourths of the total US hop crop and nearly 30 percent of the US peppermint crop.

The data in the annual report suggests that the low commodity prices have not deterred Northwest farmers from being aggressive producers, which is encouraging for equipment dealers in the region.

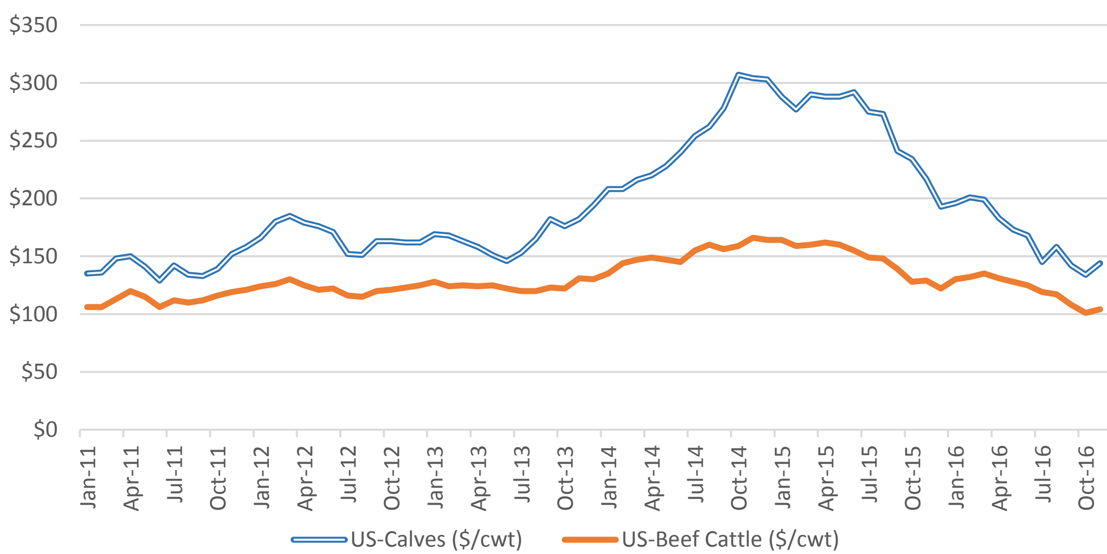
Commodity Prices

Agricultural Production Index, United States



The USDA reported increases in the Crop Production and Livestock Indexes for the month of November in its December Agricultural Prices release. November was the first month in which both indexes increased since May 2016. The Crop Production Index increased 1.9 percent relative to October, while the Livestock Index jumped 4.7 percent. Overall, the Prices Received Index reported a 3.5 percent increase M/M. Despite the positive gains in the prices received by farmers, all three indexes were reported below their November 2015 level. The Prices Paid Index increased half of one percent in November relative to October but declined 1.5 percent Y/Y.

Calves and Beef Cattle Prices Received, United States



The price received for calves experienced a significant jump in November, increasing 7.5 percent M/M. The November price received was $144/cwt compared to $134/cwt a month earlier. Likewise, the price received for beef cattle increased three percent M/M to a value of $104/cwt. Compared to November 2015, both calves and beef cattle prices were down significantly.

