



A Better Outlook...with a Couple of Asterisks

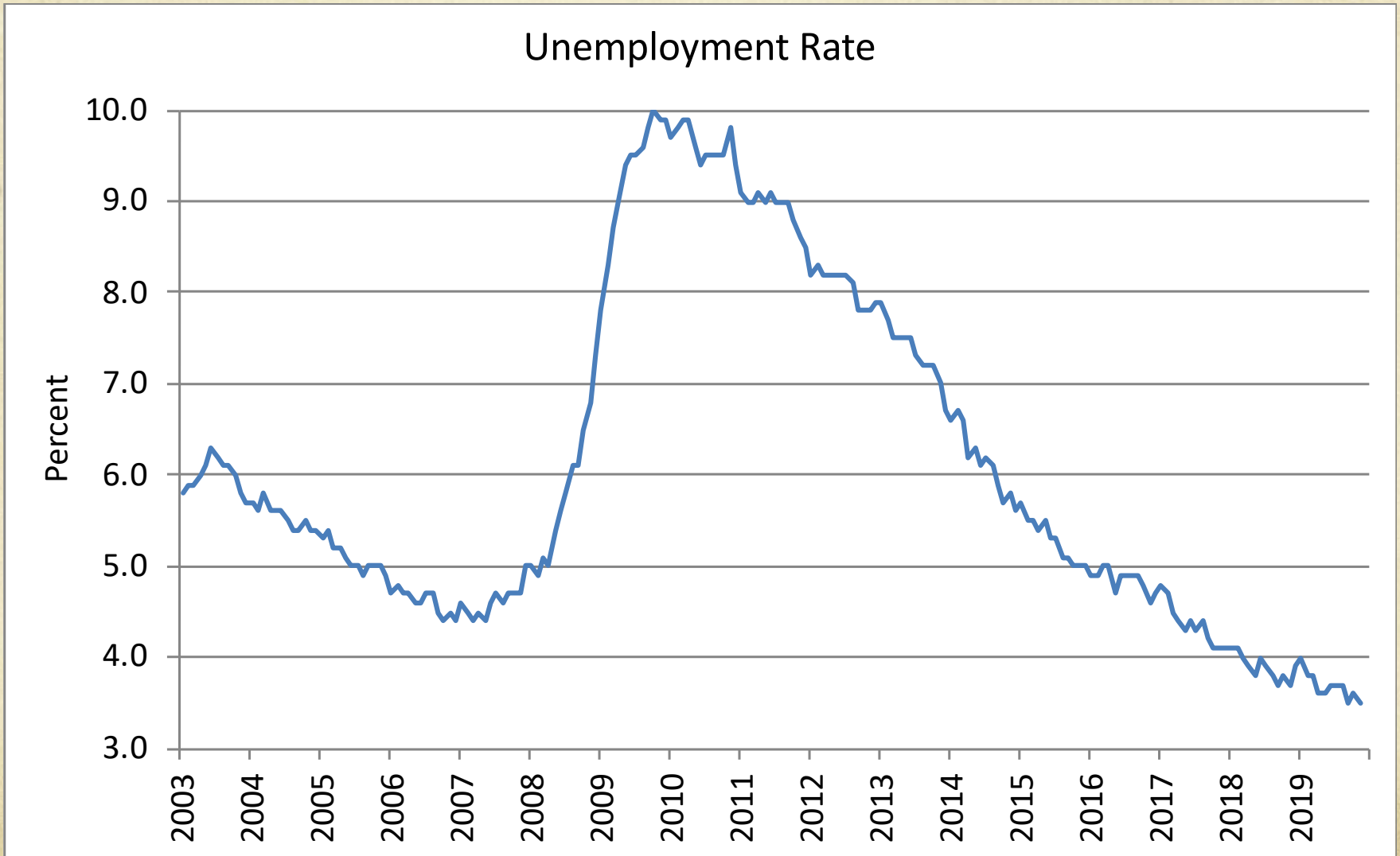
Farm Credit East, January 15, 2020



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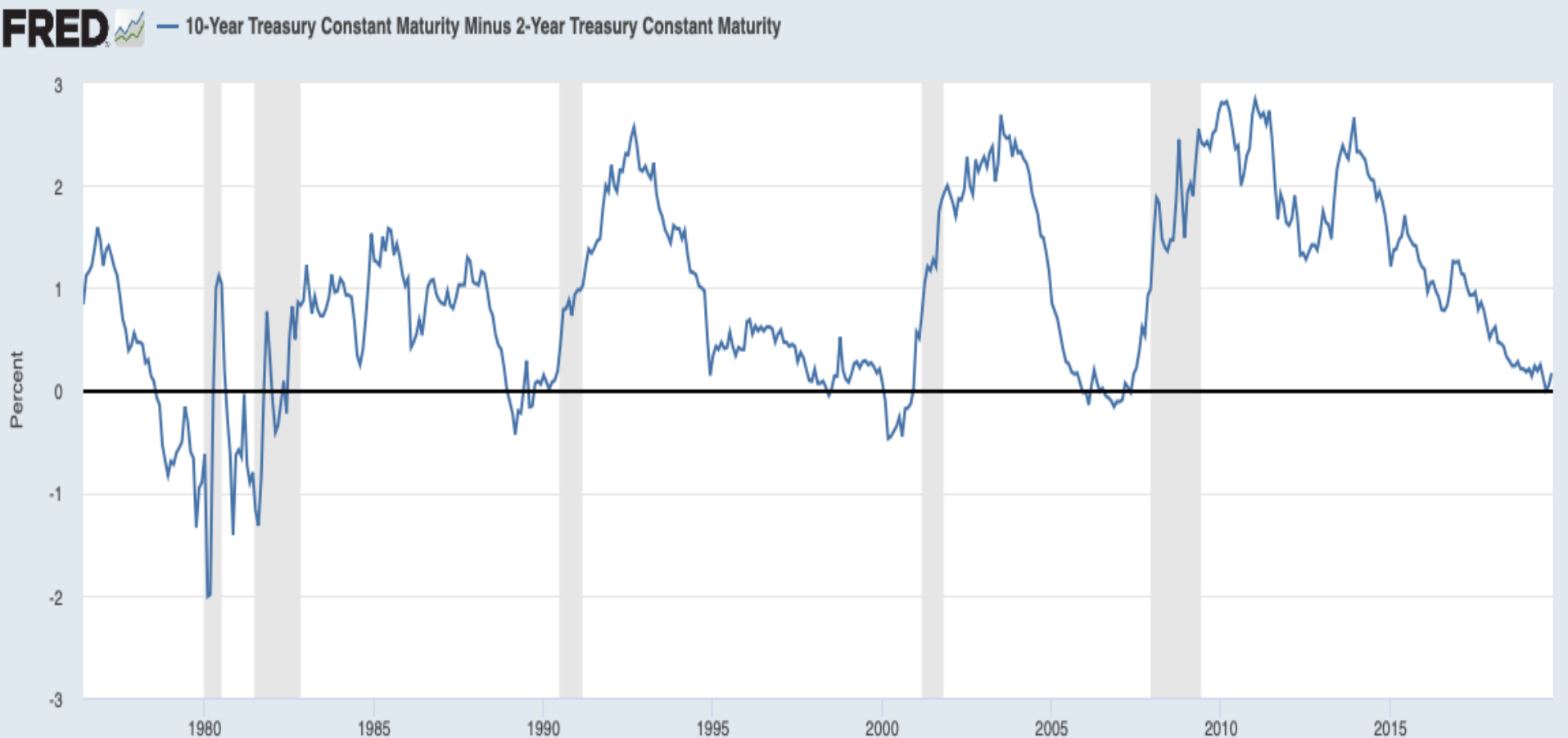
Mark Stephenson, Ph.D.
Director of Dairy Policy Analysis

