

# Dairy Market Outlook, Trends and Issues

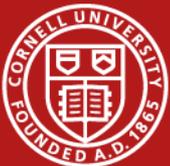
**Andrew M. Novakovic, PhD**

*The E.V. Baker Professor of Agricultural Economics*

January 2017

Cornell University

Charles H. Dyson School of Applied Economics and Management



Cornell University  
Charles H. Dyson School of  
Applied Economics and Management

# The Morning Addition

What does the Trump Presidency mean for Agriculture?

- Right, everyone is asking and no one is very confident they know
- VP Pence will play a key role in selecting new Secretary and navigating Congress
- What are things a President can do, and can't do?
- How much help will he get from a Republican Congress?
- What will be likely, general policy priorities or instincts?
- How quickly can or will changes occur?



## The General Plan

I want to share with you some information about the status and short term direction of dairy markets.

I want you to share with me and all of us your insights about what is happening and how farmers are responding.

I want to talk about a few big issues of the moment.

**Let's begin by you telling me how the world looks to you.**



# USDA Market Expectations - Supply

	2014	2015	2016	2017	2017
			Dec. est		YOY
Milk	<i>million pounds</i>				
Production	206.1	208.6	212.4	216.8	2.1%
	<i>fat basis</i>				
Beg. Commercial Stocks	11.2	11.2	13.3	14.0	5.3%
Marketings	205.1	207.7	211.5	215.9	2.1%
Imports	4.3	5.7	7.0	7.0	0.0%
Total Cml. Supply	220.6	224.6	231.8	236.8	2.2%
	<i>skim basis</i>				
Beg. Commercial Stocks	11.7	13.1	13.9	13.8	-0.7%
Marketings	205.1	207.7	211.5	215.9	2.1%
Imports	5.6	6.0	6.4	6.2	-3.1%
Total Cml. Supply	222.4	226.7	231.7	235.8	1.8%



# USDA Market Expectations - Usage

	2014	2015	2016	2017	2017
				Dec. est	YOY
Milk	<i>million pounds</i>				
Production	206.1	208.6	212.4	216.8	2.1%
	<i>fat basis</i>				
Commercial Exports	12.4	8.8	8.8	8.4	-4.5%
Ending Commercial Stocks	11.2	13.3	14.0	13.7	-2.1%
Domestic Commercial Use	196.9	202.5	209.0	214.8	2.8%
Total Commercial Use	209.3	211.3	217.8	223.2	2.5%
	<i>skim basis</i>				
Commercial Exports	39.0	37.3	38.7	40.1	3.6%
Ending Commercial Stocks	13.1	13.9	13.8	13.2	-4.3%
Domestic Commercial Use	170.3	175.5	179.2	182.5	1.8%
Total Commercial Use	209.3	212.8	217.9	222.6	2.2%