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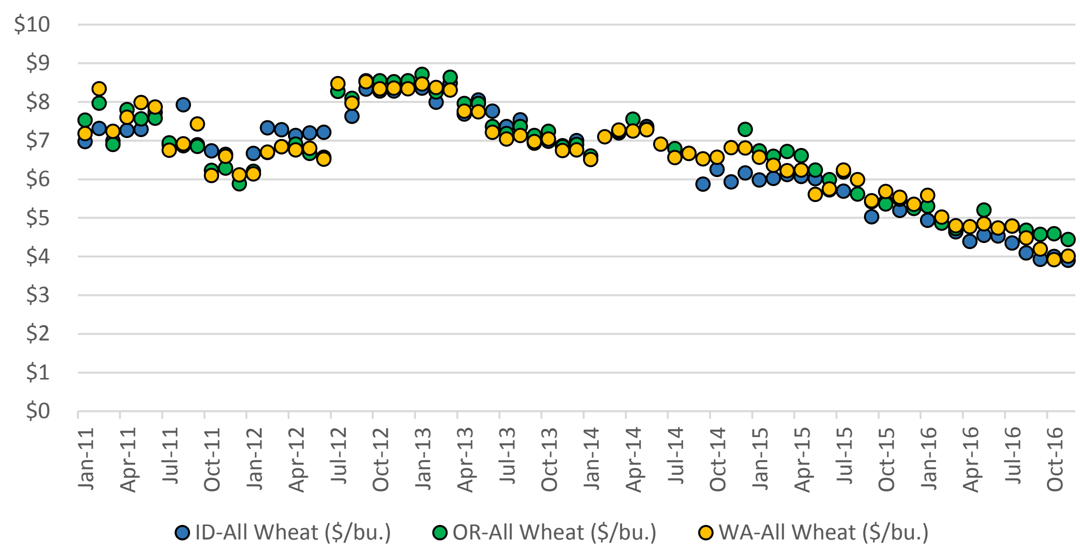
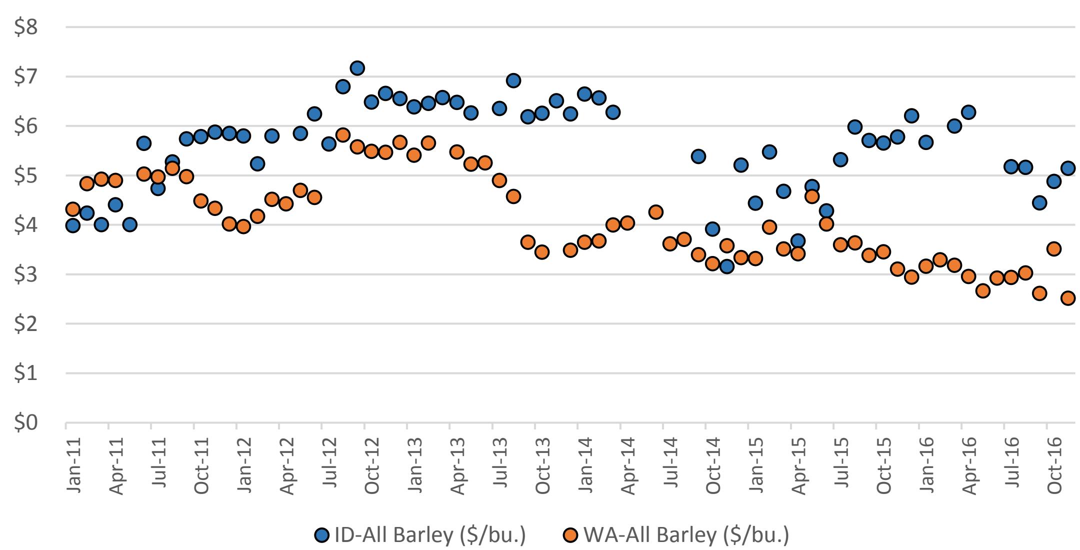
Wheat Prices Received, by State



Regional wheat prices declined again in November, as has been the case much of the past two years. Idaho farmers received $3.91/bushel (-2.5% M/M, -24.8% Y/Y) while the price received in Oregon was reported at $4.45/bushel (-3.3% M/M, -18.9% Y/Y). Washington farmers saw the price increase 2.3 percent relative to October, but compared to a year earlier, November's price of $4.02/bushel was down 27.4 percent.

Barley Prices Received, by State



The price received for barley moved in opposite directions for Idaho and Washington farmers in November. In Idaho, the price increased from $4.89/bushel in October to $5.16/bushel in November, an increase of 5.5 percent. The price in Washington declined 28.3 percent to a value of $2.53/bushel, which was the lowest level in the past five years.