The Economy Has Been Strong



Comments on the General Economy

10 Year Minus 2 Year Treasury Bill Spread

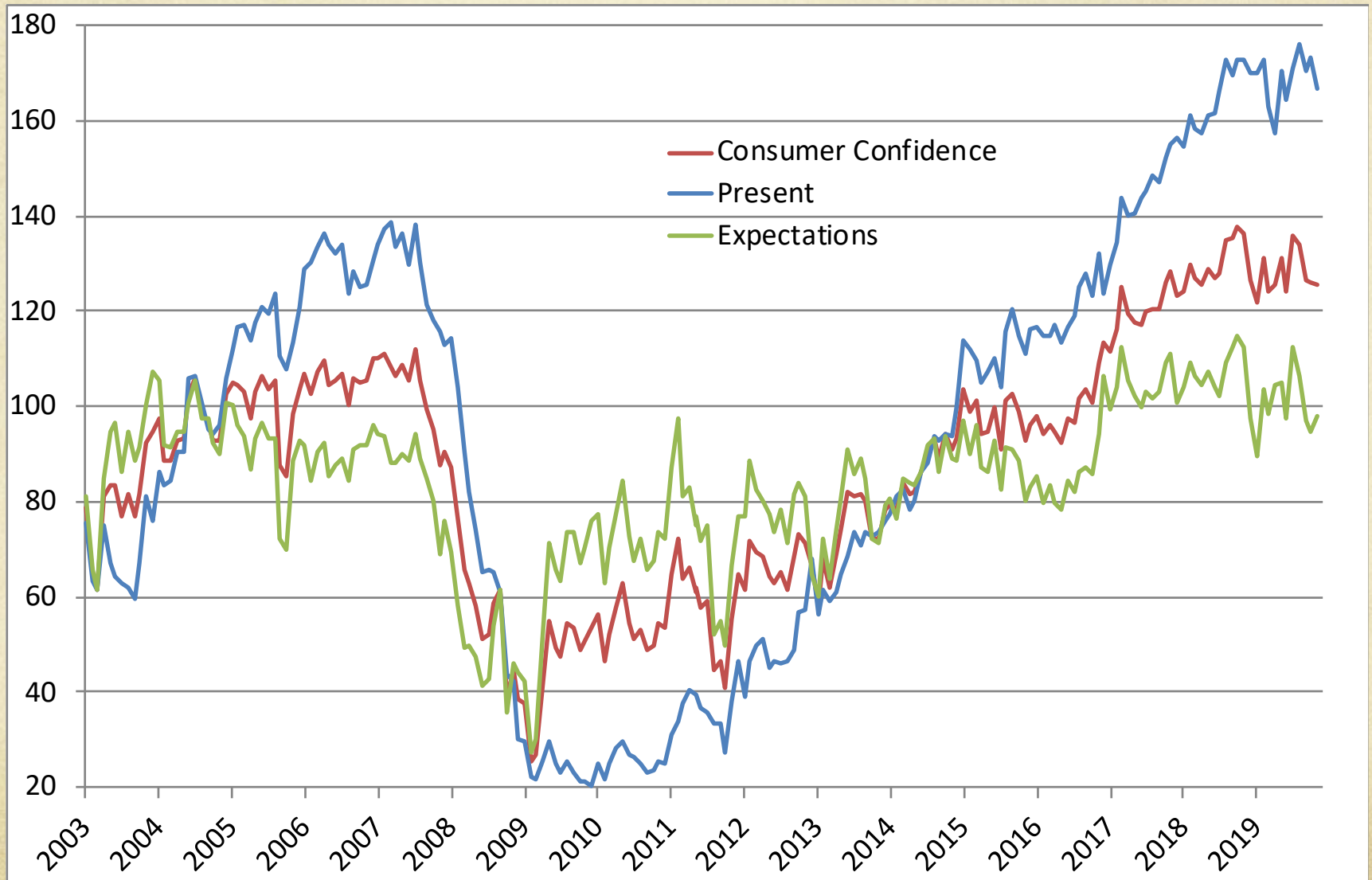


Shaded areas indicate U.S. recessions

Source: Federal Reserve Bank of St. Louis

fred.stlouisfed.org