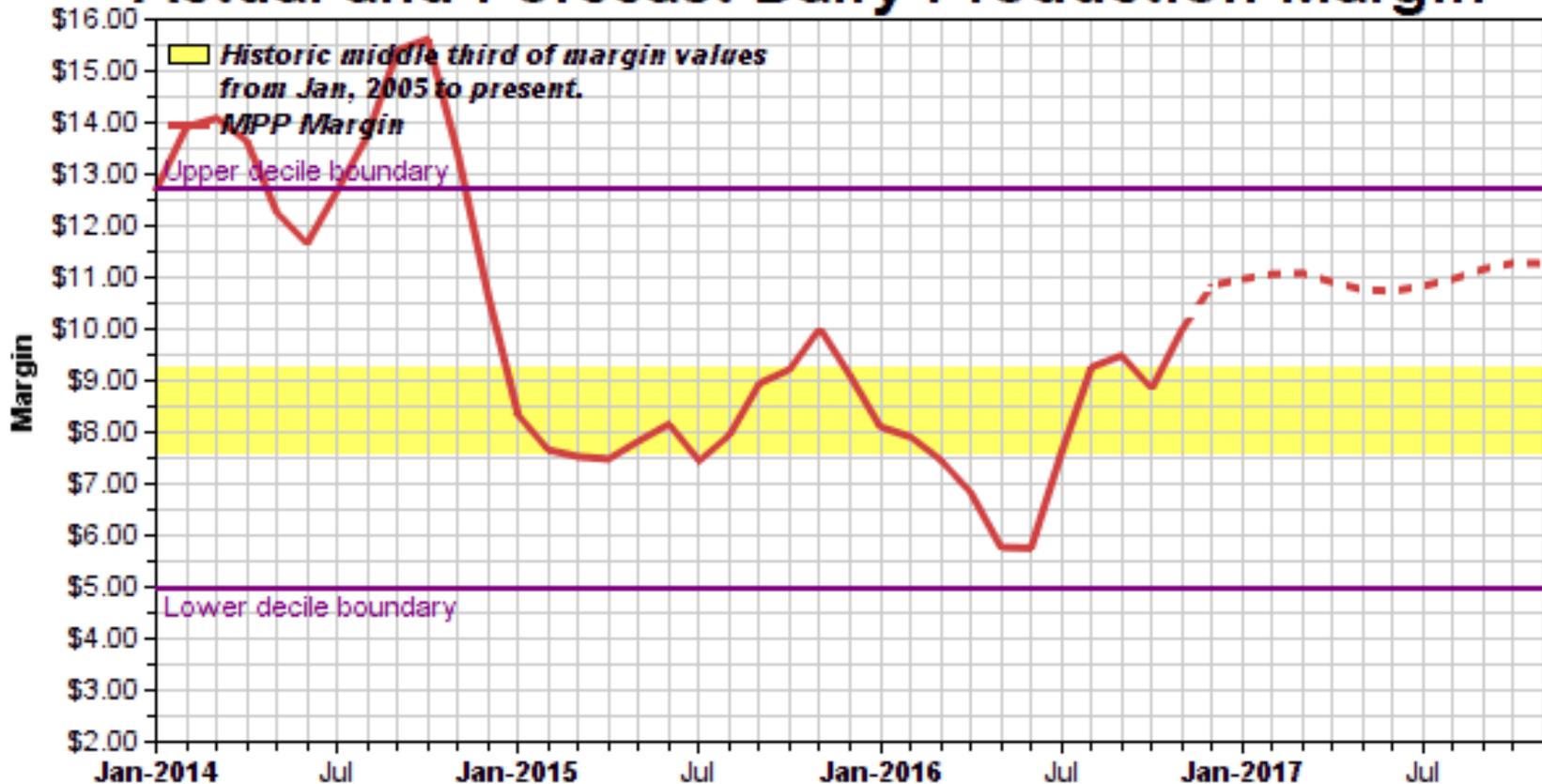
# USDA Market Expectations – Prices

	2014	2015	2016		2017	
			Dec. est			
			low	high	low	high
<b>Product Prices 1/</b>	<i>\$/Pound</i>					
Cheese	2.155	1.645	1.595	1.605	1.650	1.730
Butter	2.136	2.067	2.060	2.090	1.920	2.030
Nonfat Dry Milk	1.768	0.902	0.820	0.840	0.950	1.010
Dry Whey	0.654	0.380	0.280	0.290	0.380	0.410
<i>Filler</i>						
<b>Milk Prices 2/</b>	<i>\$/Cwt</i>					
Class III	22.34	15.80	14.75	14.85	15.85	16.65
Class IV	22.09	14.35	13.65	13.85	14.20	15.10
All Milk 3/	23.97	17.12	16.05	16.15	16.85	17.65