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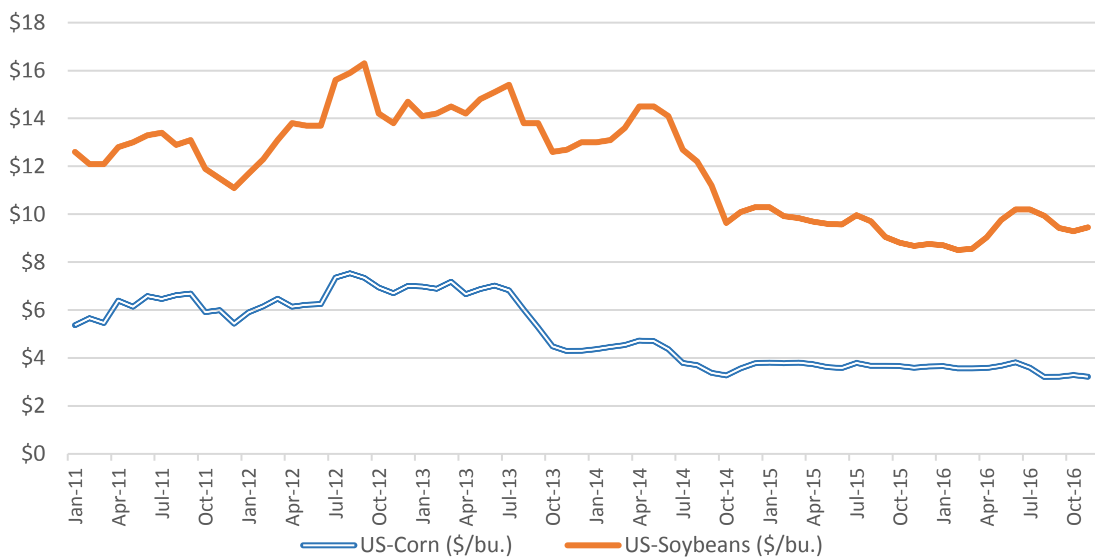
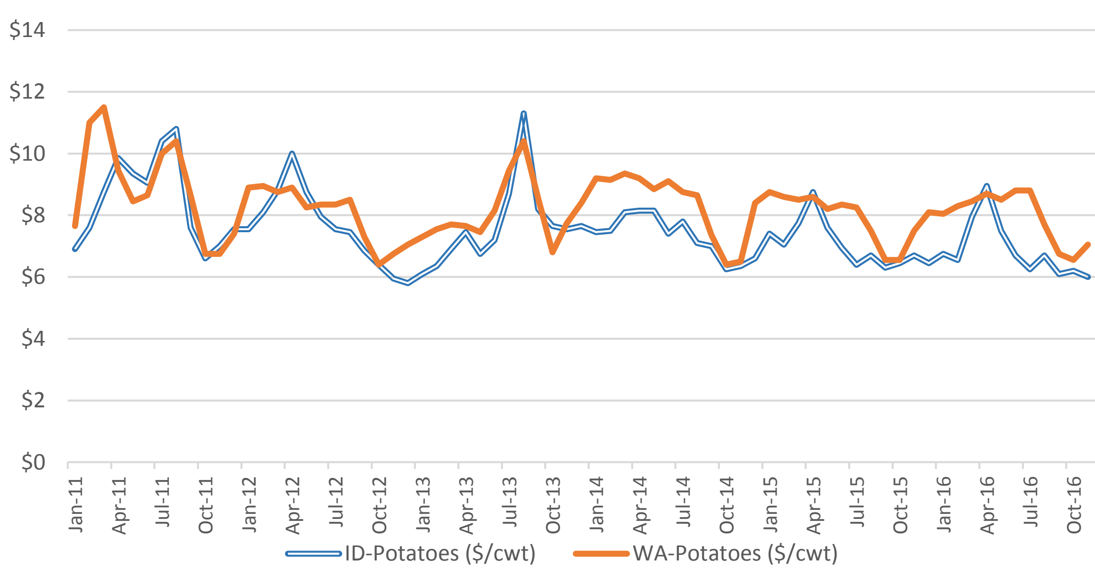
Corn and Soybean Prices Received, United States



At $3.23/bushel, the US price received for corn declined in November, but the price has been stable since the end of summer. Since August, the price received has ranged between $3.21/bushel and $3.29/bushel.

The US soybean price also did not change significantly in November and was reported at $9.46/bushel, up from $9.30/bushel a month earlier. Additionally, the price was up nine percent relative to November 2015.