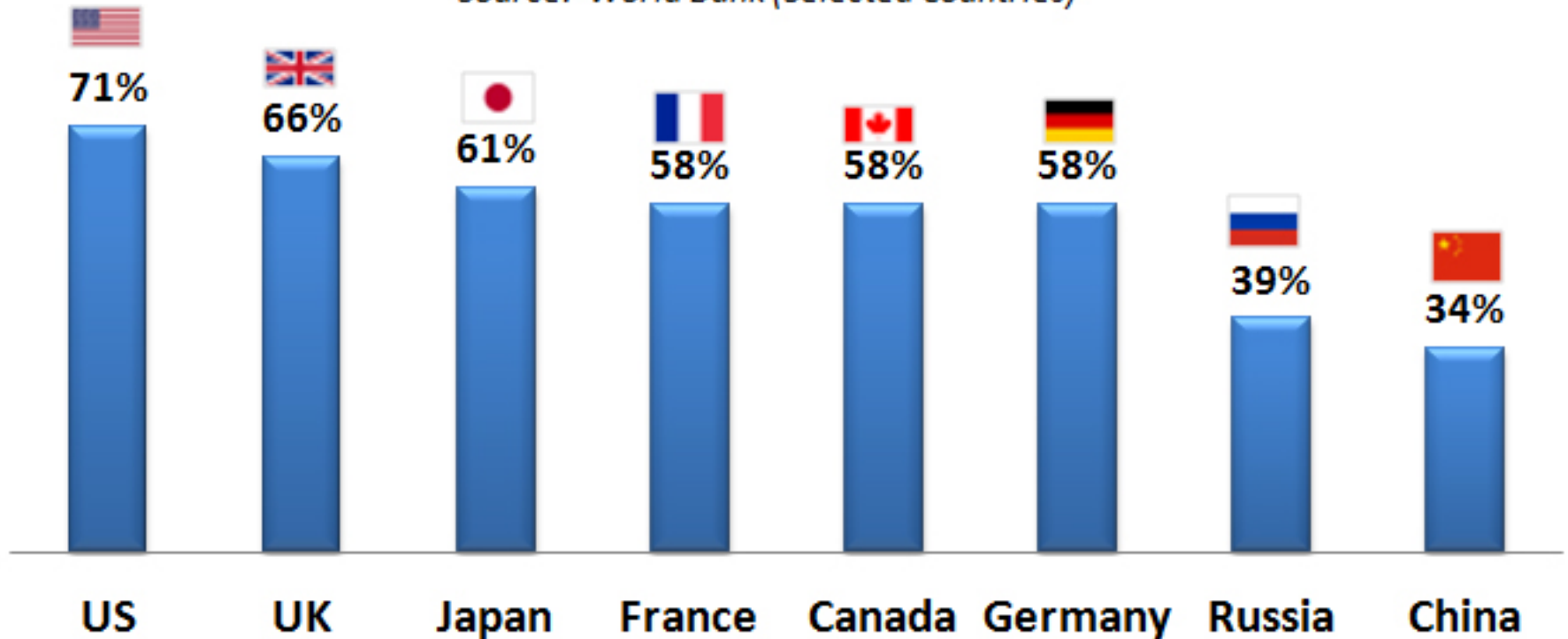
Consumer Confidence



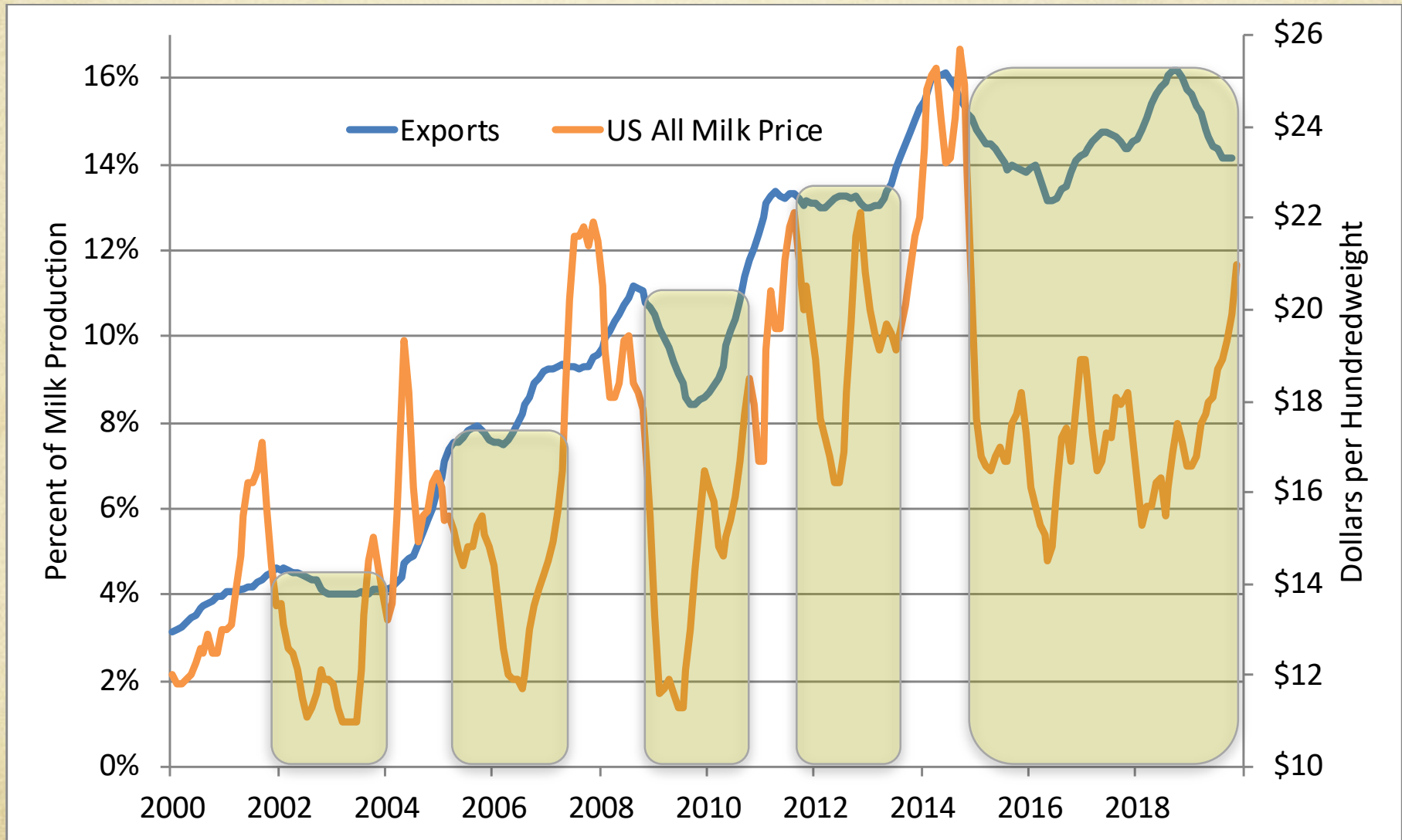
A Consumption-Based Economy

International Comparison of Consumption as a Percent of GDP

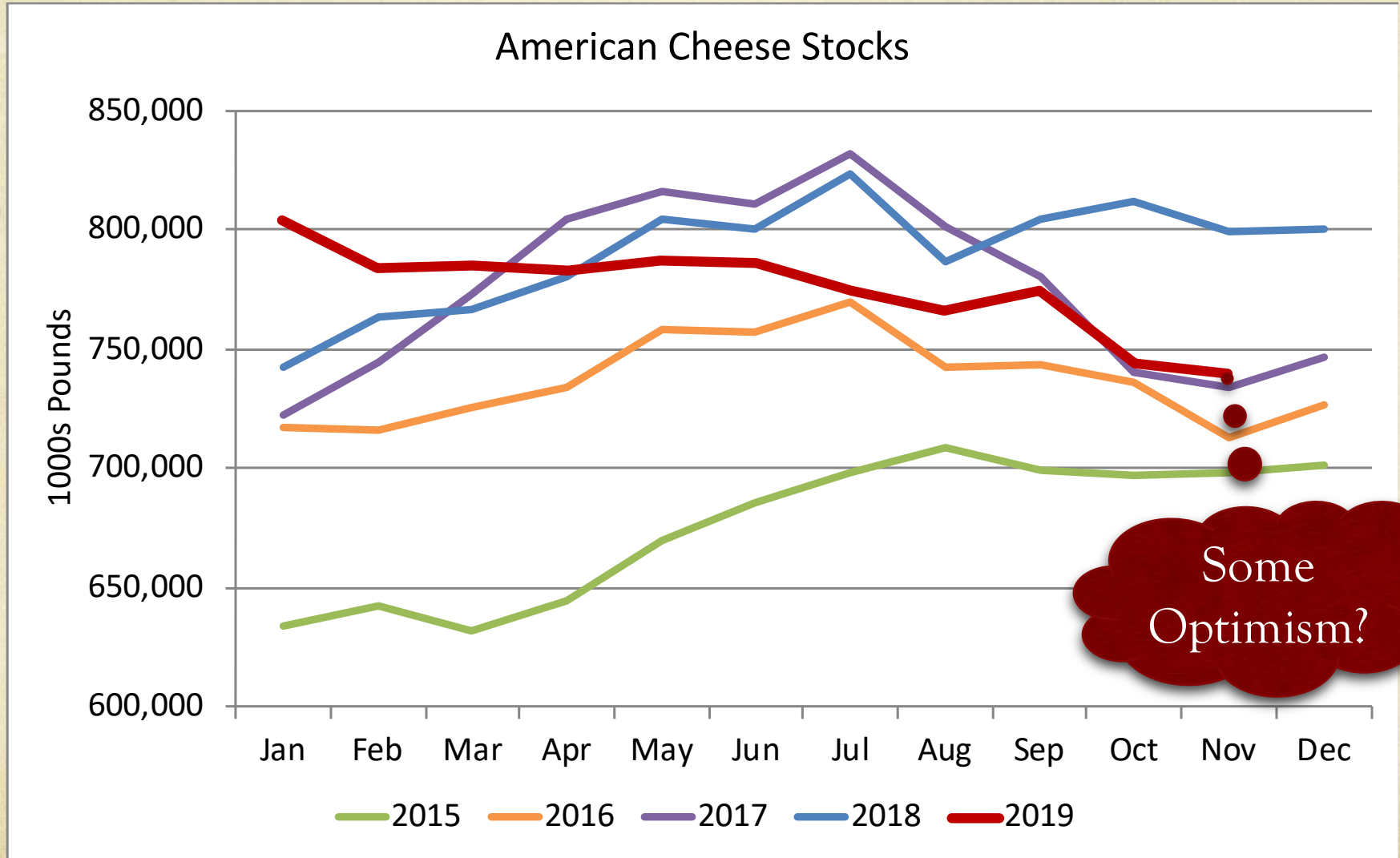
Source: World Bank (Selected Countries)