# DMaP Price Margin Outlook

## Actual and Forecast Dairy Production Margin



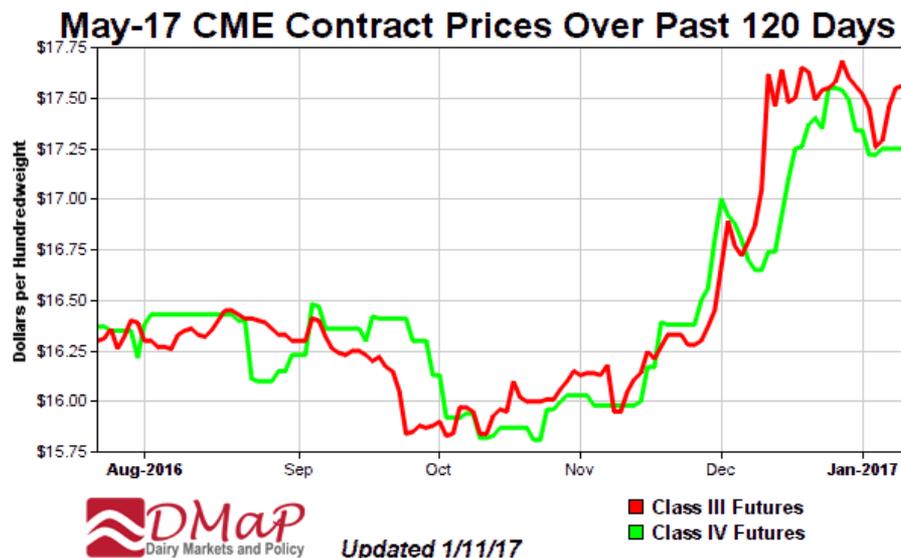
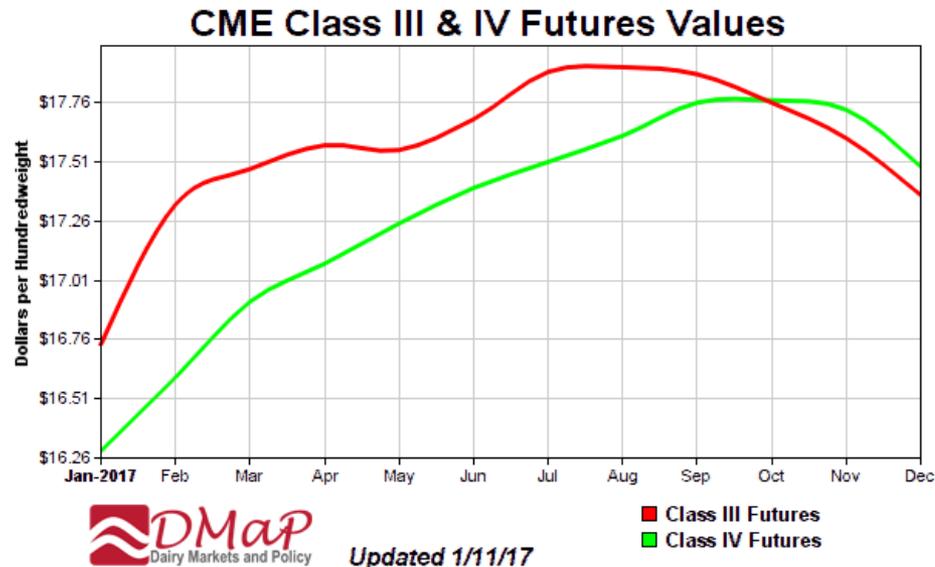
Updated 1/10/17



Milk Prices are expected to rise through Fall 2017 and then weaken towards the end of the year.

This seasonal pattern is fairly normal, but may also reflect that market expectations have been softening in recent weeks.

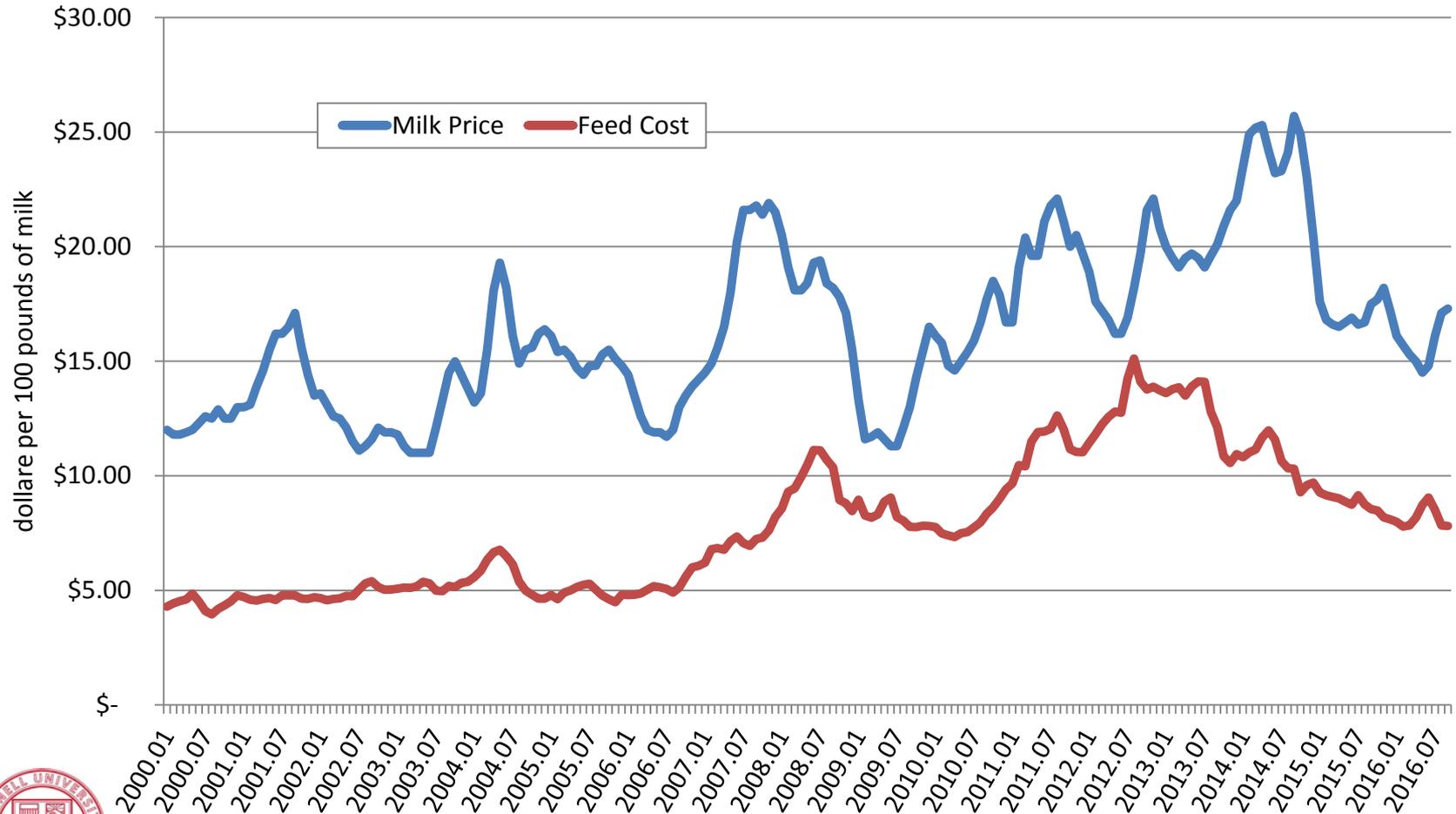
“The Industry” is fairly bullish for most of 2017 but is still a little jittery about how big and how long.