Potato Prices Received, by State



In Washington, the price received for potatoes jumped above $7/cwt and experienced the first M/M gain since June 2016. November's price of $7.05/cwt was 7.6 percent above October's price, but still below the November 2015 value of $7.50/cwt. The price received declined in Idaho, falling from $6.20/cwt in October to $6.00/cwt in November. The price received was also 10.4 percent lower relative to a year earlier.

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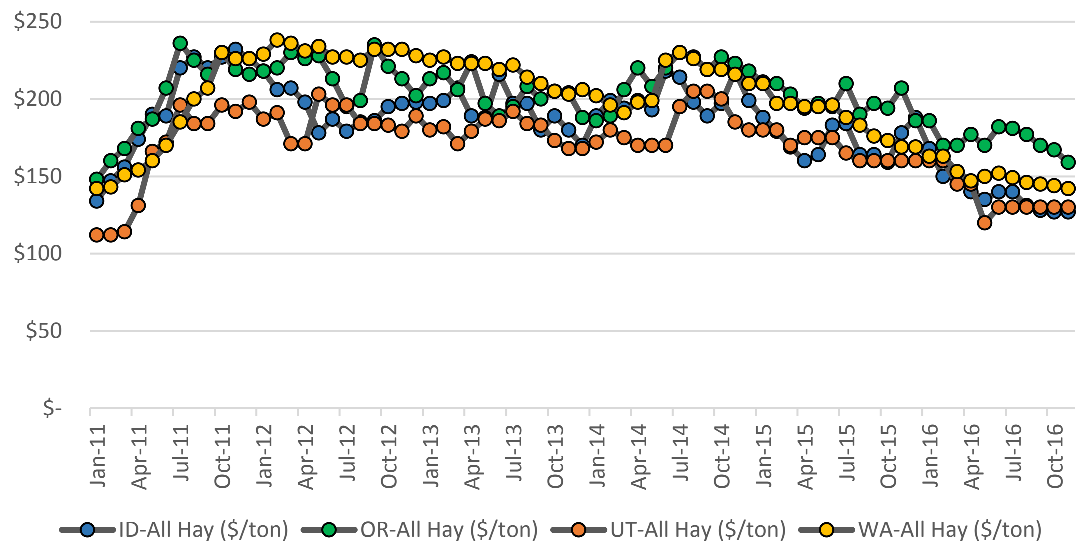
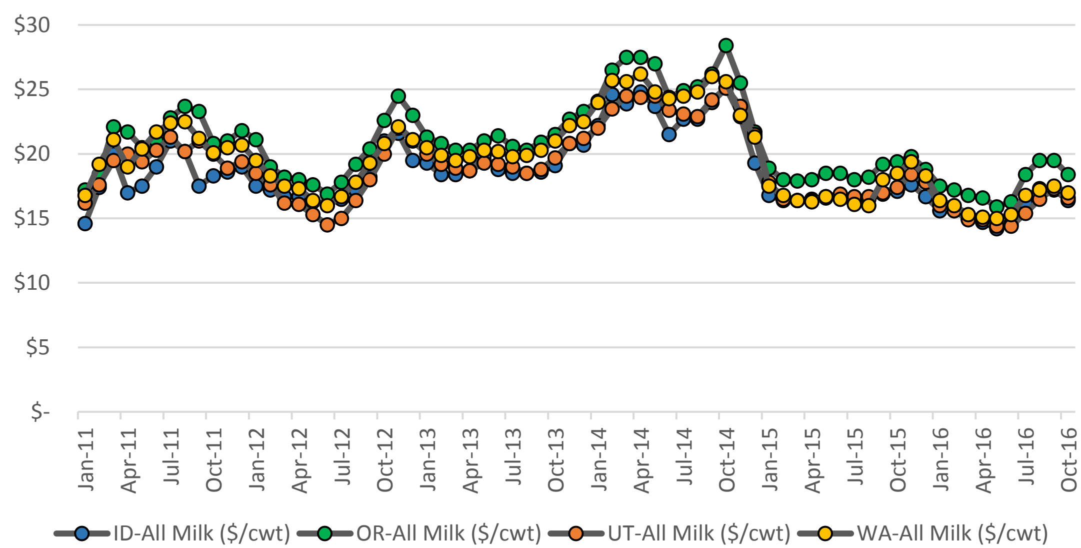
Hay Prices Received, by State