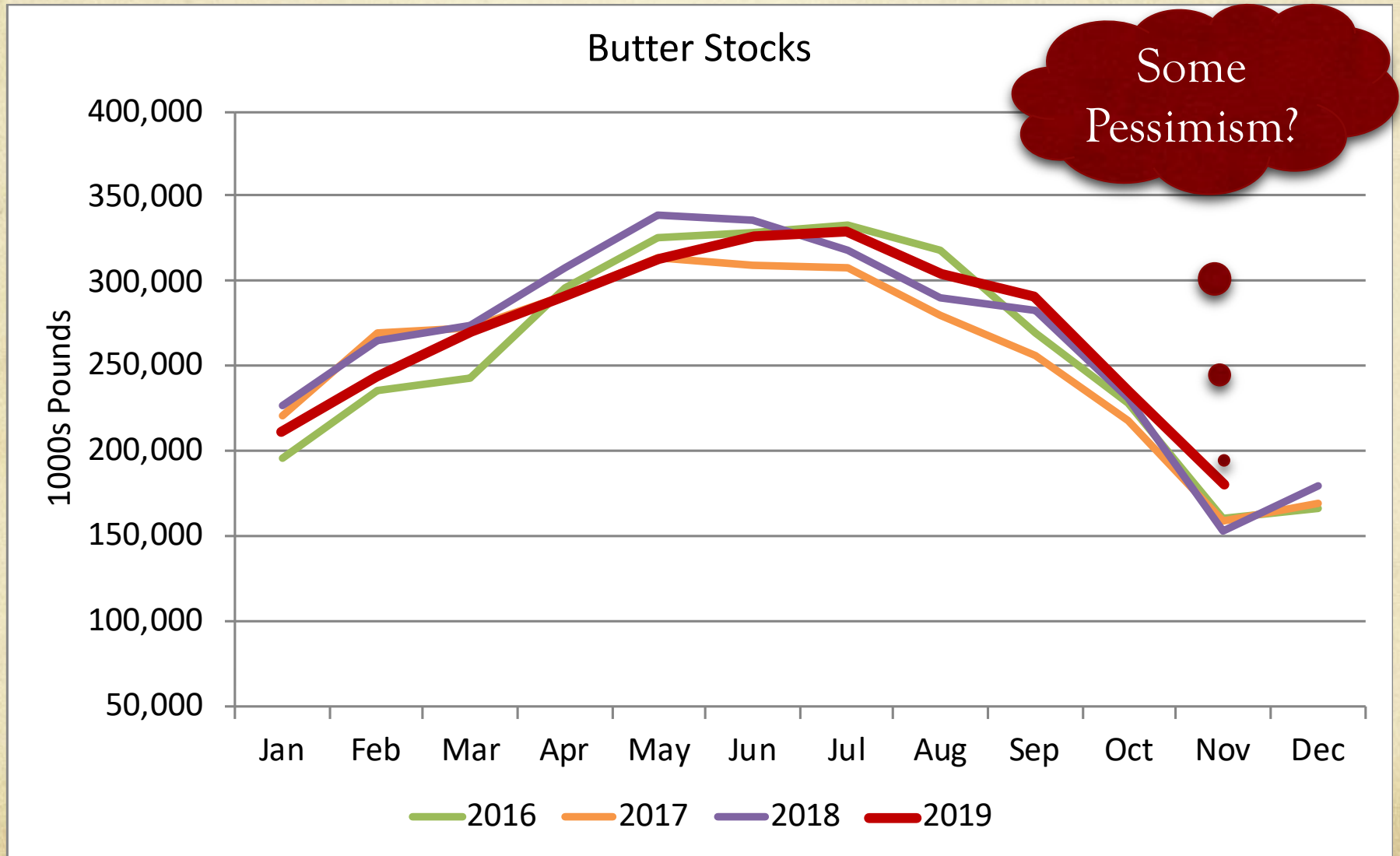
The Importance of Dairy Trade



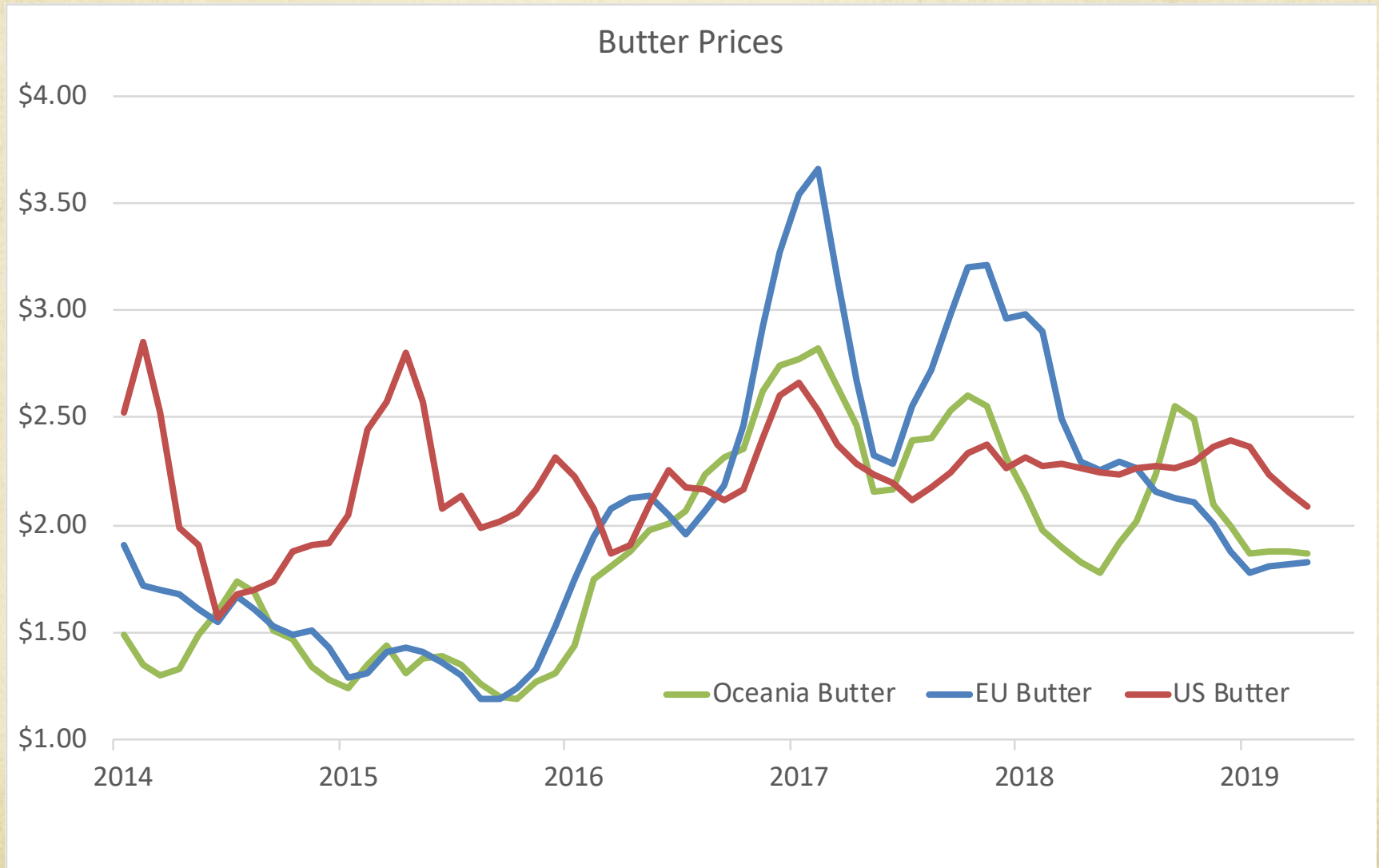
U.S. Cheese Stocks



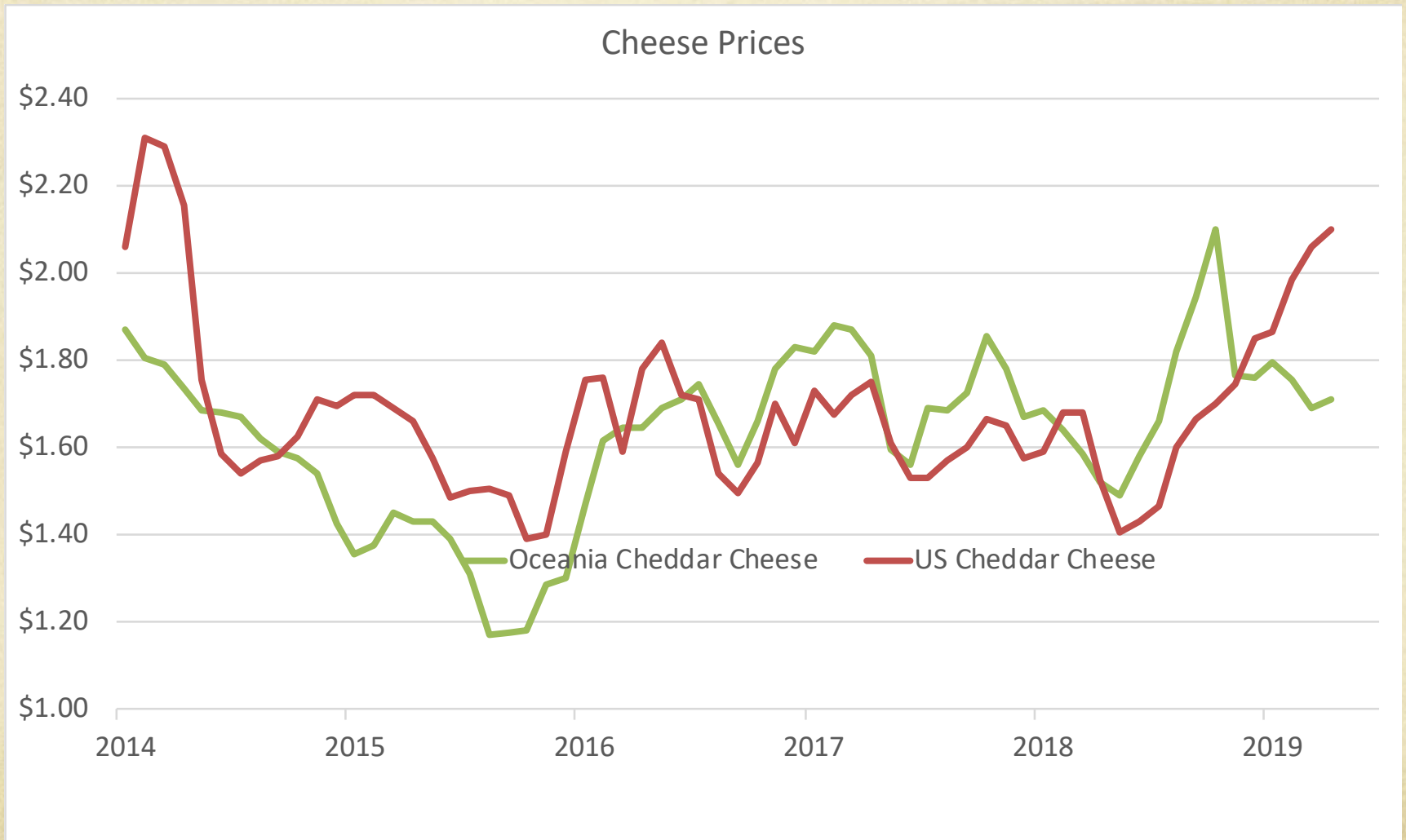