# Prices: 1) How do I know when they are “bad”?

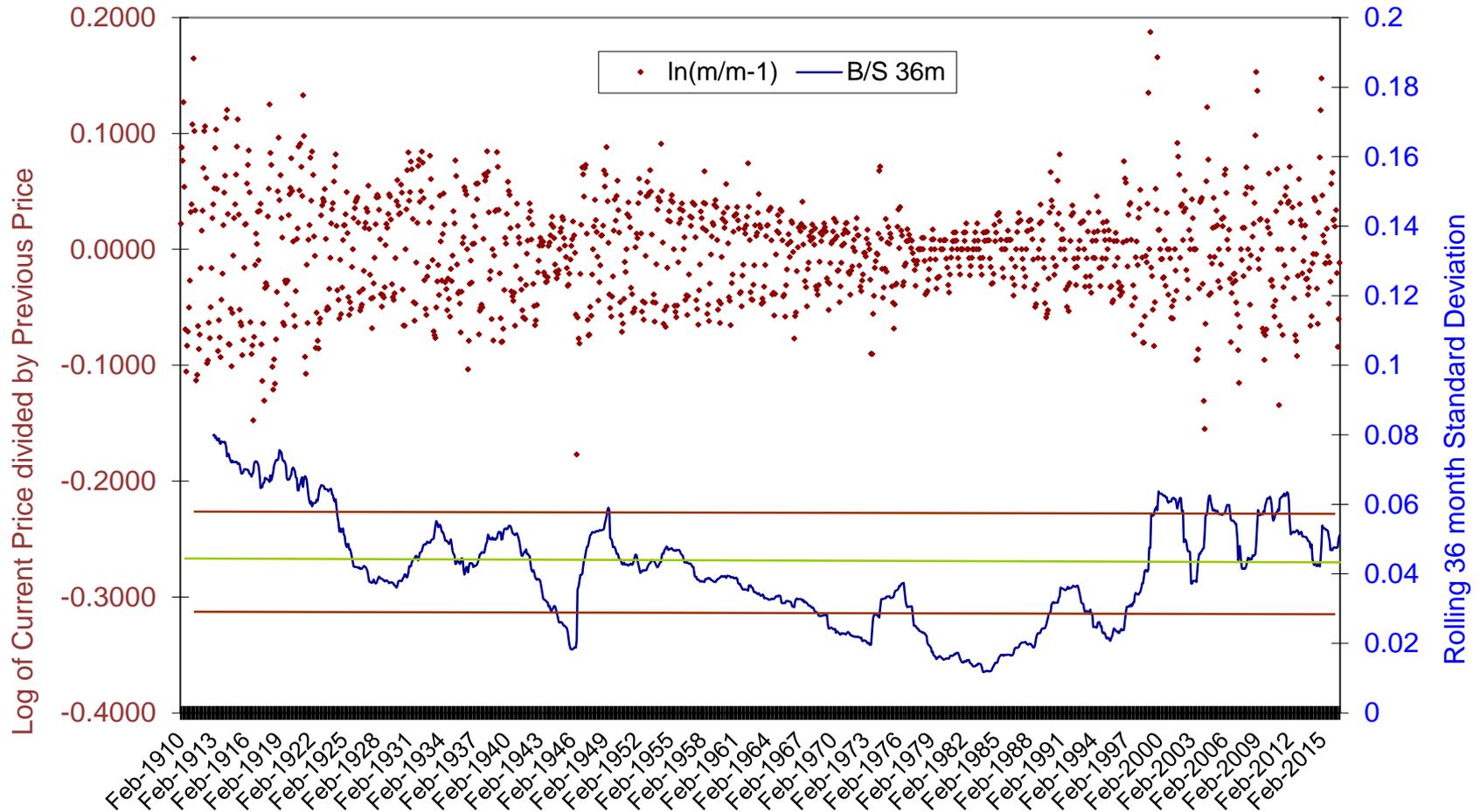
## 2) Does the 3-year cycle persist?

