Commission's Grower Profitability Study Finalized

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As previously reported, the California Avocado Commission conducted a grower profitability study over the past few months. The objective of this study was to collect information concerning actual growers' costs and returns to provide a data-based assessment of the financial health of the industry. This information will provide the Commission with a better understanding of the operating characteristics and financial health of California avocado growers.

Based on Board direction, with oversight from the Production Research Committee, a survey was developed and mailed to all 1,743 commercial California avocado growers on August 2. The surveys included a postage paid envelope for direct return to Dr. Dennis Tootelian, the economist conducting the analysis, to maintain confidentiality. Returns were accepted through September 21, with a total of 174 responses received. This was a 10% grower response rate representing 10% of producing acres – impressive considering the level of detail asked for in the survey. The data requested was for 2018, 2019, and 2020.

The 77-page report includes detailed findings concerning:

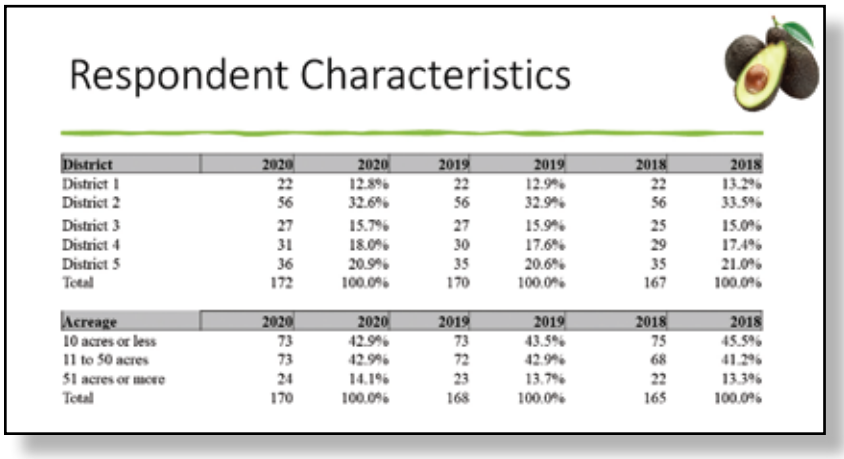
- Farm acreage (bearing and non-bearing)
- Pounds harvested and crop values by district and acreage
- Overall farm income, expenses and net margin
- Farm income, expenses and net margin by district and acreage
- Water sources
- Overall irrigation costs
- Irrigation costs by water source, district and acreage
- Perceived threats to future profitability

In terms of the results, there were not many outlier responses, although the ranges in responses were quite wide for most questions. The analysis was focused on Commission districts and by acreage category (10 or less, 11 to 50, 51 or more).

As you will see in the following information, there are, in some instances, significant variations within districts, between districts, and among scale of operations. It is really a mixed bag. A copy of the full report may be found on the California Avocado Industry Impact and Status Reports webpage at: CaliforniaAvocadoGrowers.com/accountability-reports/impact-reports.

The Commission will now explore, based on the report, whether there are further efforts for CAC to consider that may help growers' profitability. Marketing remains the biggest component of the Commission's efforts for growers, along with communicating information on production and cultural practices. Without question, production costs, like water and labor, continue to increase for many growers. Yet, as the report established, many in the industry remain profitable.

The biggest factor to mitigate increasing costs is increasing yields. The Commission remains focused on providing information to help growers make educated and informed decisions on improving farming practices towards increased yields. We know, as evidenced by this report, that farming avocados in California can be profitable. As we move forward as an industry, it is critical that our businesses remain profitable, and the Commission will do its part in this partnership with growers to do everything possible to deliver improved profitability for all.



District	2020	2020	2019	2019	2018	2018
District 1	22	12.8%	22	12.9%	22	13.2%
District 2	56	32.6%	56	32.9%	56	33.5%
District 3	27	15.7%	27	15.9%	25	15.0%
District 4	31	18.0%	30	17.6%	29	17.4%
District 5	36	20.9%	35	20.6%	35	21.0%
Total	172	100.0%	170	100.0%	167	100.0%

Acreage	2020	2020	2019	2019	2018	2018
10 acres or less	73	42.9%	73	43.5%	75	45.5%
11 to 50 acres	73	42.9%	72	42.9%	68	41.2%
51 acres or more	24	14.1%	23	13.7%	22	13.3%
Total	170	100.0%	168	100.0%	165	100.0%

Operating Characteristics

	2020	2019	2018
Acres			
Total Bearing Acres	4,771	4,770	4,600
Total Non-Bearing Acres	1,233	1,046	968
Total Acres	6,004	5,816	5,568
% Bearing to Total Acres	79.5%	82.0%	82.6%
Pounds			
Total Pounds	37.1 million	23.8 million	33.9 million
Crop Value			
Total Crop Value	$39.5 million	$37.8 million	$37.3 million

