



2018 Dairy Situation & 2019 Outlook

Farm Credit East



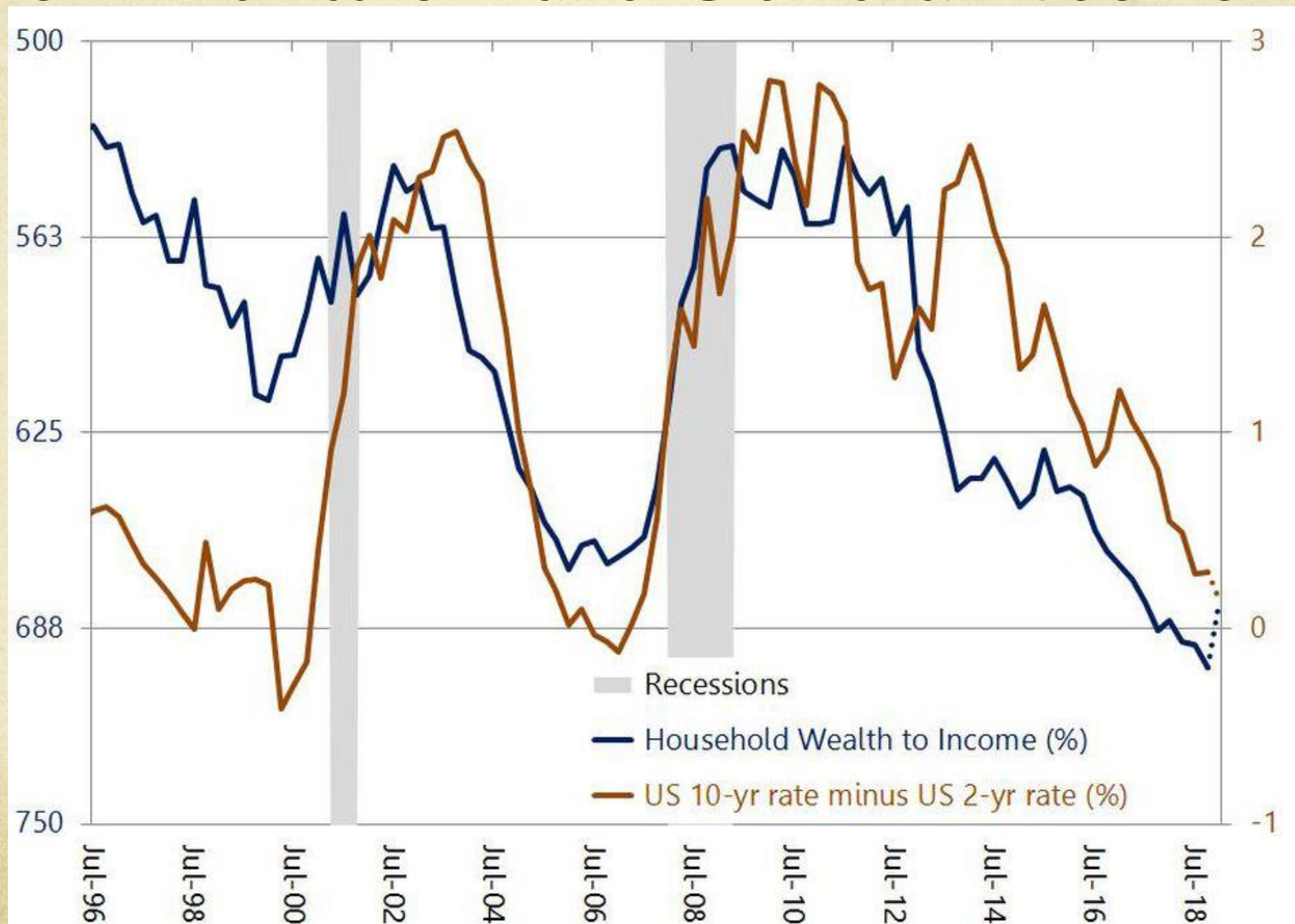
THE UNIVERSITY
of WISCONSIN
MADISON

Mark Stephenson, Ph.D.
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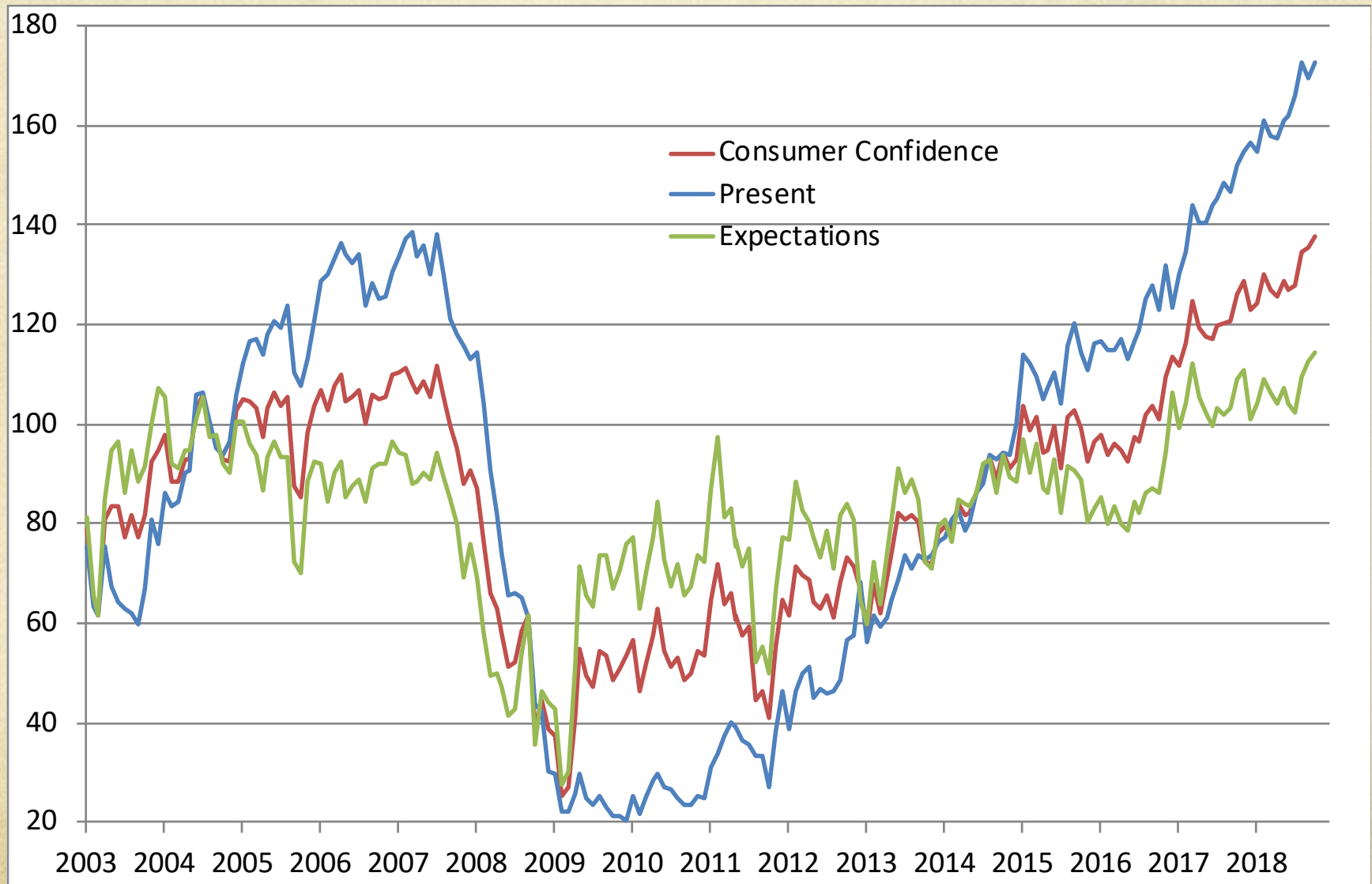
The Economy Has Been Strong