Comparison of the U.S. Milk Price with the Cost of Major Dairy Cattle Feeds

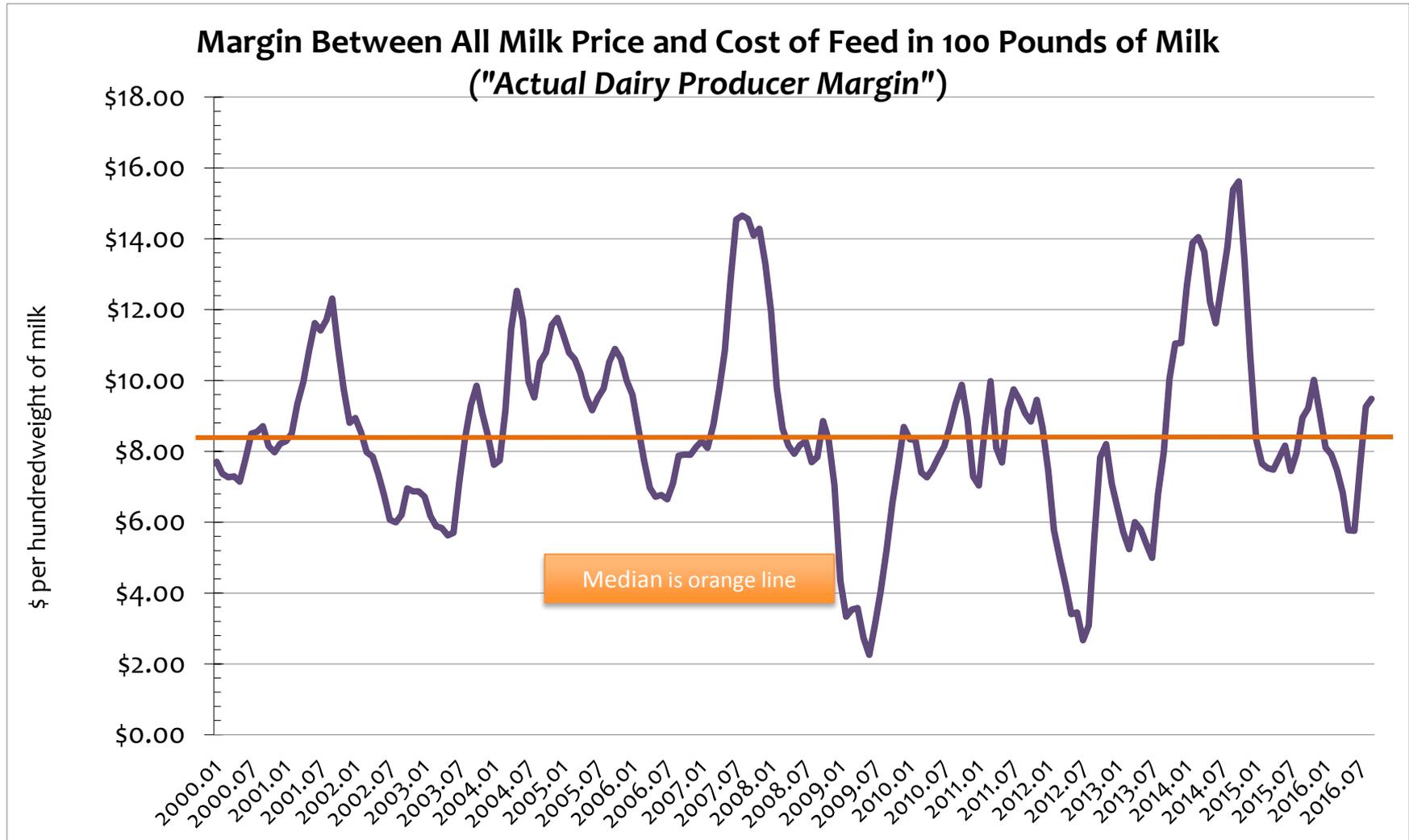


# Is Price Volatility Still an Issue?

## All Milk Price, relative monthly variation



# Does the ADPM help us identify “badness”? Does it reveal a 3-year cycle? What financial condition does it measure?



Median is orange line



# Measures of Farm Financial Performance

Profitability: generating sufficient returns to all factors of production

- Net farm income, Rate of Return on Assets

Solvency: possessing sufficient assets to cover liabilities