U.S. Butter Stocks



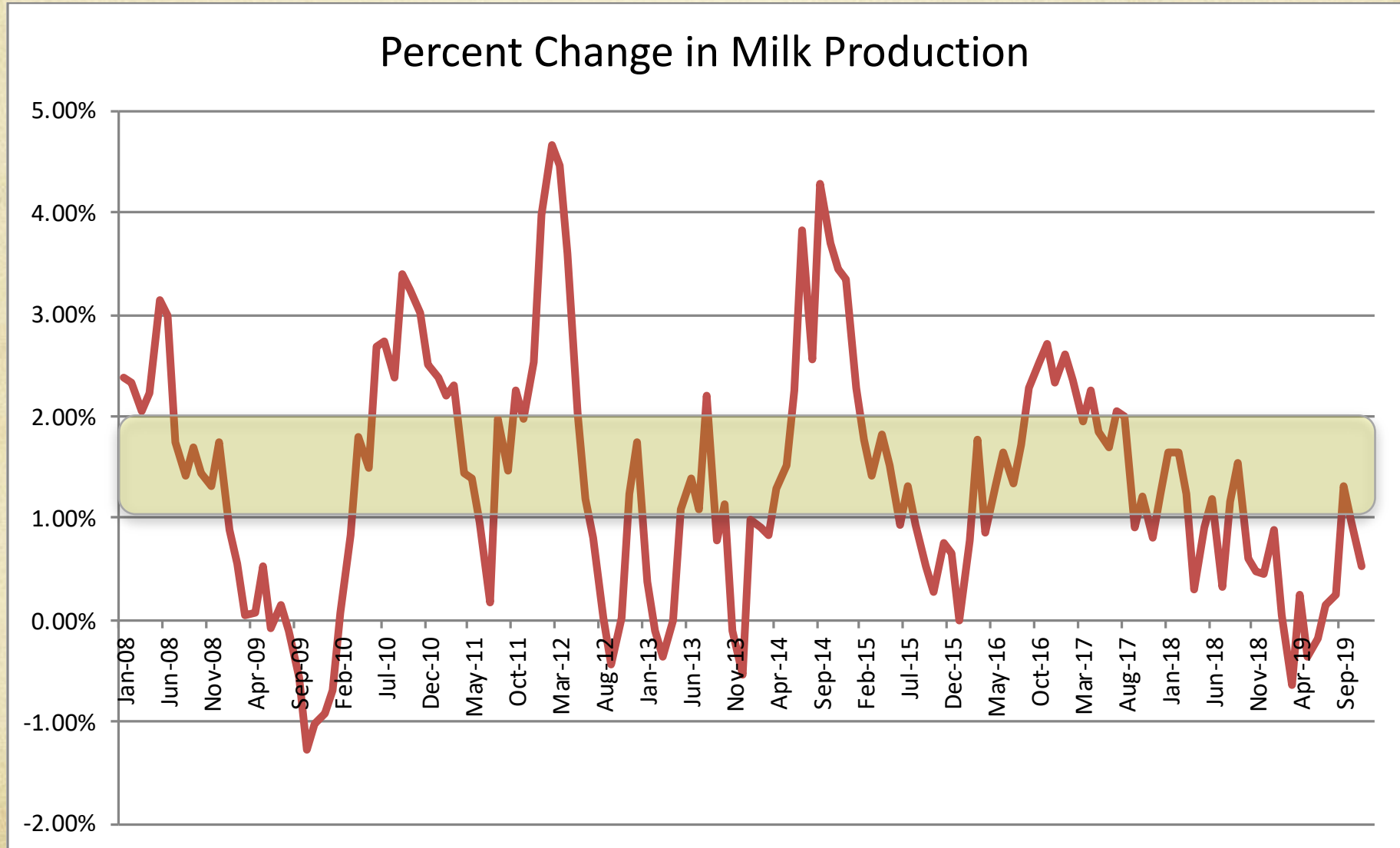
Global Butter Prices



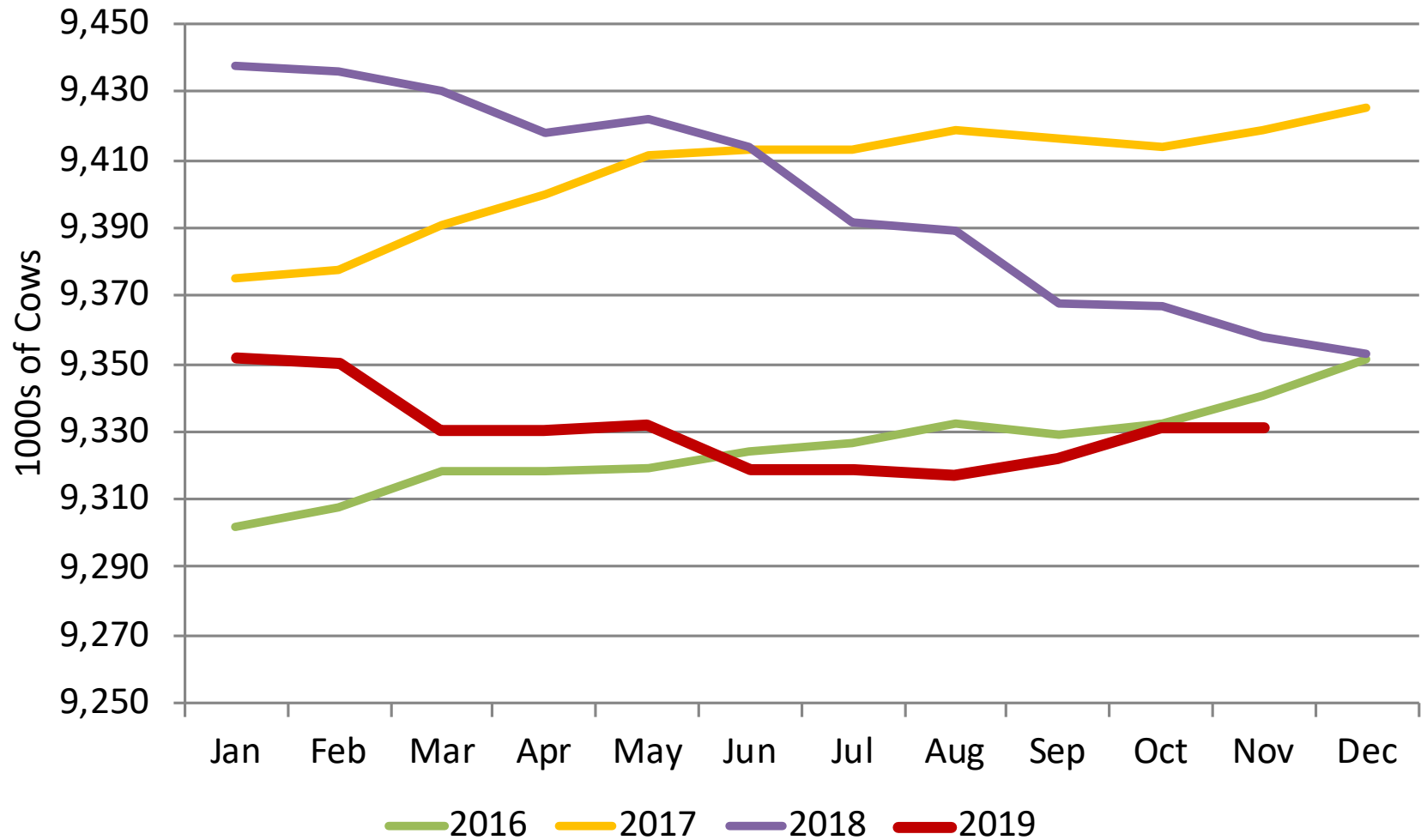
Global Cheese Prices