Comments on the General Economy



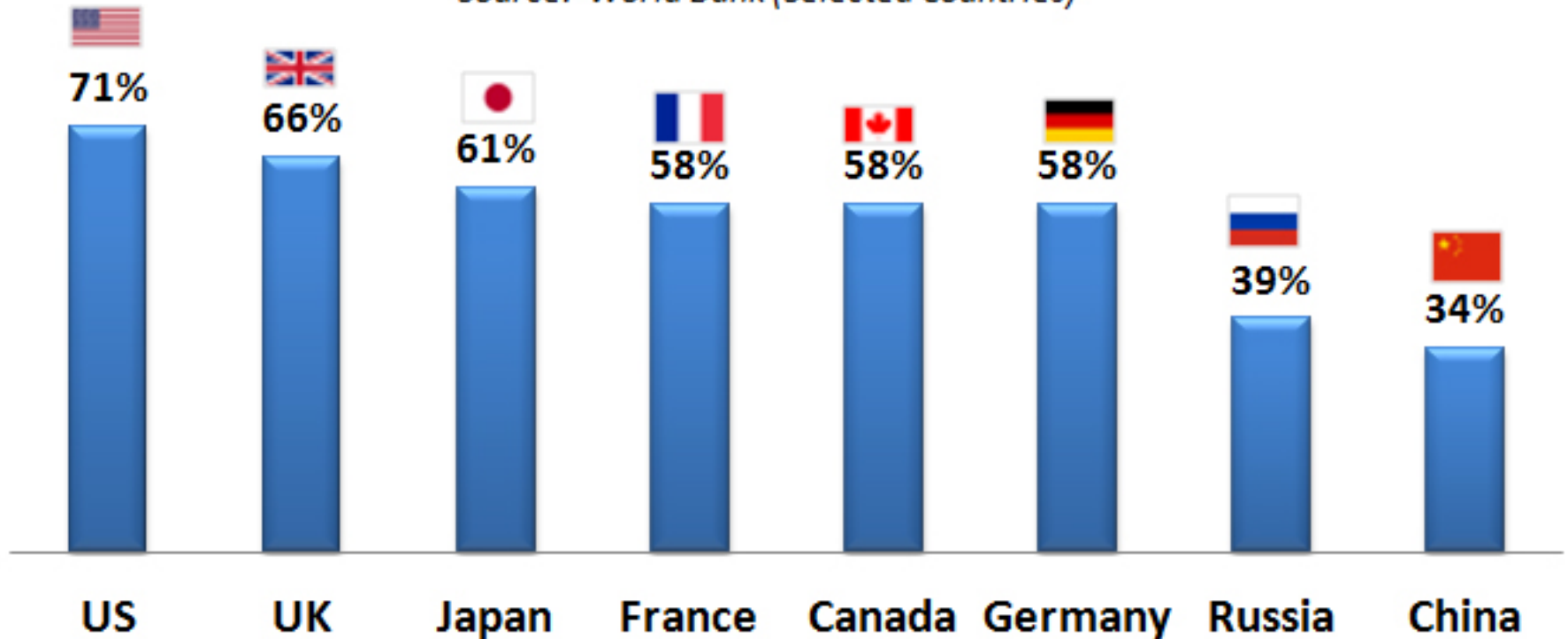
Consumer Confidence



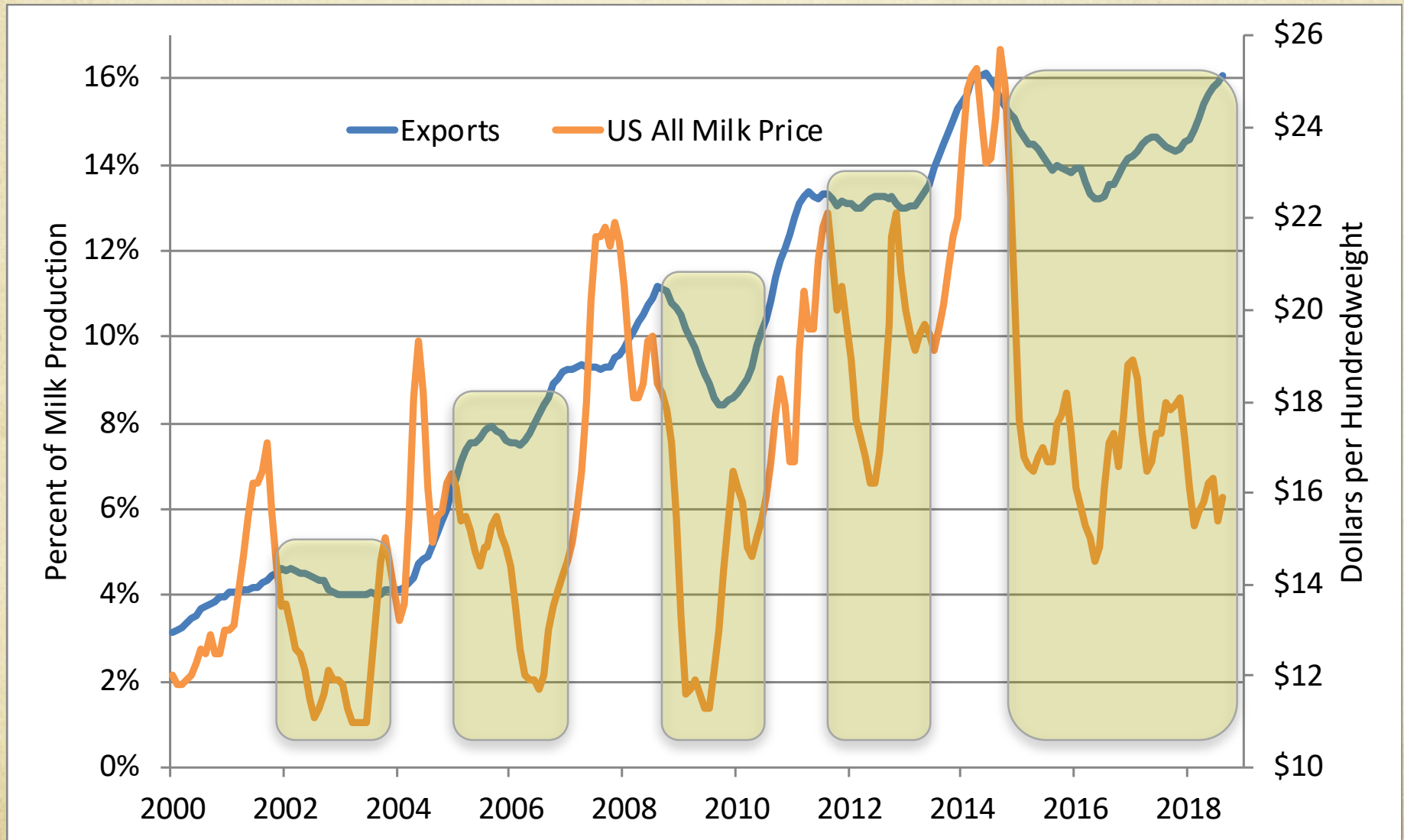
A Consumption-Based Economy

International Comparison of Consumption as a Percent of GDP

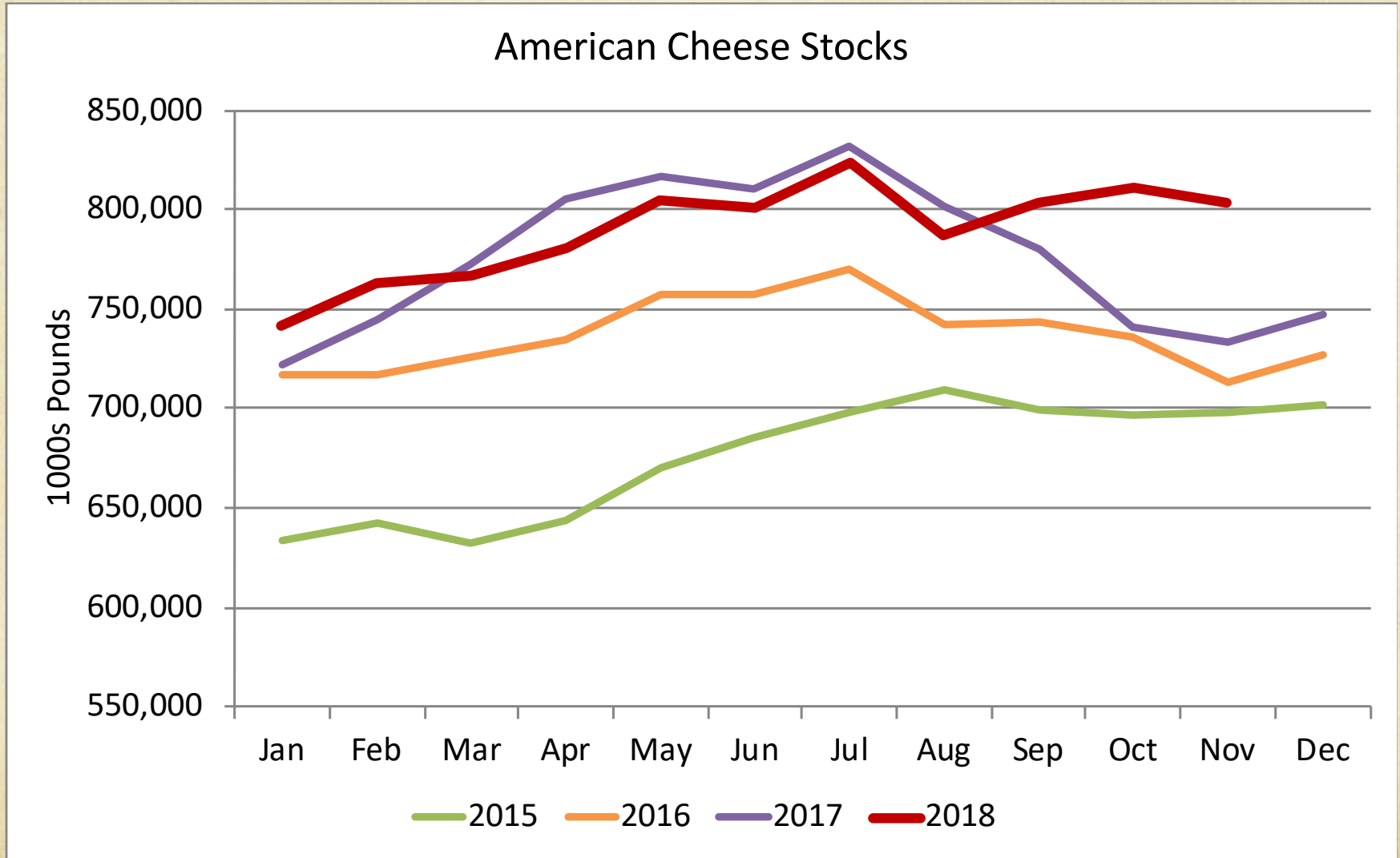
Source: World Bank (Selected Countries)



