

Central Valley Business Times

Cows or nuts? That is the question

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- Rabobank report sees some dairies becoming almond orchards
- "What is critical ... is the amount of time that land will be not producing revenue"

Milking cows or going nuts? is the question many Central Valley dairy farmers are pondering, says a new report from Rabobank N.A.

Strong demand and pricing for tree nut commodities – especially almonds -- is driving many dairy operators to diversify or sell out to competitive crops completely, the report says.

With the global demand for dairy products expected to continue to rise, and exports along with it, California dairies are faced with a critical decision on how they utilize their ground to maximize their operation's potential profit, says Rabobank.

Vernon Crowder, senior vice president and senior analyst with Rabobank and the report's author, says that understanding the underlying costs associated with all the potential options is critical to making the best decision for each operation.

"On one hand, the current price for almonds is extremely strong," says Mr. Crowder. "What is critical to the analysis of whether to plant tree nuts or not is the amount of time that land will be not producing revenue or off-setting feed costs."

The key to the dairies' success is that dairy cows can be cash-flow positive from day one while the nut orchard will be negative for the first two years as the new trees grow and doesn't break-even until year five.

"The most profitable dairies in California will continue to drive modest growth in production over the foreseeable future," says Mr. Crowder. "That said, some dairies are just not as profitable because of their individual situations. We expect that they may be inclined to quit milking cows and switch to other crops all together. Recognizing the regulatory constraints in opening new dairies in California we also expect to see consolidation continue in this sector."