The price received for all hay did not change in Idaho or Utah for the month of November. In Idaho, the price was reported at $127/ton, down 28.7 percent from a year earlier. Utah's price received remained at $130/ton. Oregon and Washington farmers experienced declines in the price received for their hay in November. Oregon had the more significant drop with the price declining from $167/ton in October to $159/ton in November. Previously, the price had not dropped below $160/ton in Oregon since January 2011. While the price declined just 1.4 percent M/M in Washington, the value of $142/ton was also the lowest level since January 2011.

Milk Prices Received, by State



For the third time in the past five months, the USDA reported M/M increases in the price for all milk in each of Idaho, Oregon, Utah and Washington. The reported prices received for November were $17.90/cwt in Idaho (+9.1% M/M), $19.80/cwt in Oregon (+7.6% M/M), $17.10/cwt in Utah (+3.0% M/M) and $17.40/cwt in Washington (+2.4% M/M).

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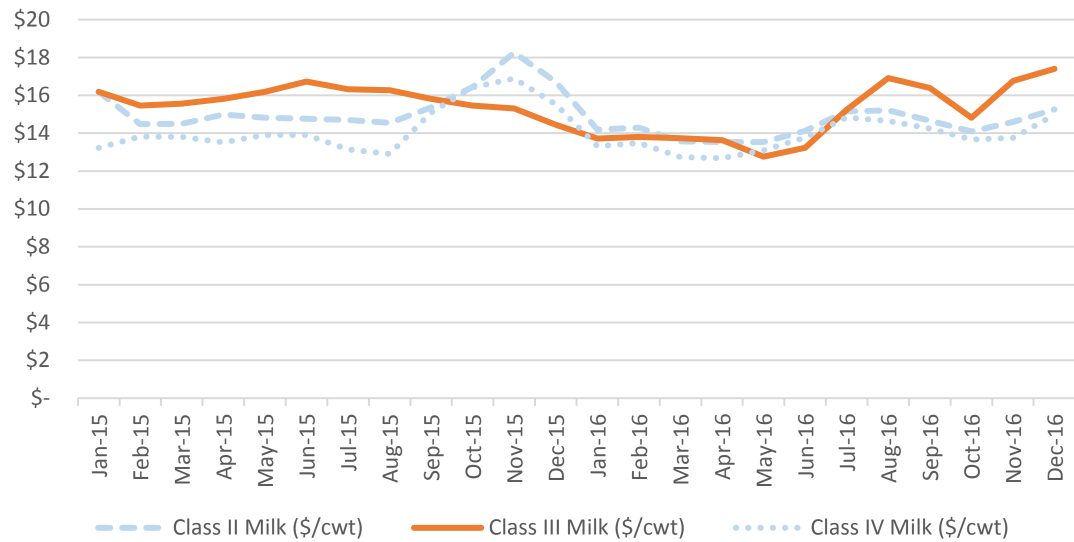
Announced Milk Price, by Class



In the most recent Announcement of Class and Component Prices release, the USDA reported M/M increases in the Class II, III and IV milk prices. The Class II price increased from $14.60/cwt in November to $15.26/cwt in December. For the first time since the start of 2015, the announced Class III price rose above $17/cwt and was reported at $17.40/cwt. The Class III price was also 20.5 percent higher relative to December 2015. At $14.97/cwt, the Class IV milk price jumped 8.8 percent.