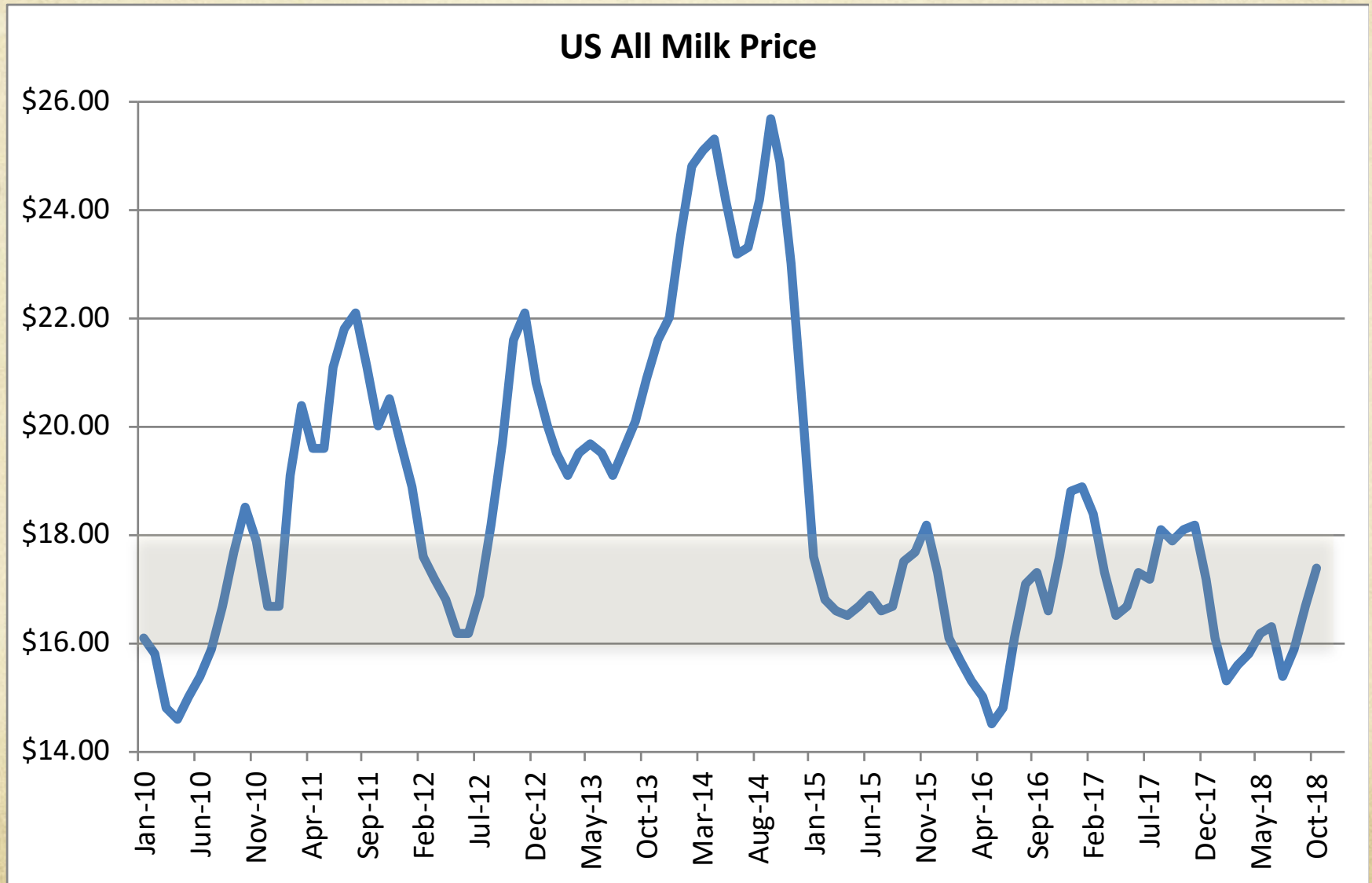
The Importance of Dairy Trade



U.S. Cheese Stocks

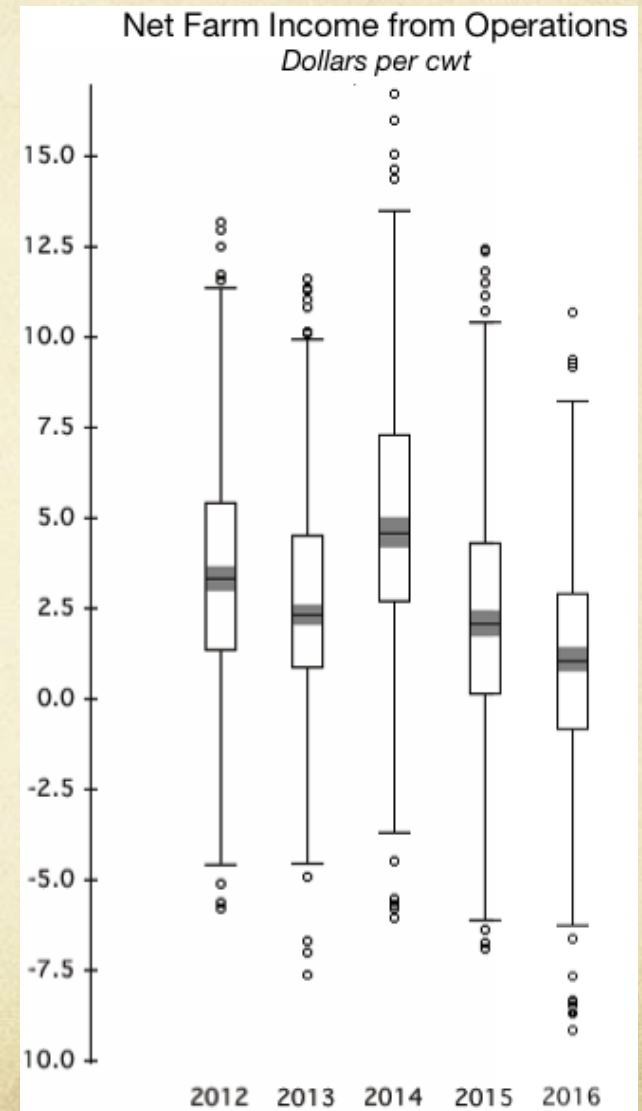


Milk Prices Have Been Range-Bound

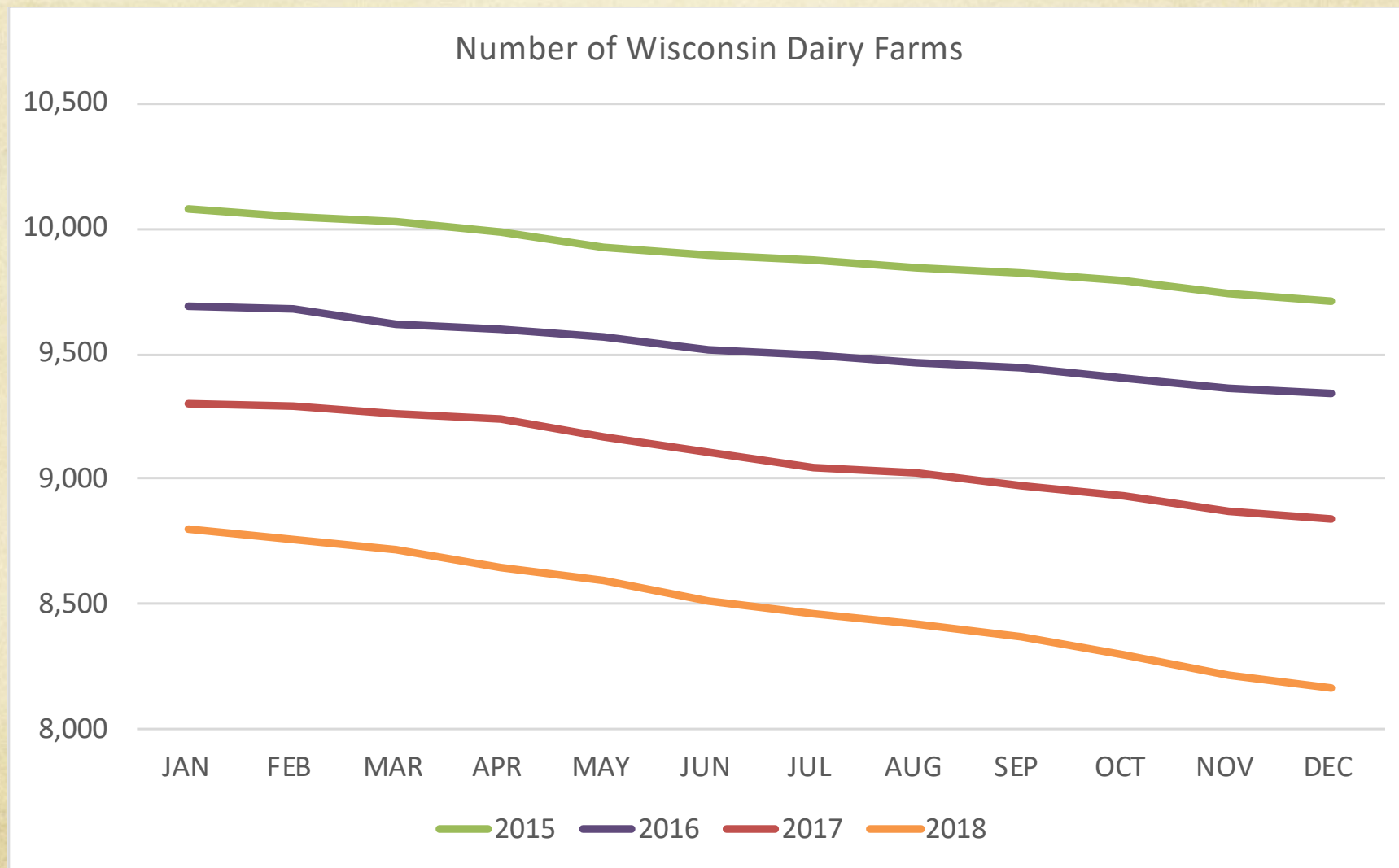


Why Has the Trough Persisted?

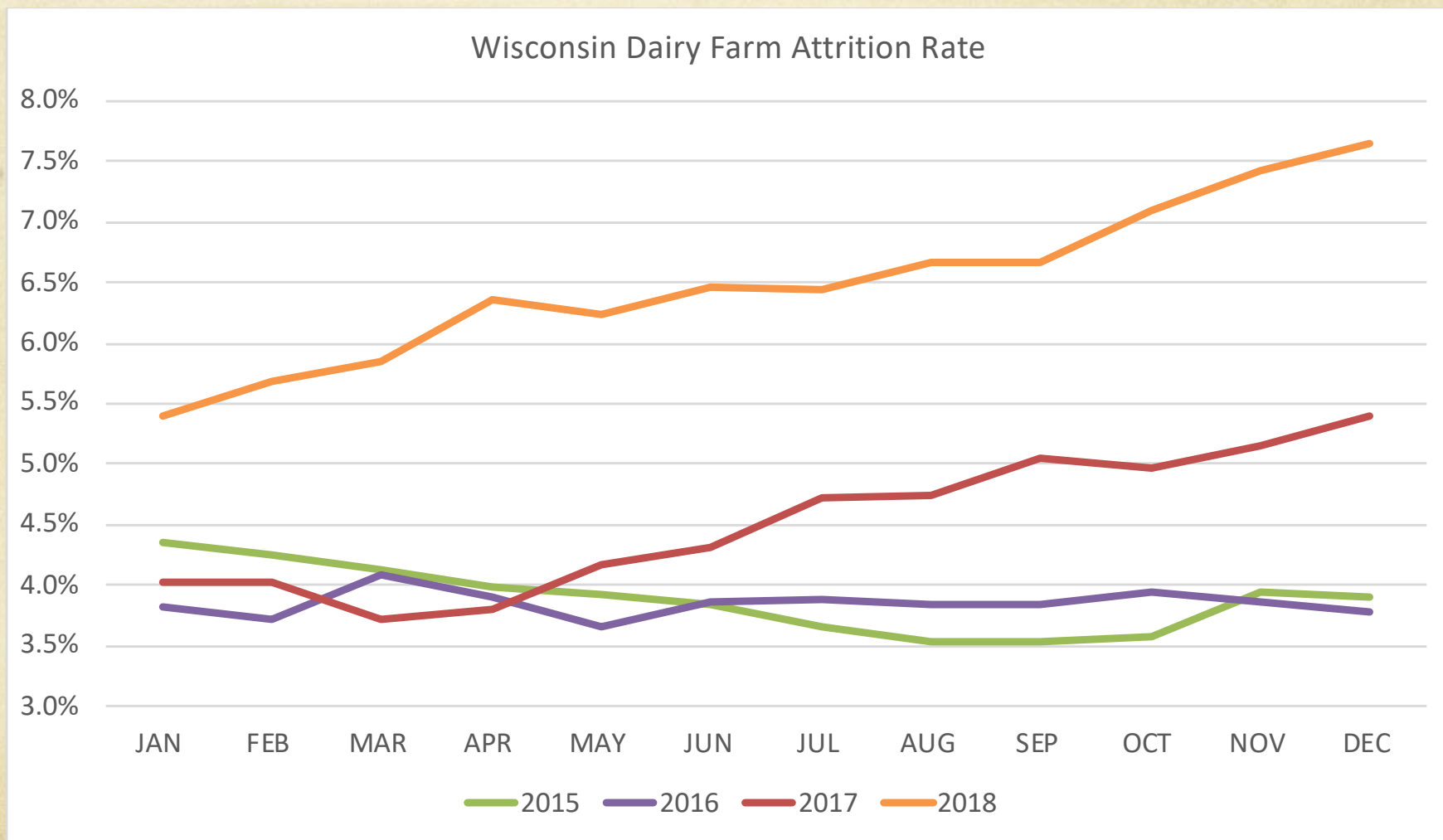
- We see a \$10 range every year in the cash costs of production on WI dairy farms.
- 20% of farms have cash flowed right through this trough
- 30% have had to borrow more
- 30% have had to restructure loans
- 20% are in real trouble.



How Bad Is It?