- Debt-to-asset ratio

Liquidity: having liquid assets to pay bills as they come due

- Current ratio, Working capital

*ADPM is a reasonable proxy for profitability, tells us nothing about solvency, and isn't helpful for liquidity*



# The Status of Price and Income Risk Management

Is MPP-Dairy proving to be a useful tool?

LGM-Dairy remains available. Is it being used more?, less?

What is the interest in forward pricing, either as a direct hedge or a contracted price?

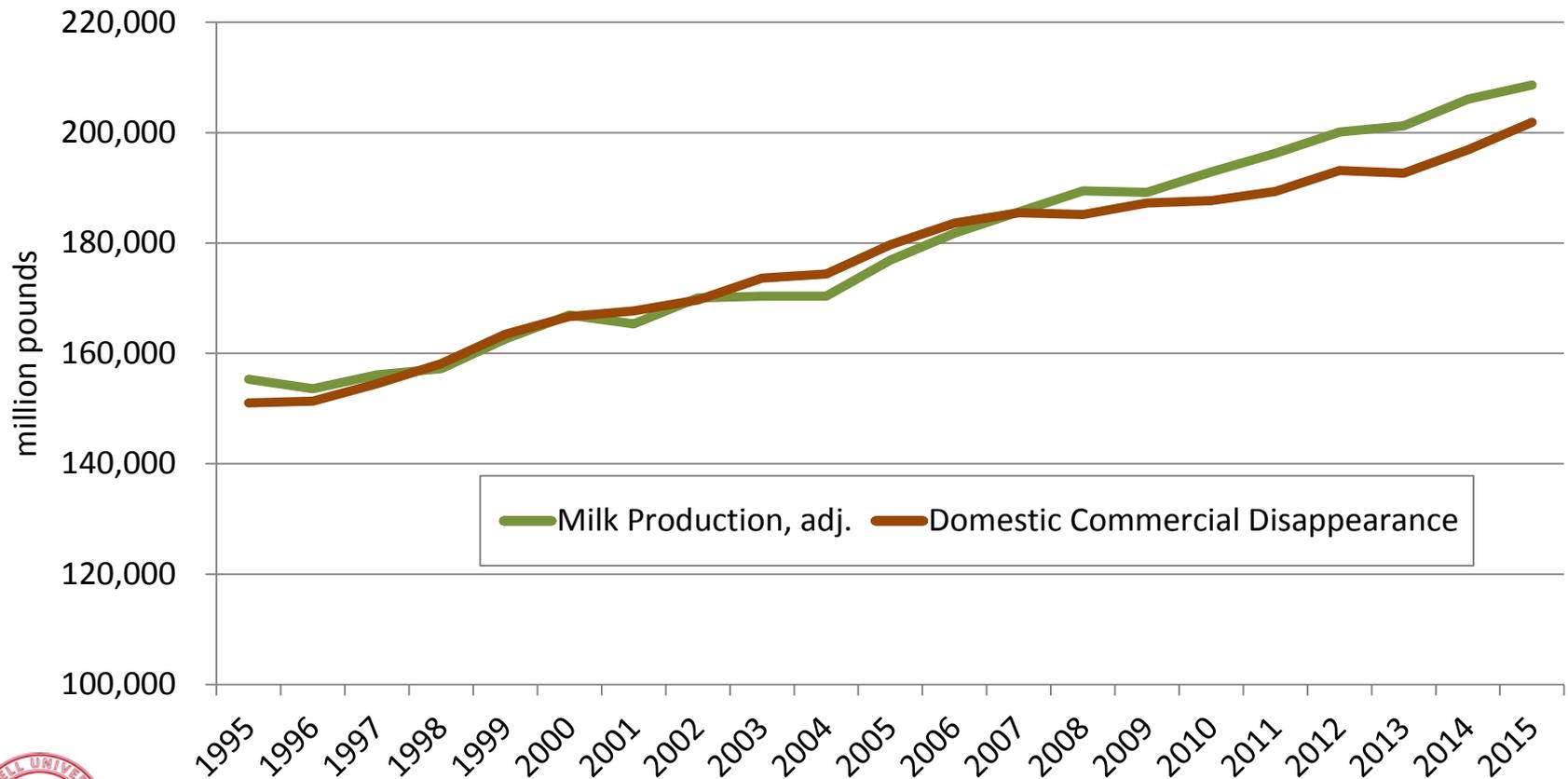
What other strategies are farmers using?