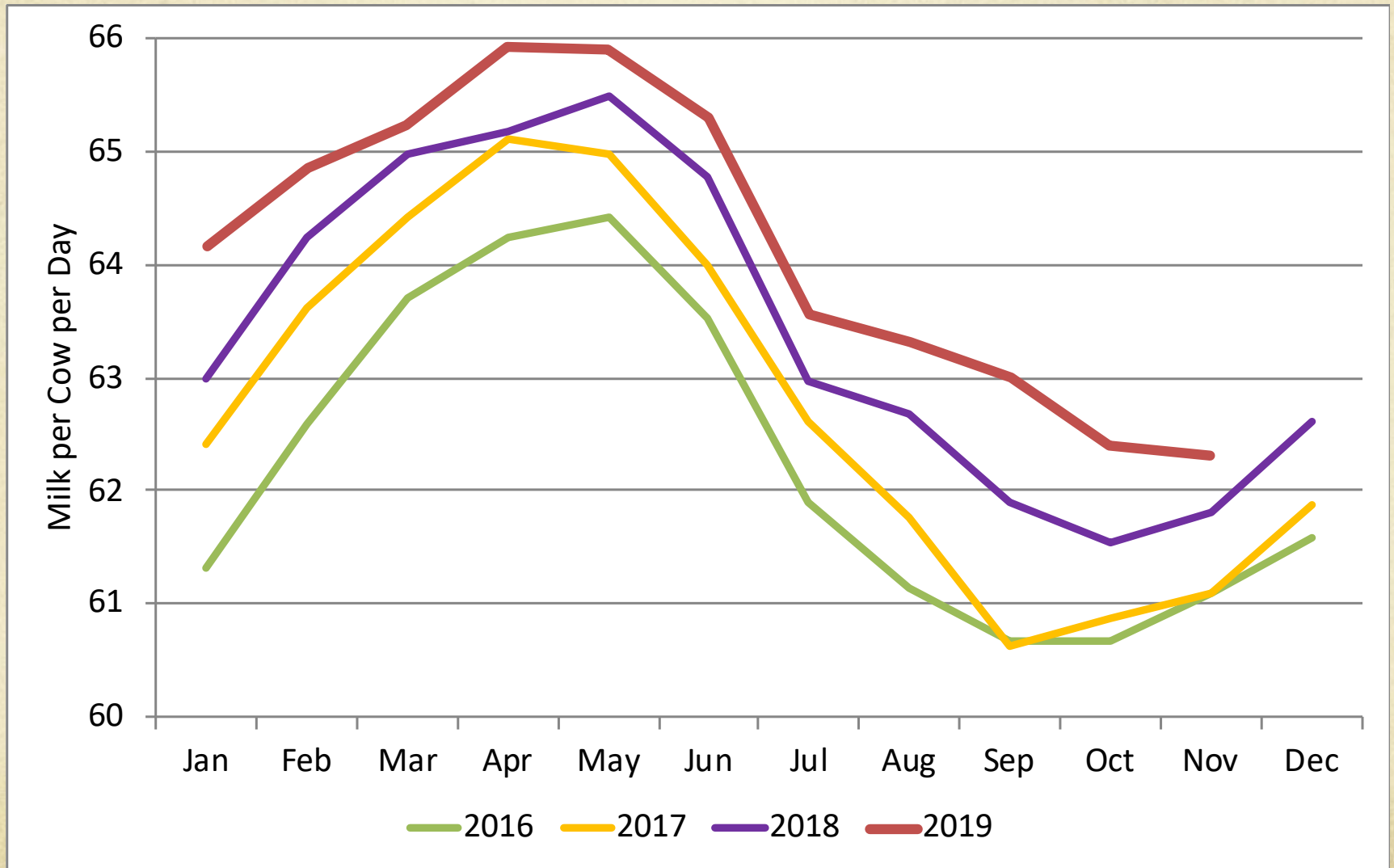
Percent Change in U.S. Milk Production



Number of Cows

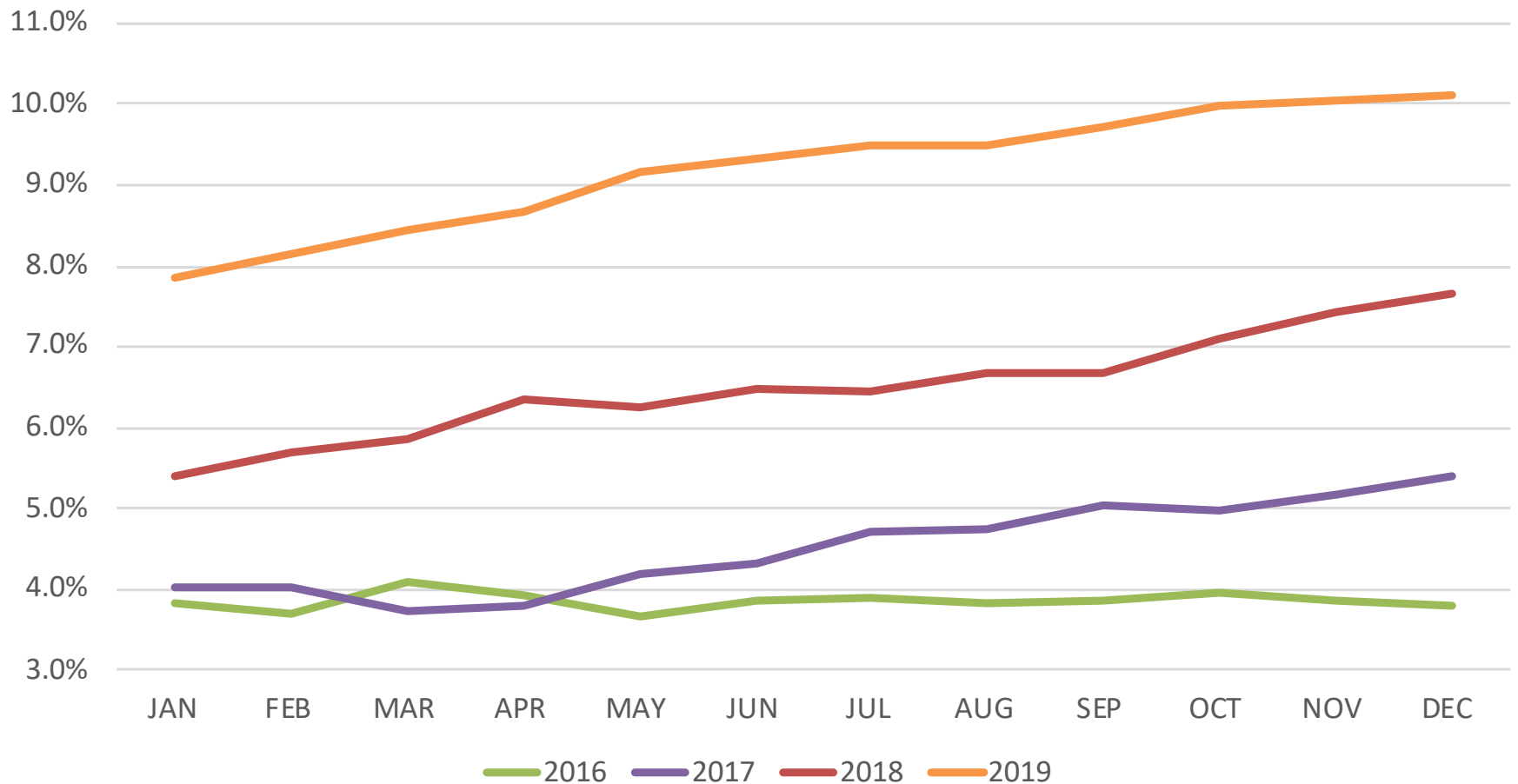


Milk per Cow per Day



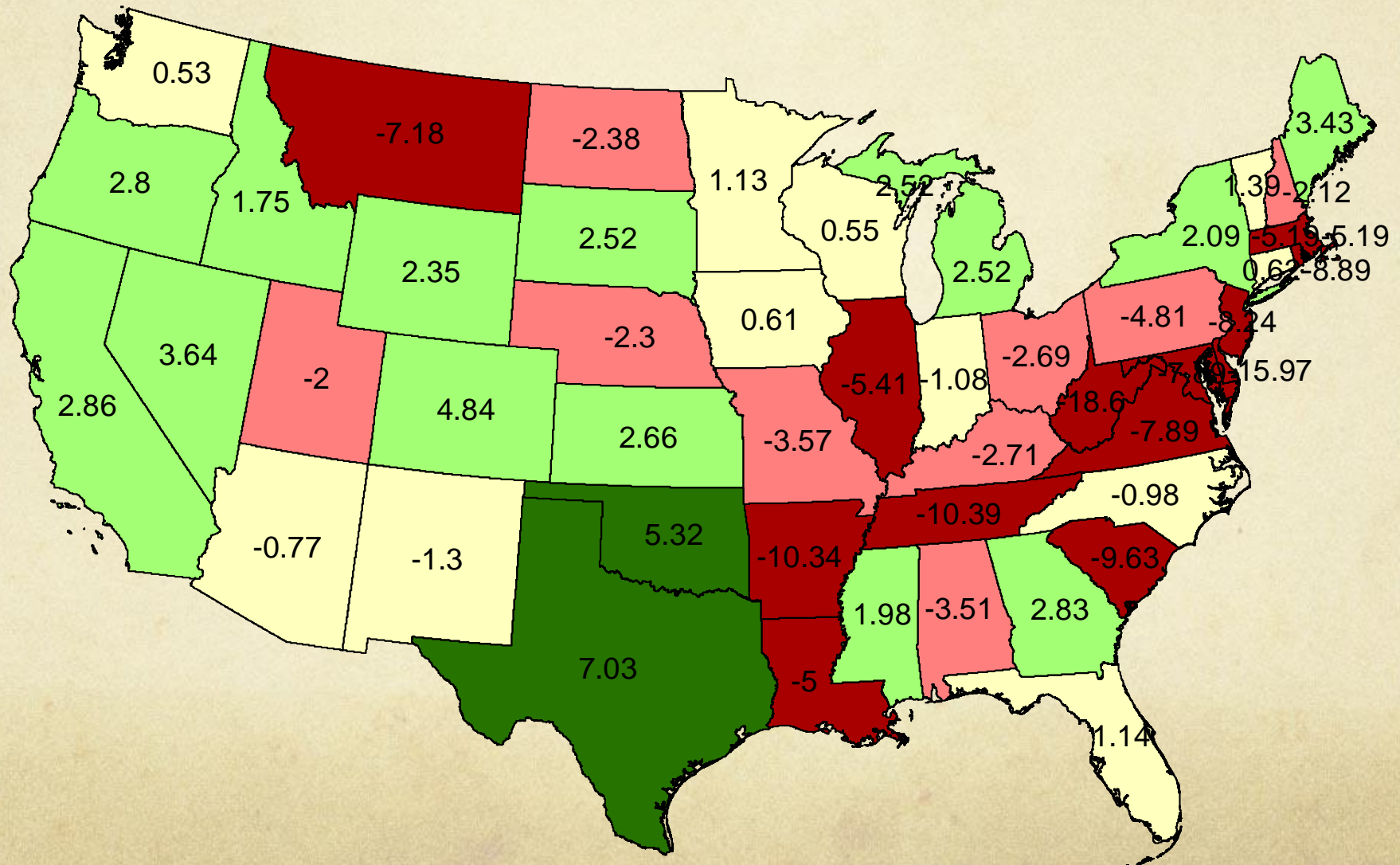