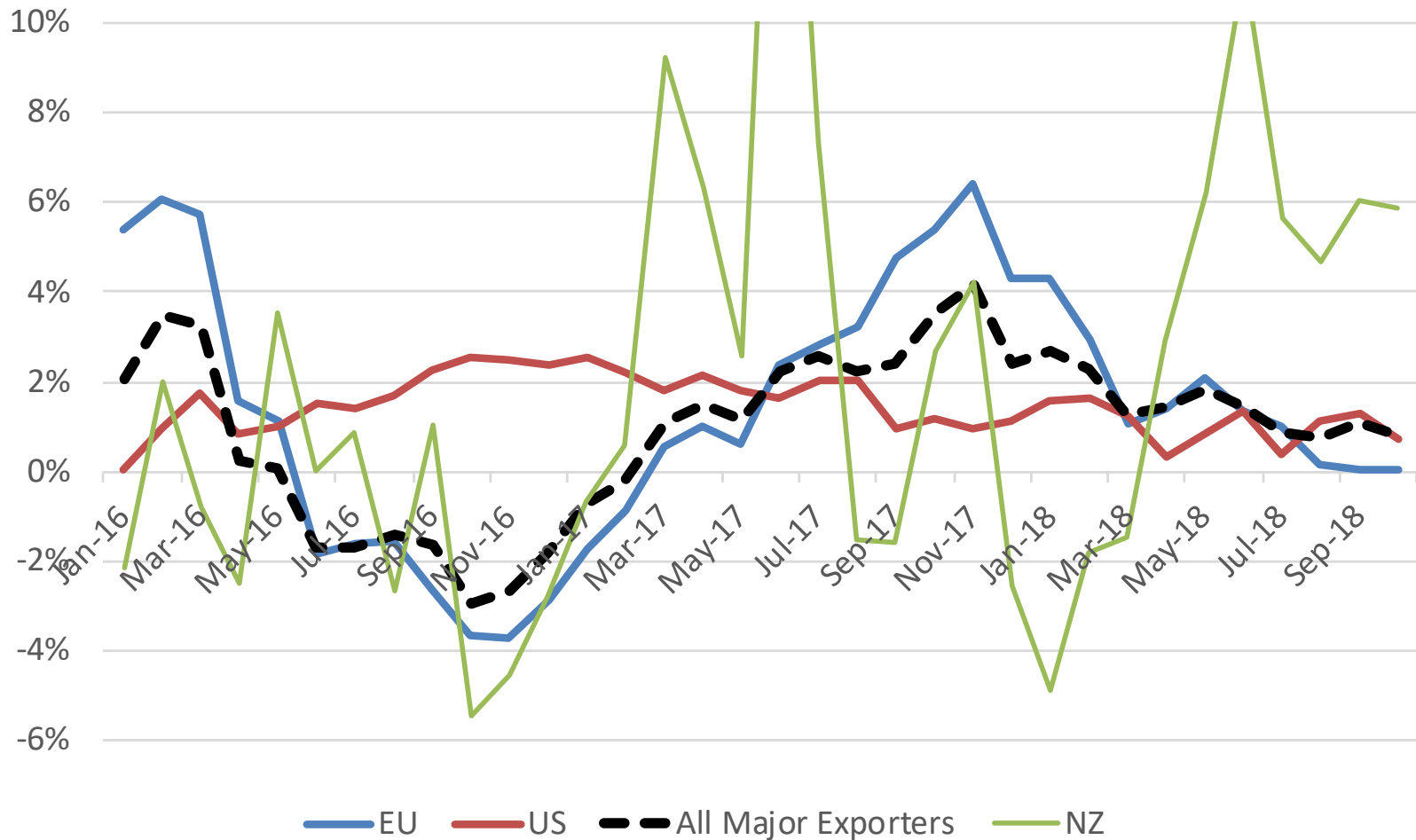


How Bad Is It?

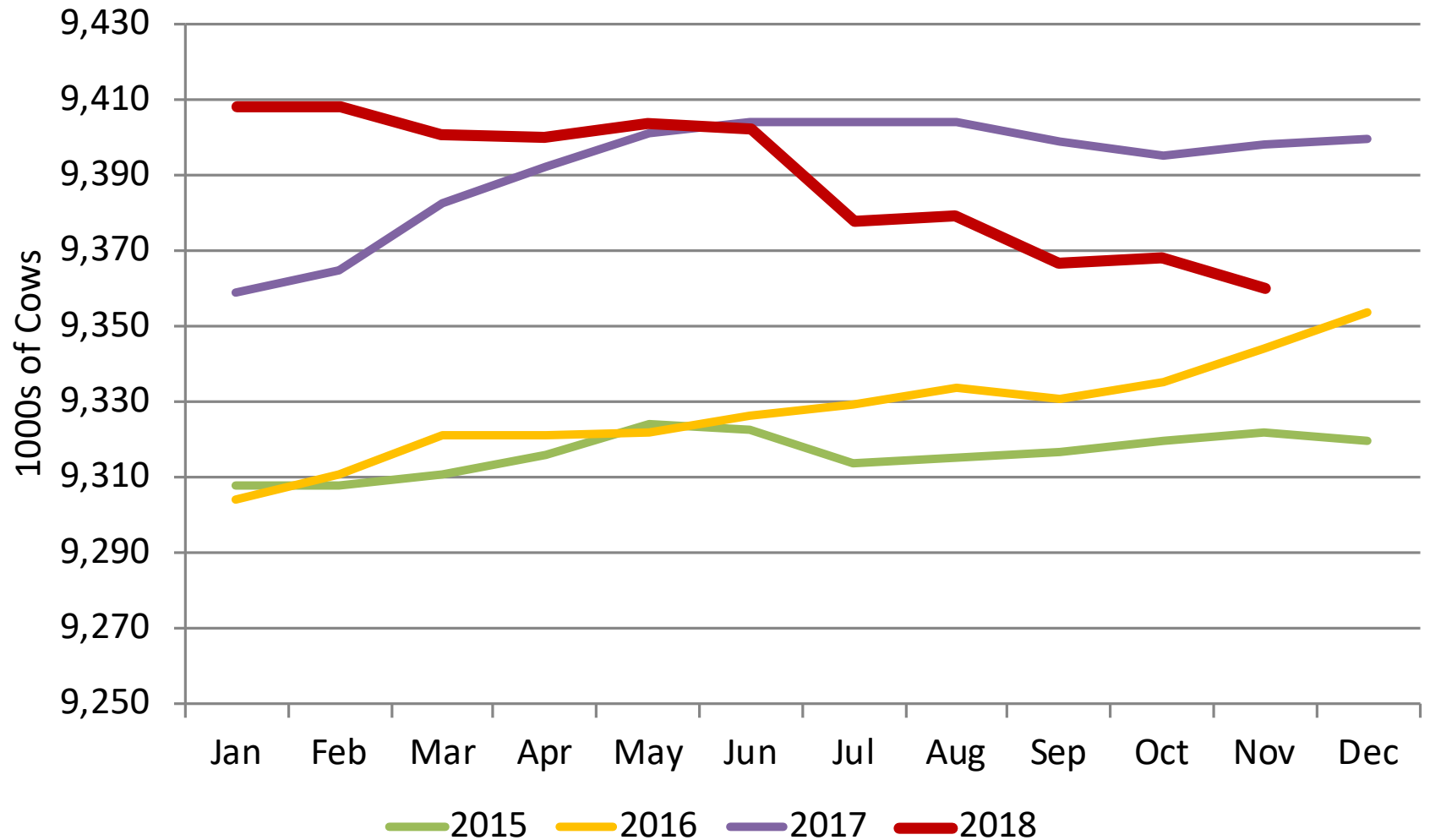


Why the Long Trough?

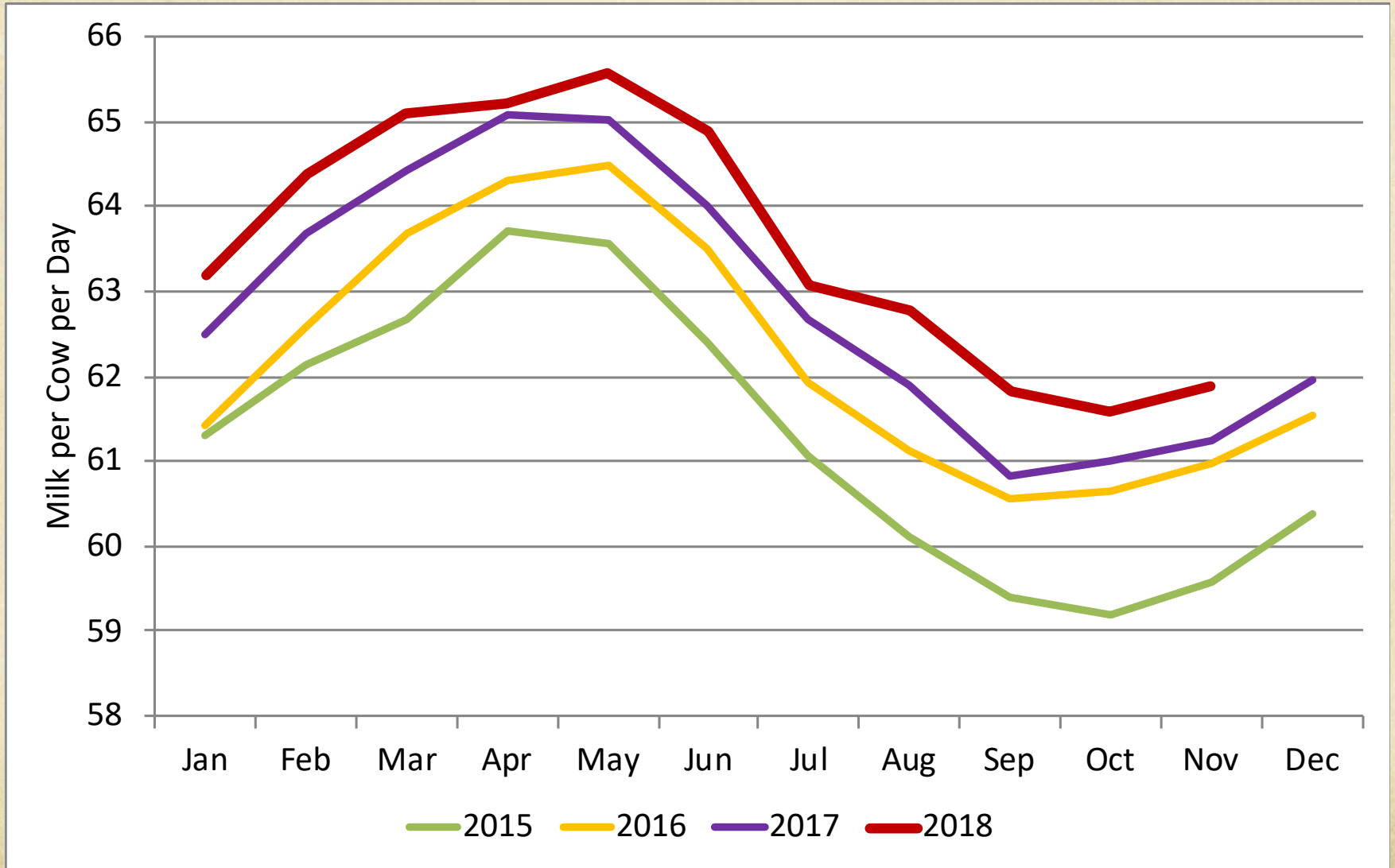
Milk Production: Percent Change from Year Earlier