Average Operating Characteristics

	2020	2019	2018
Acres			
Avg. Bearing Acres	31.3	31.7	31.4
Avg. Non-Bearing Acres	7.8	6.7	6.2
Avg. Total Acres	39.1	38.4	37.6
Pounds			
Avg. Pounds per Bearing Acre	7,556	4,882	7,935
Crop Value			
Avg. Crop Value per Bearing Acre	$8,072	$7,752	$7,949
Avg. Crop Value per Pound	$1.09	$1.59	$1.03

Averages by District in 2020

	District 1	District 2	District 3	District 4	District 5
Acres					
Avg. Bearing Acres	41.9	14.8	40.1	27.2	32.6
Avg. Non-Bearing Acres	12.9	5.3	3.3	9.2	8.3
Avg. Total Acres	54.8	20.1	43.4	36.4	40.9
Pounds					
Avg. Pounds per Bearing Acre	6,109	5,098	6,126	8,090	12,359
Crop Value					
Avg. Crop Value per Bearing Acre	$6,422	$5,781	$7,068	$8,933	$12,158
Avg. Crop Value per Pound	$1.05	$1.13	$1.15	$1.10	$0.98

Income, Expenses, & Net Margins

	2020	2019	2018	Growth 2018-2020
Total Income, Expenses, & Net Margins				
Total Gross Income	$42.1 million	$40.3 million	$38.7 million	4.4%
Total Expenses	$40.6 million	$36.8 million	$36.1 million	6.1%
Total Net Margin	$1.5 million	$3.6 million	$2.6 million	-24.0%
Expenses & Net Margin Ratios				
Total Expenses as % of Gross Income	96.5%	91.1%	93.4%	1.7%
Net Margin as % of Gross Income	3.5%	8.9%	6.6%	-27.2%

Average Income, Expenses, & Net Margins

	2020	2019	2018	Growth 2018-2020
Avg. per Bearing Acre				
Avg. Gross Income per Bearing Acre	$9,260	$8,923	$8,794	2.6%
Avg. Total Expenses per Bearing Acre	$8,934	$8,133	$8,211	4.3%
Avg. Net Margin per Bearing Acre	$326	$790	$583	-25.3%
Avg. per Pound				
Avg. Gross Income per Pound	$1.18	$1.73	$1.17	0.4%
Avg. Total Expenses per Pound	$1.14	$1.58	$1.09	2.0%
Avg. Net Margin per Pound	$0.04	$0.15	$0.08	-26.9%

Avg. Income, Expenses, Net Margin by District 2020

	District 1	District 2	District 3	District 4	District 5
Expenses & Net Margin Ratios					
Total Expenses as % of Gross Income	130.7%	106.1%	83.6%	114.8%	75.5%
Net Margin as % of Gross Income	-30.7%	-6.1%	16.4%	-14.8%	24.5%
Avg. per Bearing Acre					
Avg. Gross Income per Bearing Acre	$6,333	$6,423	$7,327	$10,549	$13,791
Avg. Total Expenses per Bearing Acre	$8,981	$6,817	$6,127	$12,111	$10,336
Avg. Net Margin per Bearing Acre	-$2,648	-$394	$1,200	-$1,563	$3,456
Avg. per Pound					
Avg. Gross Income per Pound	$1.05	$1.23	$1.12	$1.34	$1.08
Avg. Total Expenses per Pound	$1.49	$1.30	$0.92	$1.54	$0.81
Avg. Net Margin per Pound	-$0.44	-$0.07	$0.20	-$0.20	$0.27

Sources of Water

	2020	2019	2018
Wells and/or Surface Water on Property	25.0%	25.1%	25.3%
Mutual Water Company	23.2%	24.0%	24.1%
Water Agency	34.5%	34.1%	33.7%
Wells/Surface & Mutual Water Company	6.5%	6.0%	6.0%
Wells/Surface & Water Agency	10.1%	10.2%	10.2%
Wells/Surface, Mutual Water, & Water Agency	0.6%	0.6%	0.6%

Avg. Irrigation Costs by Water Source 2020

	Wells/ Surface	Mutual Water Co.	Water Agency	Wells/ Mutual	Wells/ Agency
Avg. Irrigation Costs per Acre	$753	$1,389	$1,157	$555	$698
Avg. Irrigation Costs per Pound	$0.08	$0.19	$0.21	$0.07	$0.14
Irrigation Costs as % of Total Crop Value	8.0%	17.9%	19.4%	7.0%	12.3%
Irrigation Costs as % of Gross Income	7.3%	18.3%	17.9%	6.8%	11.1%
Irrigation Costs as % of Total Expenses	9.0%	19.5%	17.3%	7.0%	11.5%