Is interest or trust in cooperative marketing increasing, decreasing, holding?



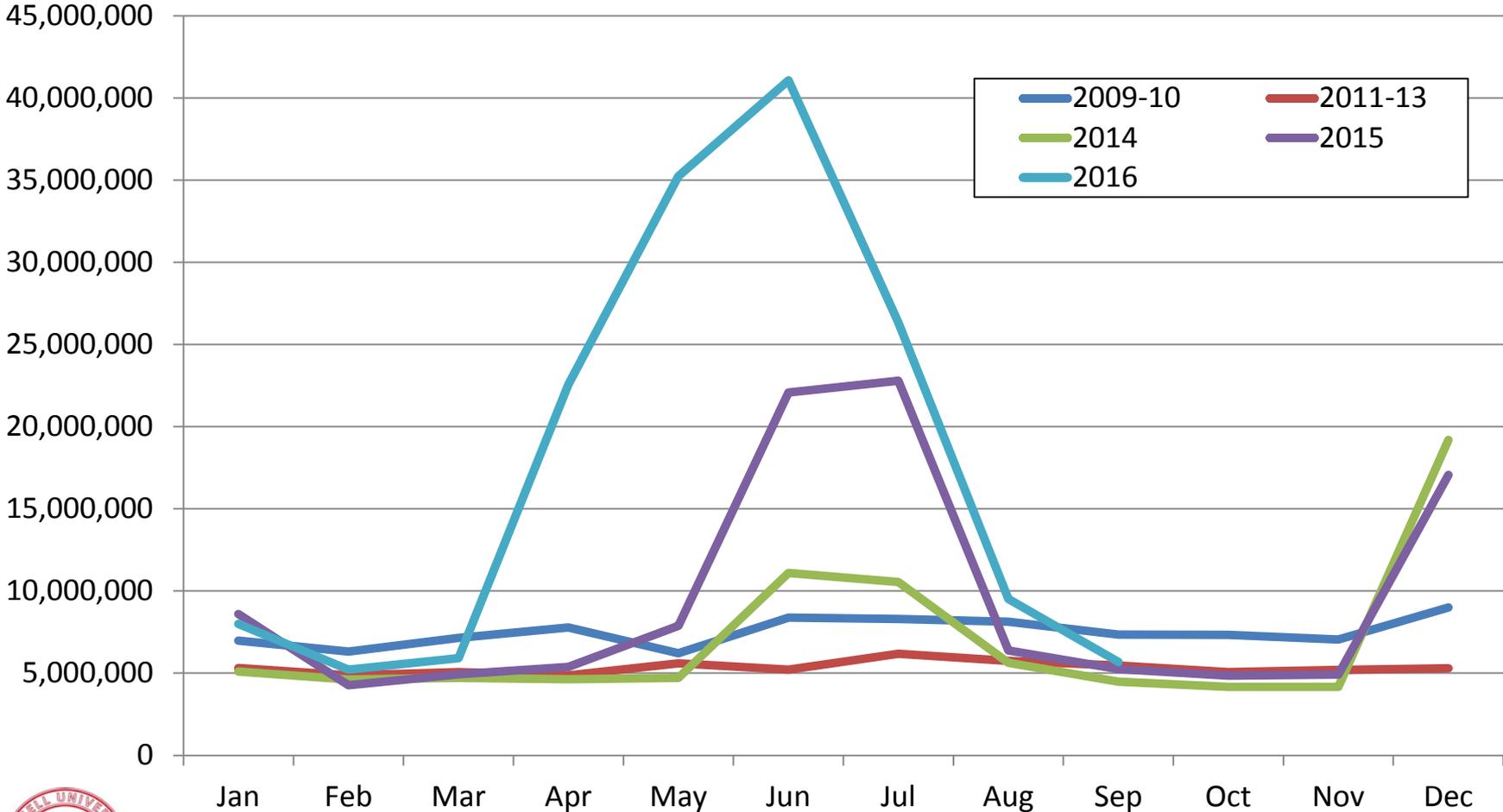
# Do we have a problem with excess milk production?