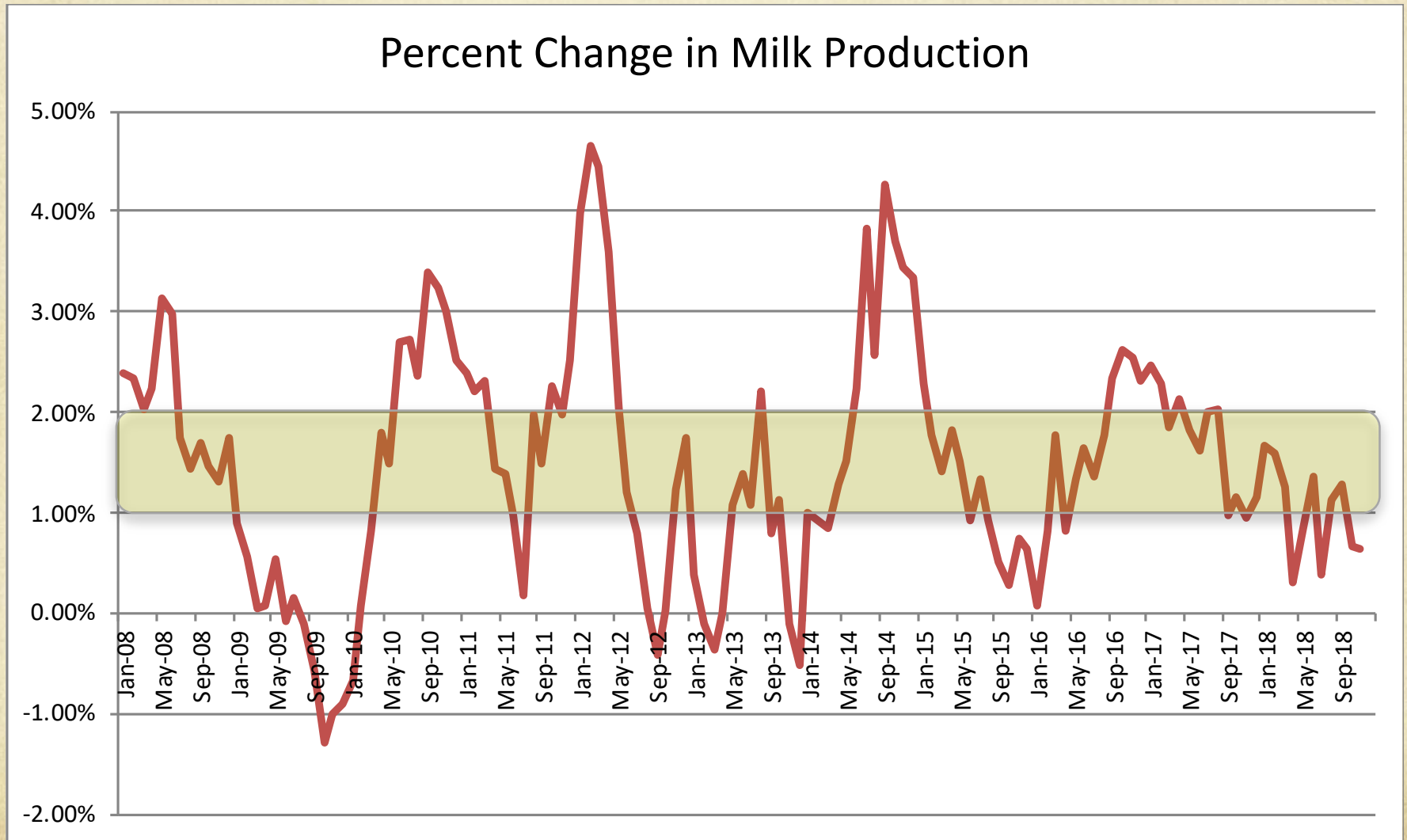
Number of Cows



Milk per Cow per Day

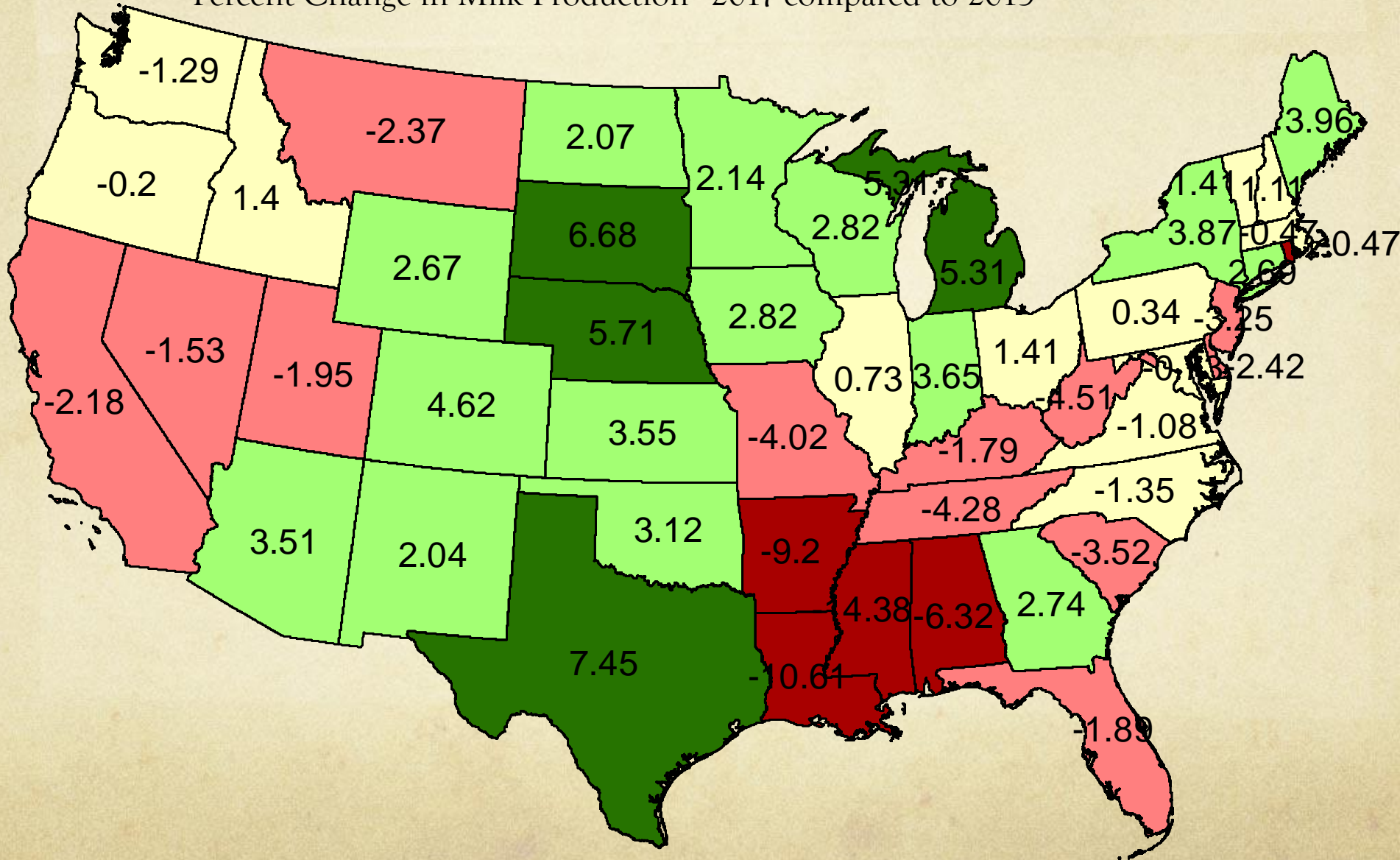


Percent Change in U.S. Milk Production



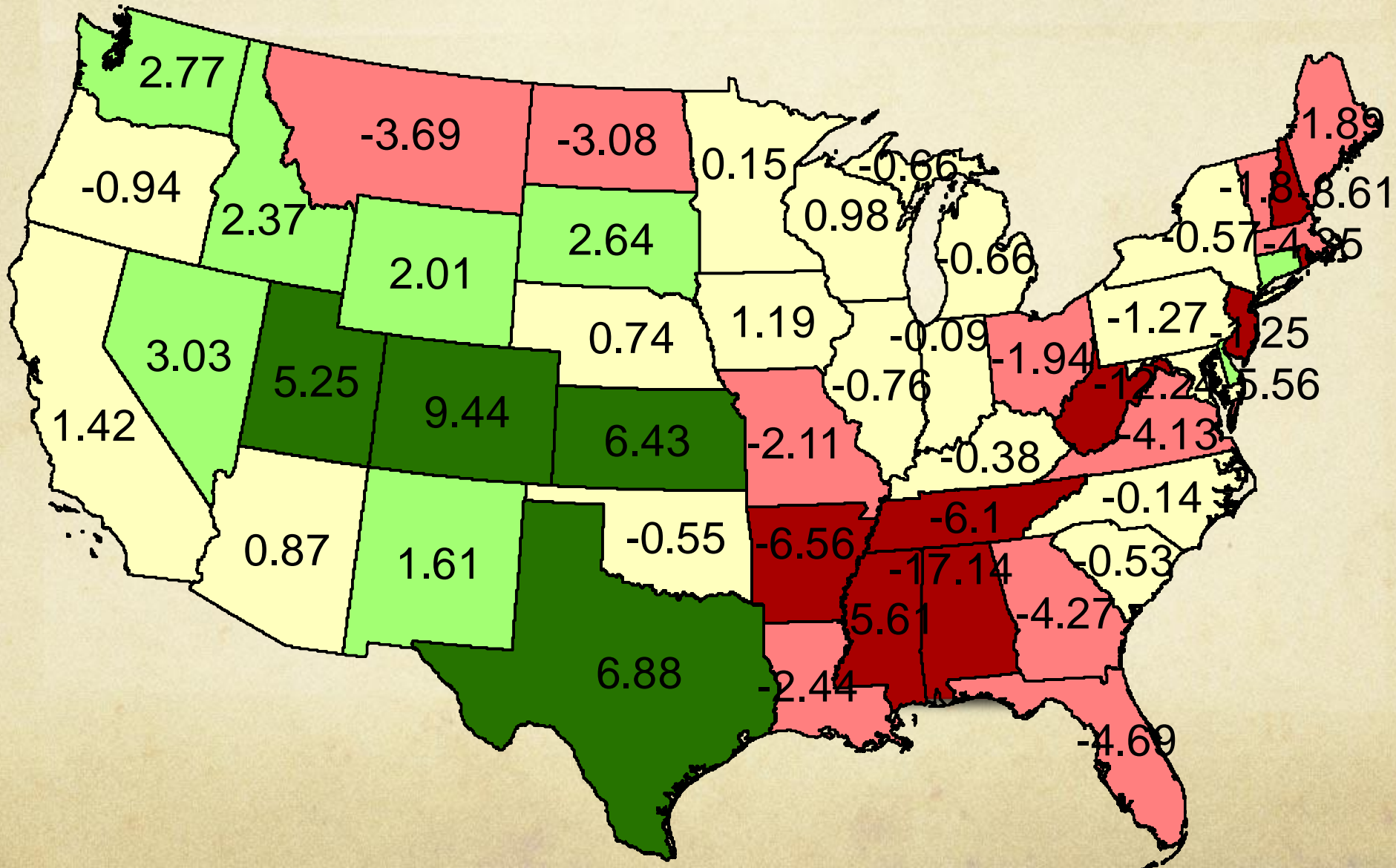
Regional Changes in Milk Production

Percent Change in Milk Production—2017 compared to 2015



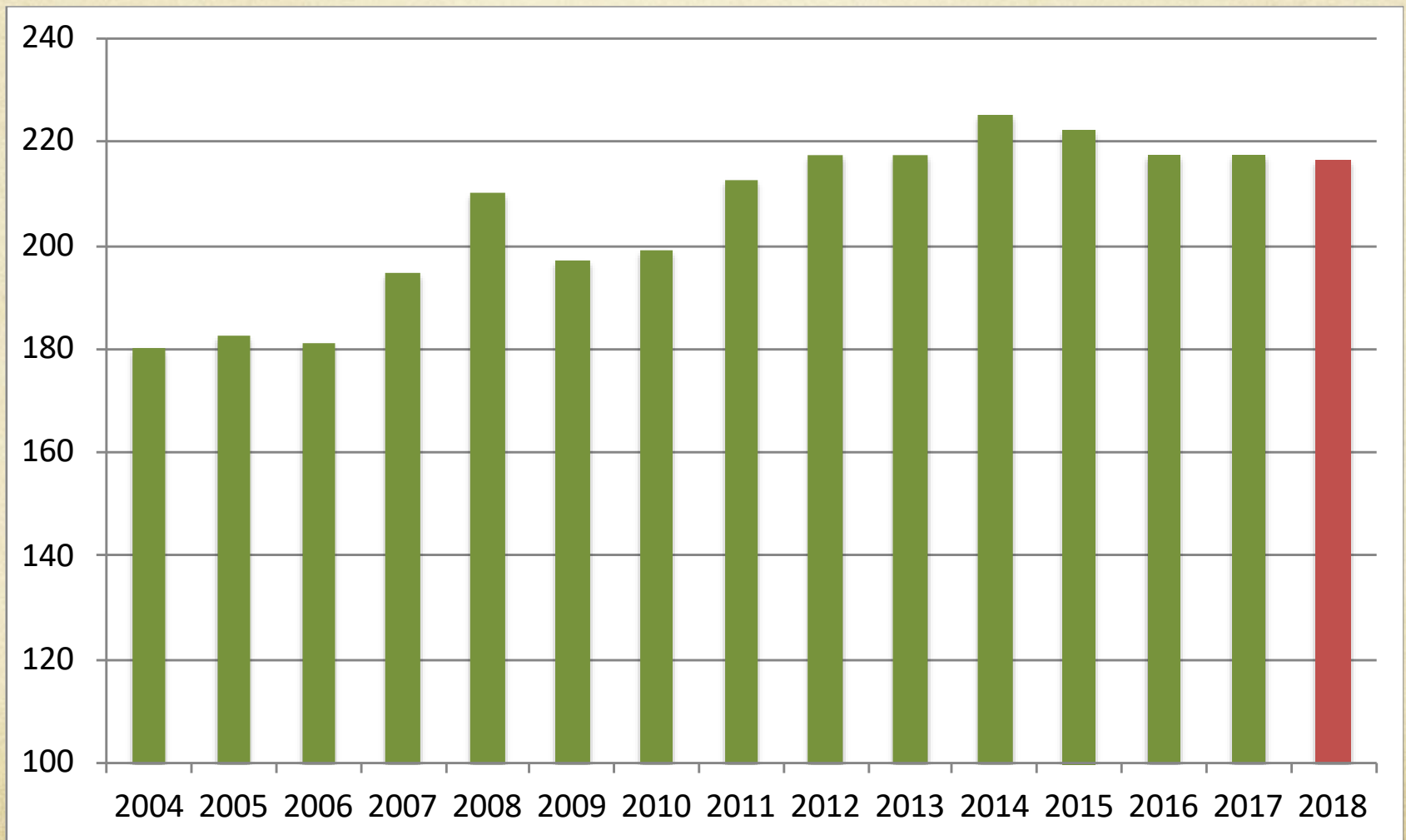
Regional Changes in Milk Production

Percent Change in Milk Production, first 3 quarters of 2018 compared to 2017