Milk Classifications:
Class I – Grade A milk used in all beverage milks
Class II – Milk used to produce ice cream, cottage cheese and other fluid cream products
Class III – Milk used to make cream cheese and hard cheeses
Class IV – Milk used to produce butter and dried milk

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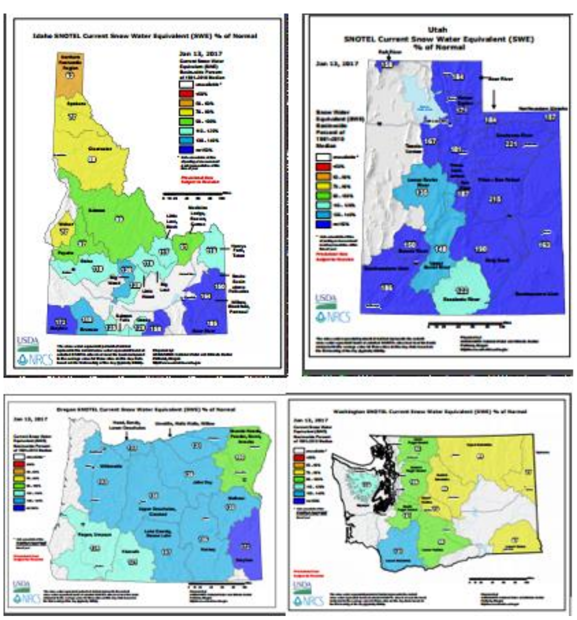
Snow Water Equivalent Levels Above Normal

Recent heavy snowfall and precipitation has likely contributed to the increase in ag producer confidence. High levels of snowpack is good for reservoir replenishment and reduces the likelihood of water shortages during the growing season.

While Idaho was the only regional state with a total reservoir level above the average level at the start of January, the level in all four states matched or exceeded last year's level. In Oregon, the combined reservoir level was at 72 percent of the normal level but 120 percent of last year's level at the start of January. With state-wide capacity at 49 percent, Utah was trailing the normal level by 19 percent, as was the case last January. In Washington, the combined reservoir level was at 91 percent of the average level, which was slightly above last year's level. Totaled, Idaho reservoirs were at 63 percent of capacity at the start of the month. Consequently, the state's water level was nine percent higher compared to a year ago and about one percent higher than normalcy.

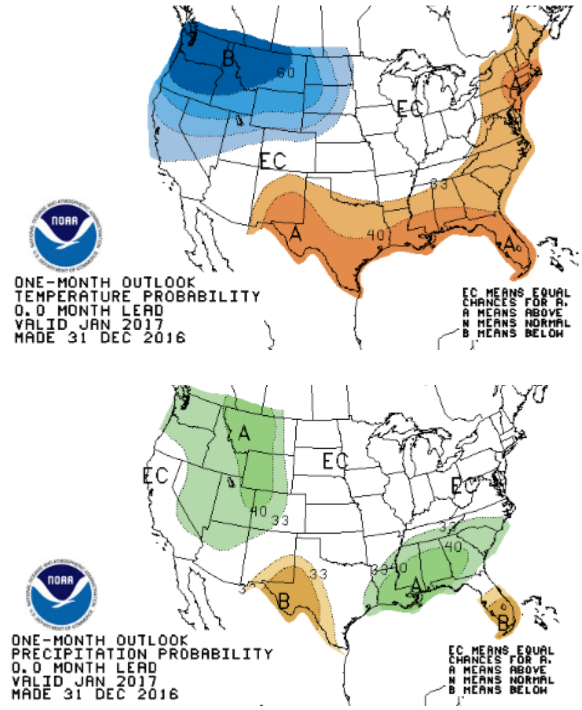
Considering regional water shortages were not prevalent last summer, reservoir levels exceeding last year's levels is a reason to be optimistic about the upcoming growing season. The high levels of snowpack provide farmers another reason to be positive about the water supply situation. The snow water equivalent maps below show that there will be plenty of snowmelt runoff to refill regional reservoirs. The green and blue areas indicate near normal or above normal levels, with the darkest blue areas representing areas where the current level was at least 150 percent of the normal level.



Source: SNOTEL Current Snow Water Equivalent (SWE) % of Normal maps for Idaho, Oregon, Utah and Washington. Prepared by USDA/NRCS National Water and Climate Center. Created 13 Jan 2017.

Weather Outlook

The Climate Prediction Center expects below normal temperatures and higher than normal precipitation for much of the Northwest in January.



Source: NOAA Center for Weather and Climate Prediction. One-Month Outlooks, official forecasts. Created 31 Dec 2016.

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