Sources of Water by District 2020

	District 1	District 2	District 3	District 4	District 5
Wells/Surface Water on Property	14.3%	9.3%	29.6%	23.3%	52.8%
Mutual Water Company	23.8%	25.9%	25.9%	40.0%	2.8%
Water Agency	47.6%	59.3%	22.2%	10.0%	19.4%
Wells/Surface & Mutual Water Co.	0.0%	0.0%	7.4%	16.7%	11.1%
Wells/Surface & Water Agency	14.3%	5.6%	14.8%	6.7%	13.9%
Wells/Surface, Mutual Water, & Water Agency	0.0%	0.0%	0.0%	3.3%	0.0%

Avg. Irrigation Cost by District 2020

	District 1	District 2	District 3	District 4	District 5
Avg. Irrigation Costs per Acre	$1,776	$1,996	$606	$777	$570
Avg. Irrigation Costs per Pound	$0.41	$0.46	$0.10	$0.12	$0.06
Irrigation Costs as % of Total Crop Value	32.9%	40.7%	8.5%	10.9%	6.0%
Irrigation Costs as % of Gross Income	33.7%	40.4%	8.1%	9.3%	5.3%
Irrigation Costs as % of Total Expenses	23.7%	39.1%	9.7%	8.2%	6.8%

Perceived Threats to Future Profitability

(Mean Rating: 5=Very Serious; 1=Not at all Serious)

	Very/Somewhat Serious	No Opinion	Not Very/Not at All Serious	Mean Rating
Cost Factors				
Water costs	93.4%	1.2%	5.4%	4.62
Cost of complying with govt. regulations	74.7%	14.2%	11.1%	4.02
Cost of labor	79.1%	9.2%	11.7%	4.00
Other Factors				
Availability of water	91.5%	3.7%	4.9%	4.57
Imported avocados	80.2%	12.3%	7.4%	4.23
Environmental regulations	79.2%	13.8%	6.9%	4.15

Perceived Threats by District

(5=Very Serious; 1=Not at all Serious)

	District 1	District 2	District 3	District 4	District 5
Cost Factors					
Cost of labor	4.50	4.00	3.92	3.90	3.83
Water costs	4.73	4.87	4.59	4.48	4.29
Cost of complying with govt. regulations	4.45	3.90	4.04	3.93	3.97
Other Factors					
Availability of water	4.77	4.59	4.70	4.31	4.51
Environmental regulations	4.45	4.12	3.84	4.21	4.18
Imported avocados	4.32	4.08	4.33	4.00	4.49

3-Year Average Operating Characteristics

	Total	District 1	District 2	District 3	District 4	District 5
Bearing Acres	28.2	41.6	14.9	40.4	28.1	32.2
Non-Bearing Acres	6.5	12.5	4.9	2.5	5.7	9.0
Total Acres	34.6	54.2	19.9	43.0	33.8	41.1
Pounds per Bearing Acre	6,707	$6,486	$4,775	$6,776	$5,649	$9,079
Crop Value per Bearing Acre	$8,098	$8,107	$6,006	$8,526	$6,656	$10,355
Crop Value per Pound	$1.21	$1.25	$1.26	$1.26	$1.18	$1.14

3-Year Average Financial Characteristics

	Three Year Average
Total Expenses as % of Gross Income	93.7%
Net Margin as % of Gross Income	6.3%
Gross Income per Bearing Acre	$8,564
Total Expenses per Bearing Acre	$8,025
Net Margin per Bearing Acre	$539
Gross Income per Pound	$1.28
Total Expenses per Pound	$1.20
Net Margin per Pound	$0.08

3-Year Average Irrigation Costs

	Three Year Average
Total Irrigation Cost	$44,821
Avg. Irrigation Cost per Acre	$1,180
Avg. Irrigation Cost per Pound	$0.22
Irrigation Cost as % of Total Crop Value	17.9%
Irrigation Costs as % of Gross Income	17.0%
Irrigation Costs as % of Total Expenses	18.1%

Final Thoughts

- **Acreage**
  - Growth in acreage is mostly in non-bearing acres. Unknown whether these acres are being primed for bearing in future years. If not, acreage is holding steady.
  - Pounds per bearing acre is declining slightly, crop values are holding steady.
- **Revenues, Expenses, and Net Margins**
  - Revenues are growing, but expenses are growing faster. This puts pressure on net margin.
  - It appears the primary issue is expense management. This seems to be especially the case in District 1 and to a lesser extent in Districts 3, and 4. It also seems to be the case among farms with 10 acres or less or 51 acres or more.
- **Irrigation Costs**
  - Overall, irrigation costs declined on a cost-per-acre basis and as a percent of gross income. Irrigation costs per pound harvested and as a percent of crop value either declined or held steady.
  - The implication is that while irrigation costs are still very significant, they do not appear to be the only major cause of the increasing total expenses experienced by avocado farms.