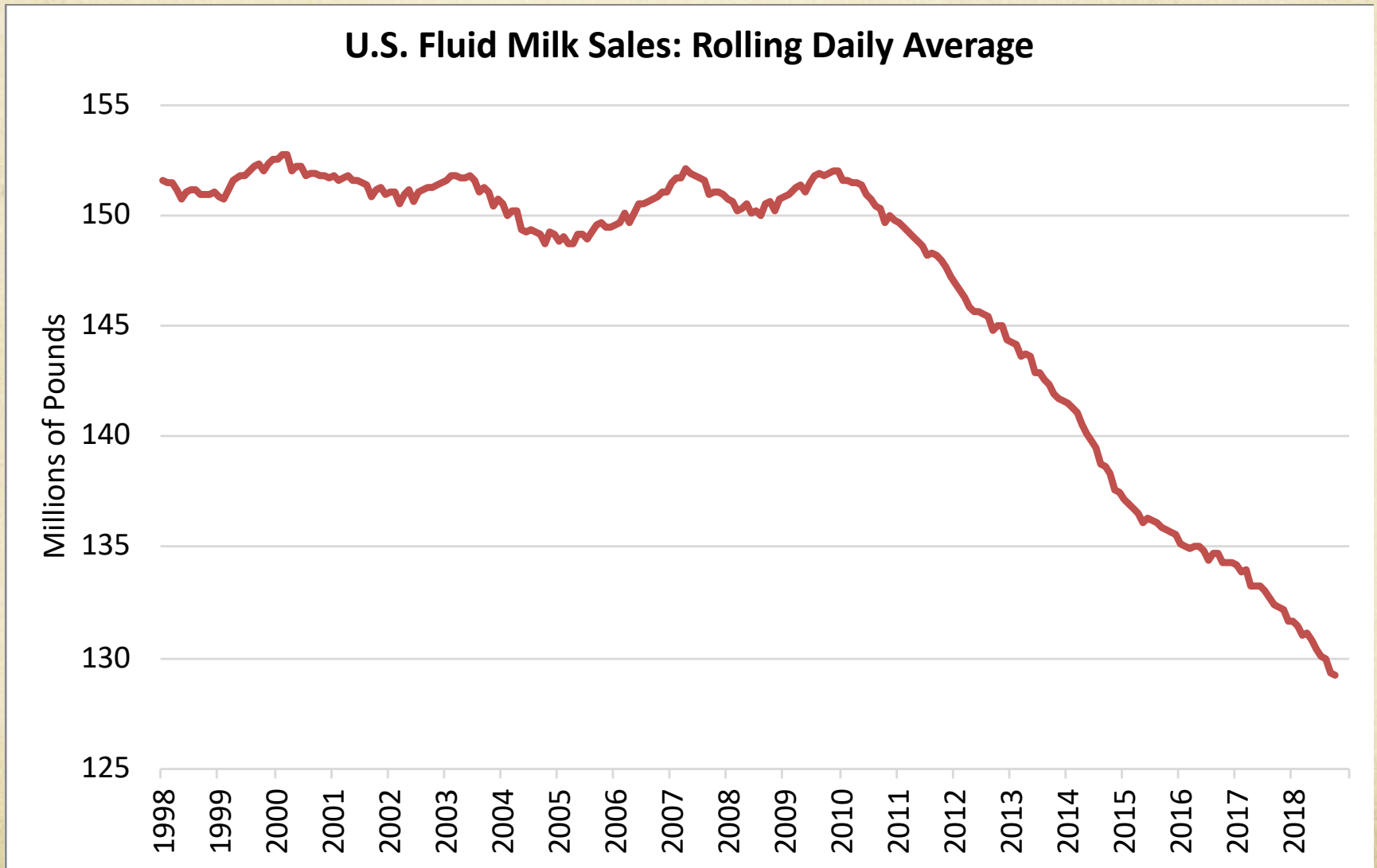


Dairy Products are a Good Buy

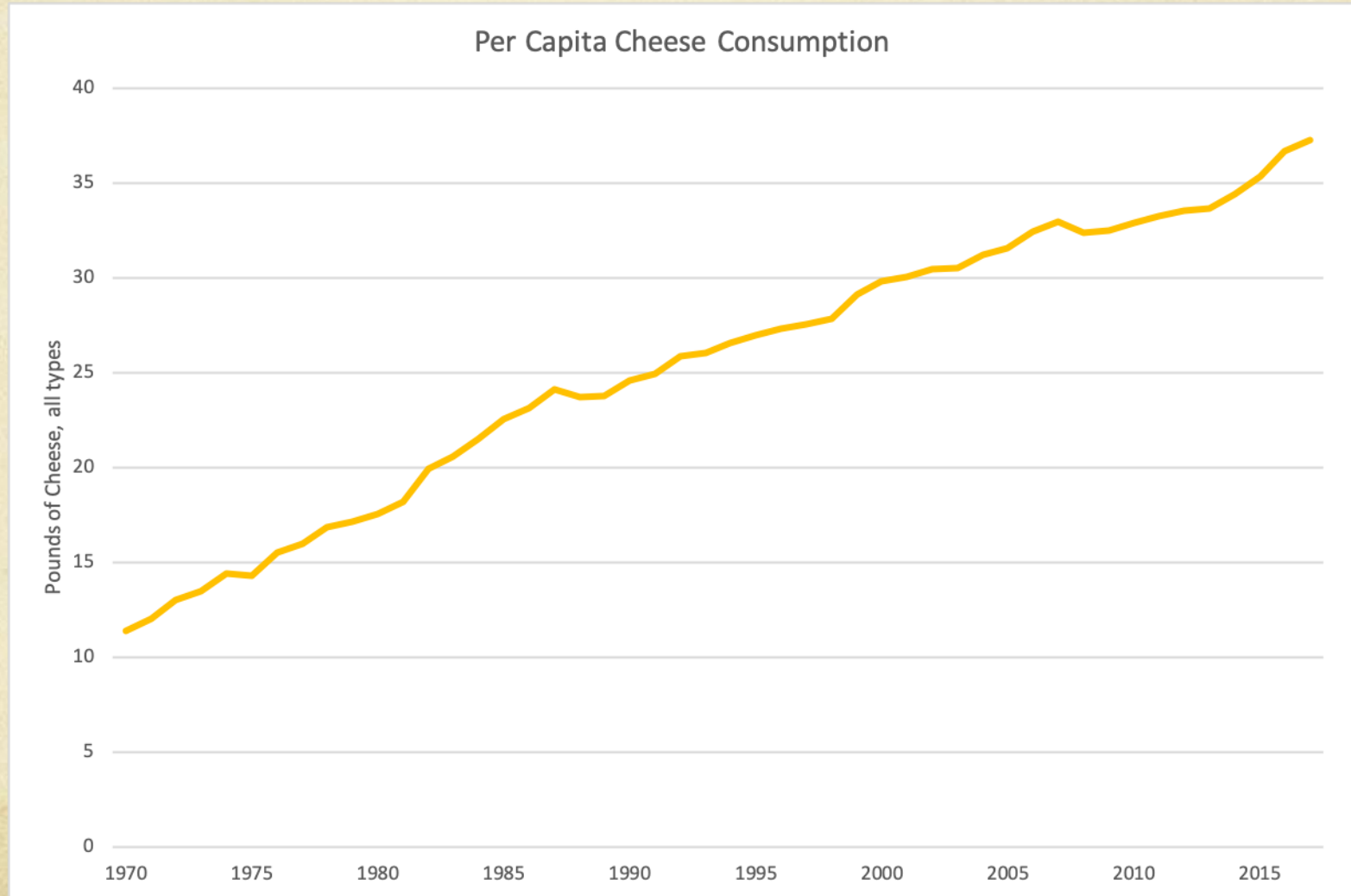
BLS –Dairy and Related Products



Fluid Milk Sales Continue Slide



It's Not All Bad News

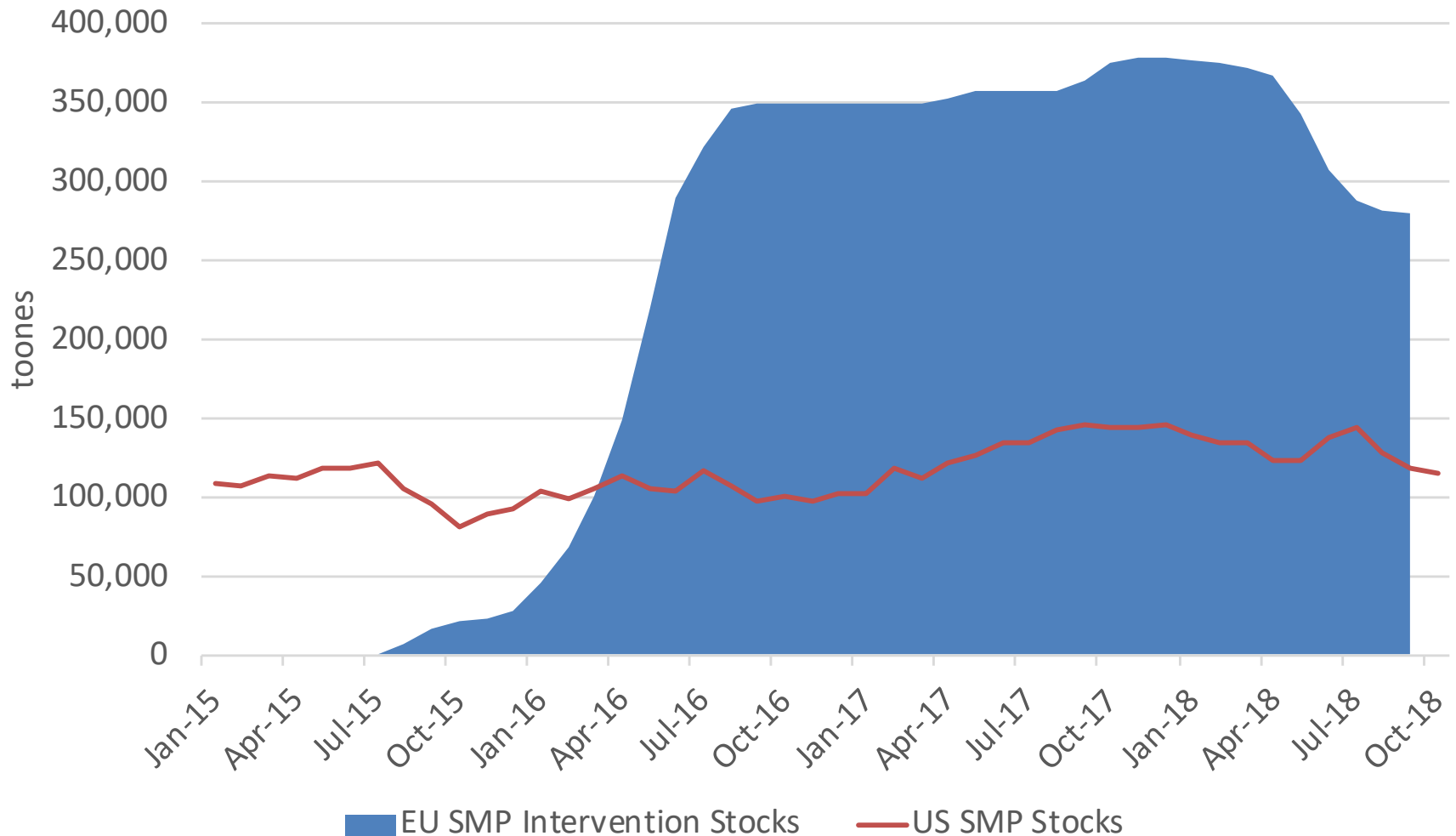


Global Dairy Trade Index

Global Dairy Trade Price Index



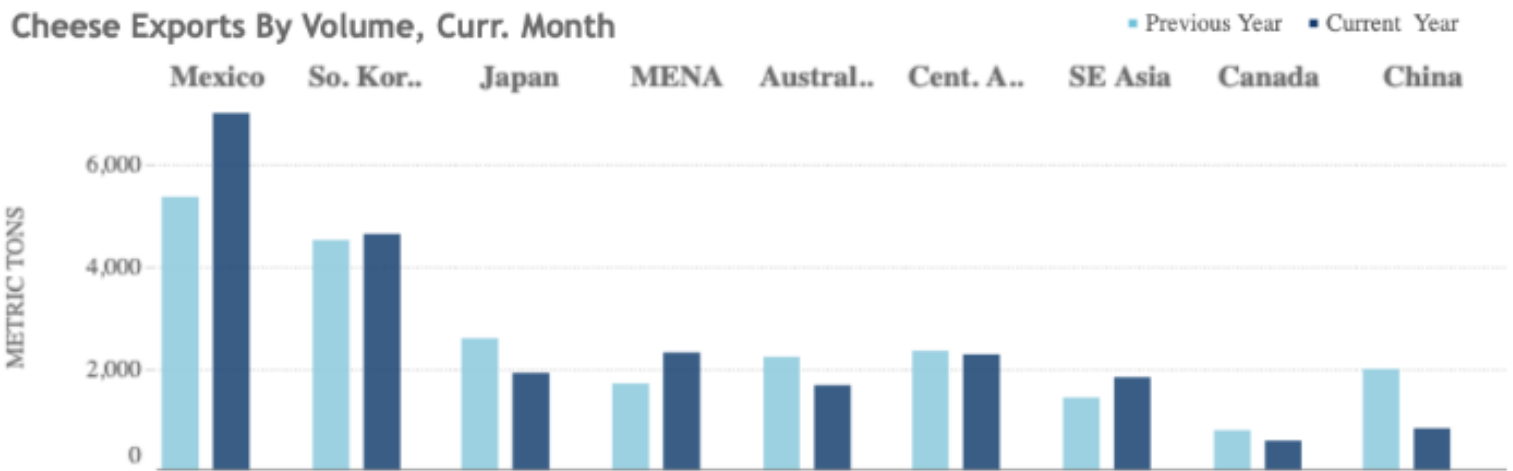
Intervention Stocks Overhang Markets



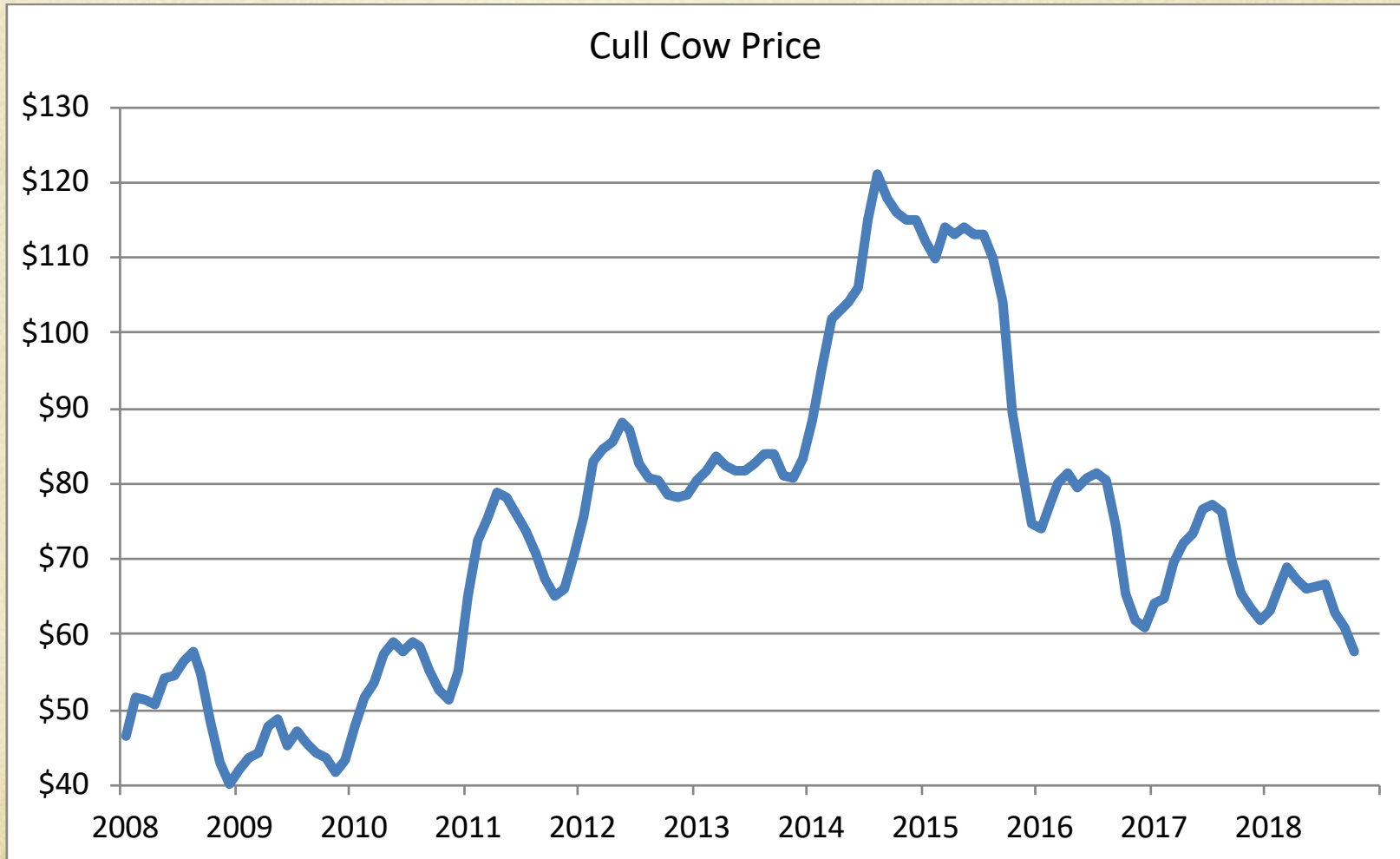
Despite Trade Tensions...

- China's per capita dairy consumption is still small and expected to grow (23 lbs compared to world average of about 111 and US average of 640).
- China's small dairies are exiting faster than mid-size and large dairies are growing causing milk production contraction.
- China has historically purchased a lot of U.S. whey and we are re-negotiating trade (but we have stubborn leaders!)
- USMCA has been signed with improved access to Canada
- Mexico has started to purchase again.