US Milk Production vs. Domestic Commercial Disappearance, 1995 to 2015, leap year adjusted.



# Daily Balancing vs. Systemic Oversupply?

Pounds of Producer Milk Used for Animal Feed or Dumped,  
Northeast Federal Order, 2009-2016



# Anything interesting on the demand side?

Expectations for improvement in export markets?

Whole milk and other full fat products are showing some strength.

Super milks?

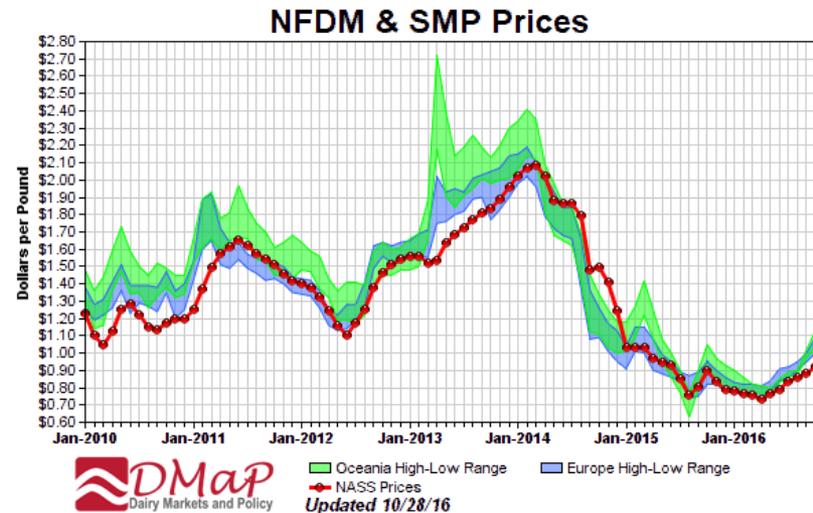
Cultured products (e.g., yogurt, drinks, etc) attracting attention and investment. Sales impact still developing.

Cheese: commodity styles are steady but not exciting, value-added are growing but small volumes.

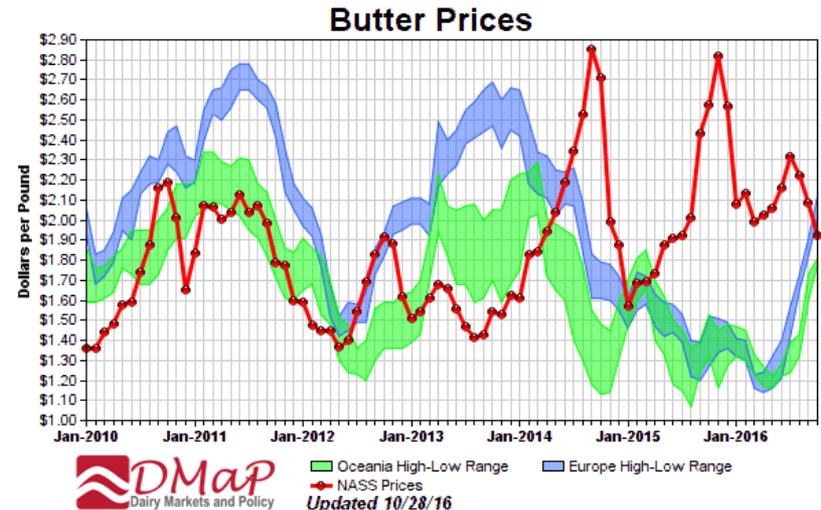


# International Markets

Markets for powders remain low and tight, although there is some lift in prices beginning. US remains competitive in a market no one is excited about.



Butter and cheese prices are converging, with international coming up to meet softening US prices. Bodes well for US exports vs. imports



## Other Issues

Status of NYC Markets and Elmhurst closing.

Status of Plant utilization and investments in NYS, e.g., the old Muller plant.

Status of TPP, TTIP and future trade negotiations.

Status of CA Federal Order (and implications for more FO hearings)

Prospects for new Farm Bill proposals.

What else?



# Dairy Market Outlook, Trends and Issues

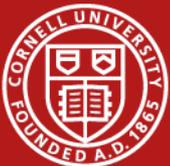
**Andrew M. Novakovic, PhD**

*The E.V. Baker Professor of Agricultural Economics*

January 2017

Cornell University

Charles H. Dyson School of Applied Economics and Management



Cornell University  
Charles H. Dyson School of  
Applied Economics and Management