Change in Exports for October



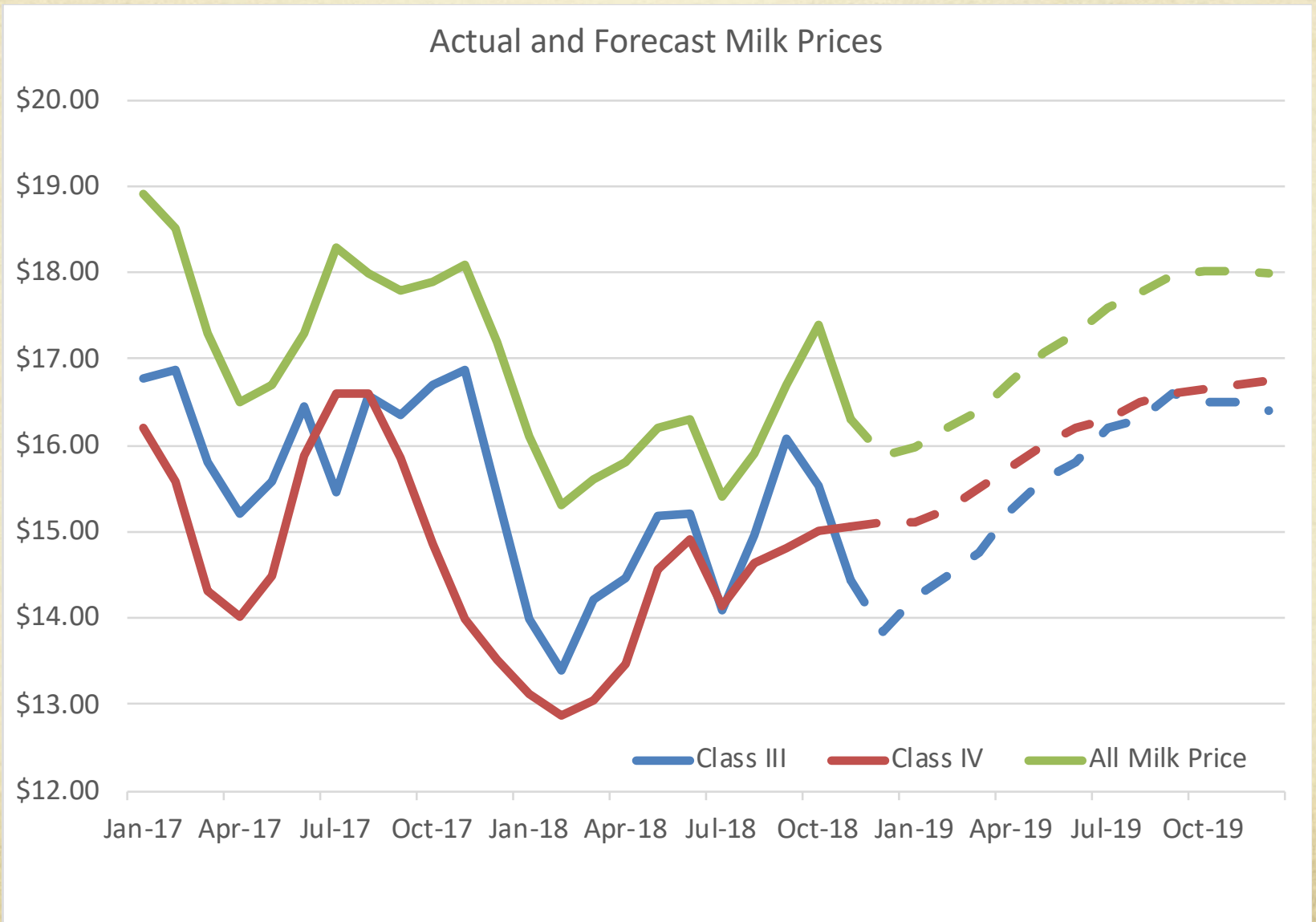
The Alternative to Producing Milk



Other Factors

- Trade retaliation has had an impact
 - Perception becomes reality—we lost \$1.50-2.00 in futures
 - Trade model suggests real impact should be more like 50-75¢
 - Trade mitigation will pay producers about 4¢ on impacted milk
- MPP will have paid about 62¢ per cwt on average on first 5 million pounds of historic production (at the \$8 level)
- Some enthusiasm for new Dairy-RP product (11B under endorsements), but that can only undergird what futures markets expect.
- DMC looks very promising—especially for smaller dairies.

Price Forecasts



Outlook Contributing Factors

Positive Factors

- Slowing US and World milk production
- Declining world stocks
- Relatively strong domestic economy
- Trade improvements
- El Niño

Negative Factors

- New Zealand production
- Slow GDP growth in some countries like China
- Prolonged trade negotiations
- Possibility of US recession

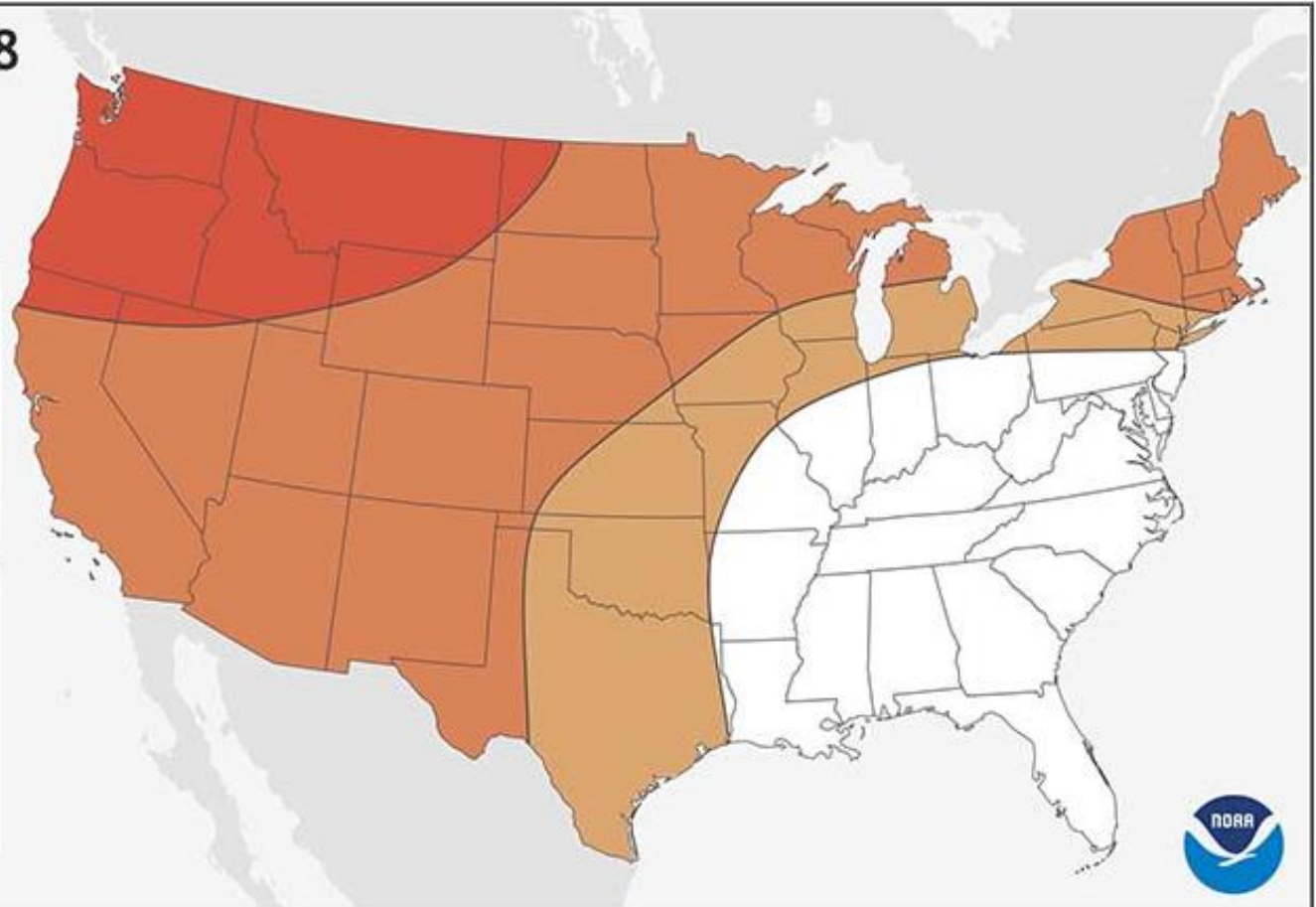
90% Chance of El Niño

Winter 2018

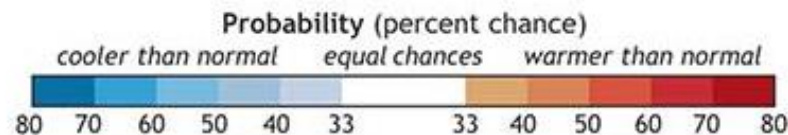
U.S.
Temperature
Outlook



AK and HI not to scale

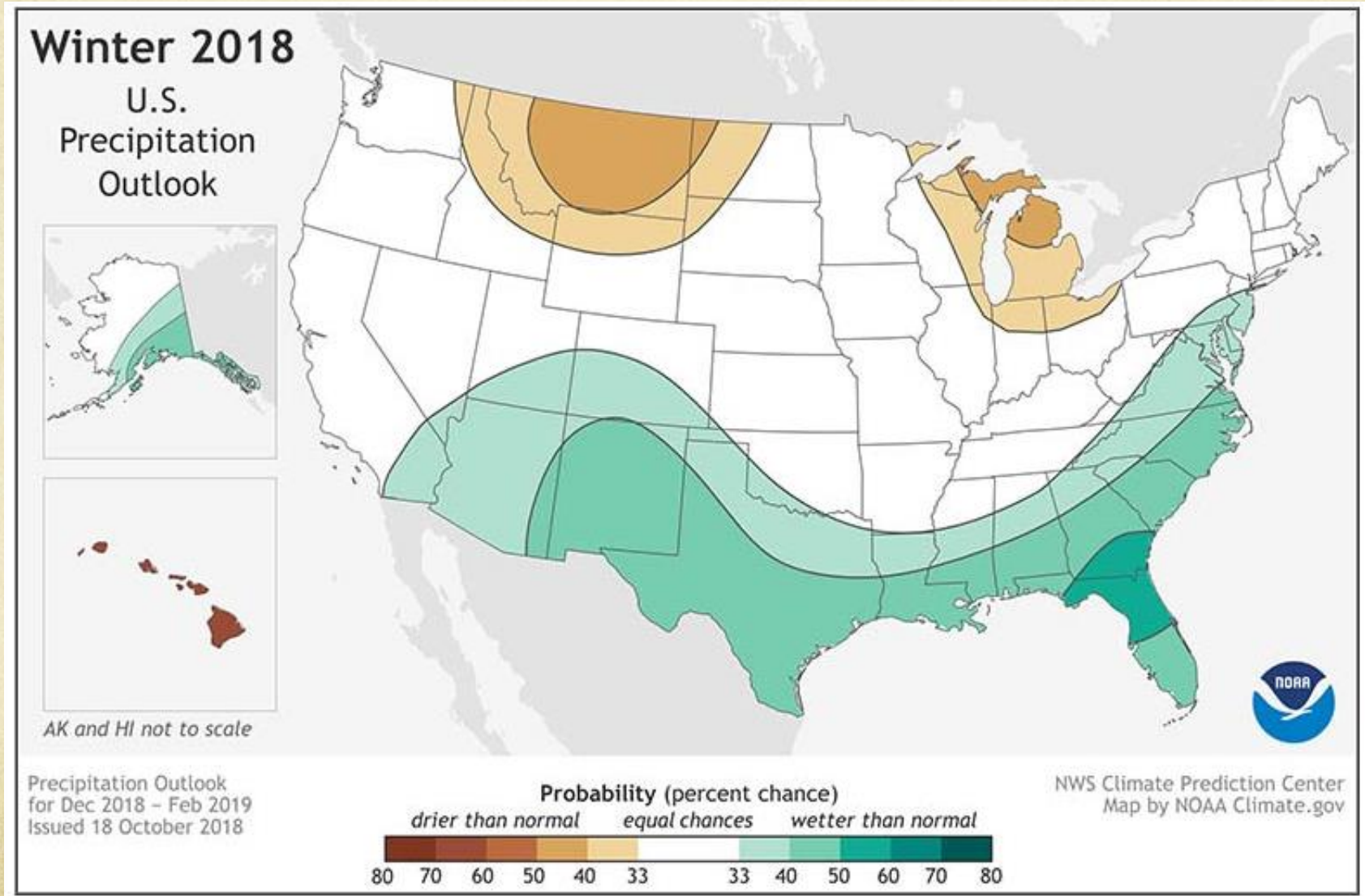


Temperature Outlook
for Dec 2018 – Feb 2019
Issued 18 October 2018



NWS Climate Prediction Center
Map by NOAA Climate.gov

90% Chance of El Niño



My Forecast...

- Unless circumstances change significantly on the export side, it's hard to be overly optimistic about milk prices in 2019.
 - I don't think that milk prices will feel "good" until exports represent about 17-18% of milk of milk production on a rolling average 12 months.
- I am forecasting 2019 Class III up by \$1.10, Class IV up by \$1.80 and the All Milk Price up by about \$1.15 (reflects weak premiums). Basically, 2019 will feel not quite as good as 2017.
- We are losing more farms, but not our capacity to produce milk.
- Is this the new "normal?"

Questions?

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