Cow Loss is Also Measured in Farm Loss

Wisconsin Dairy Farm Attrition Rate



Regional Changes in Milk Production

Percent Change in Milk Production—1st three quarters of 2019 compared to 2018

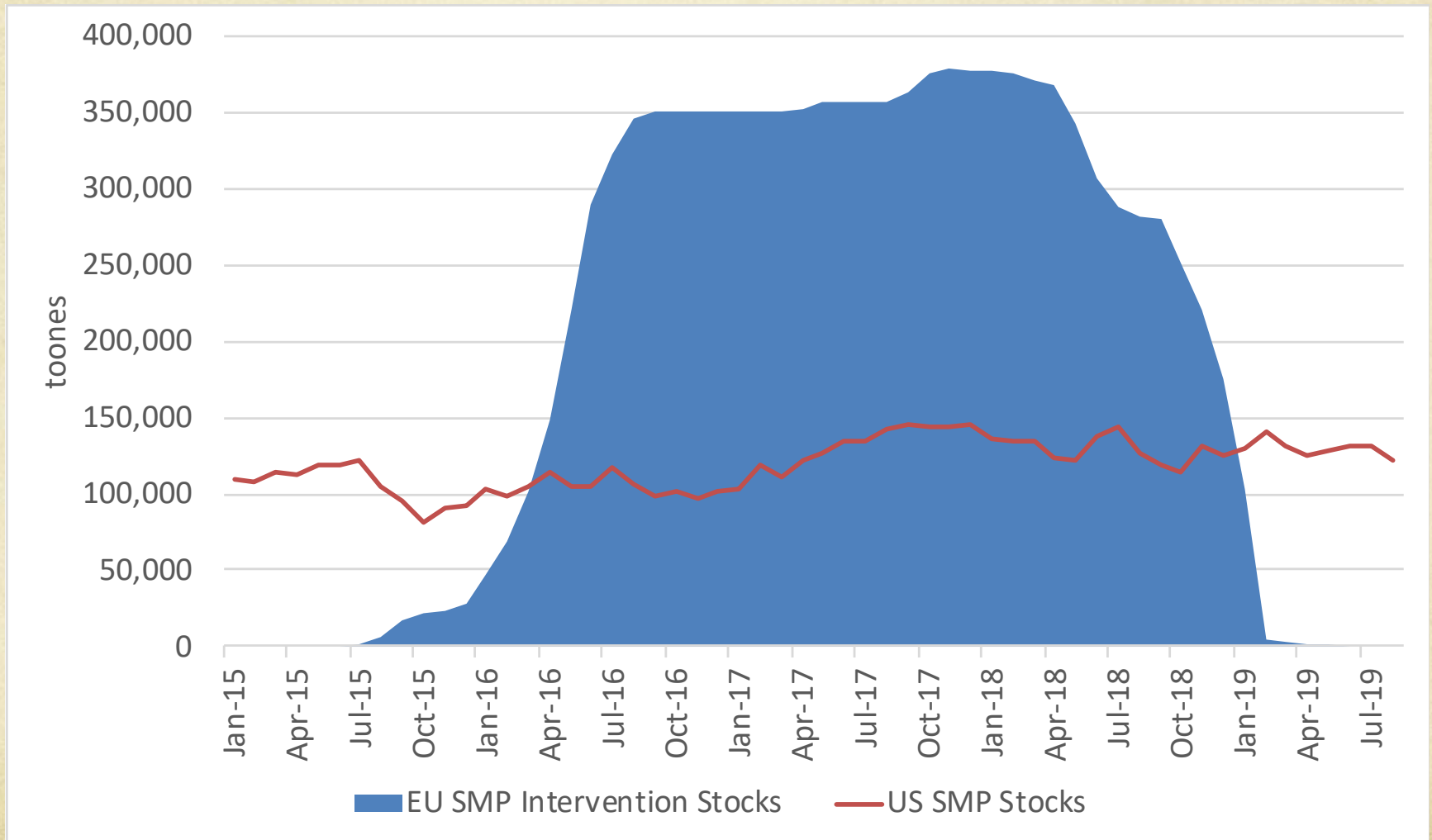


Prices and Weather are Having an Impact

Percent Change in Milk Production from Year Earlier

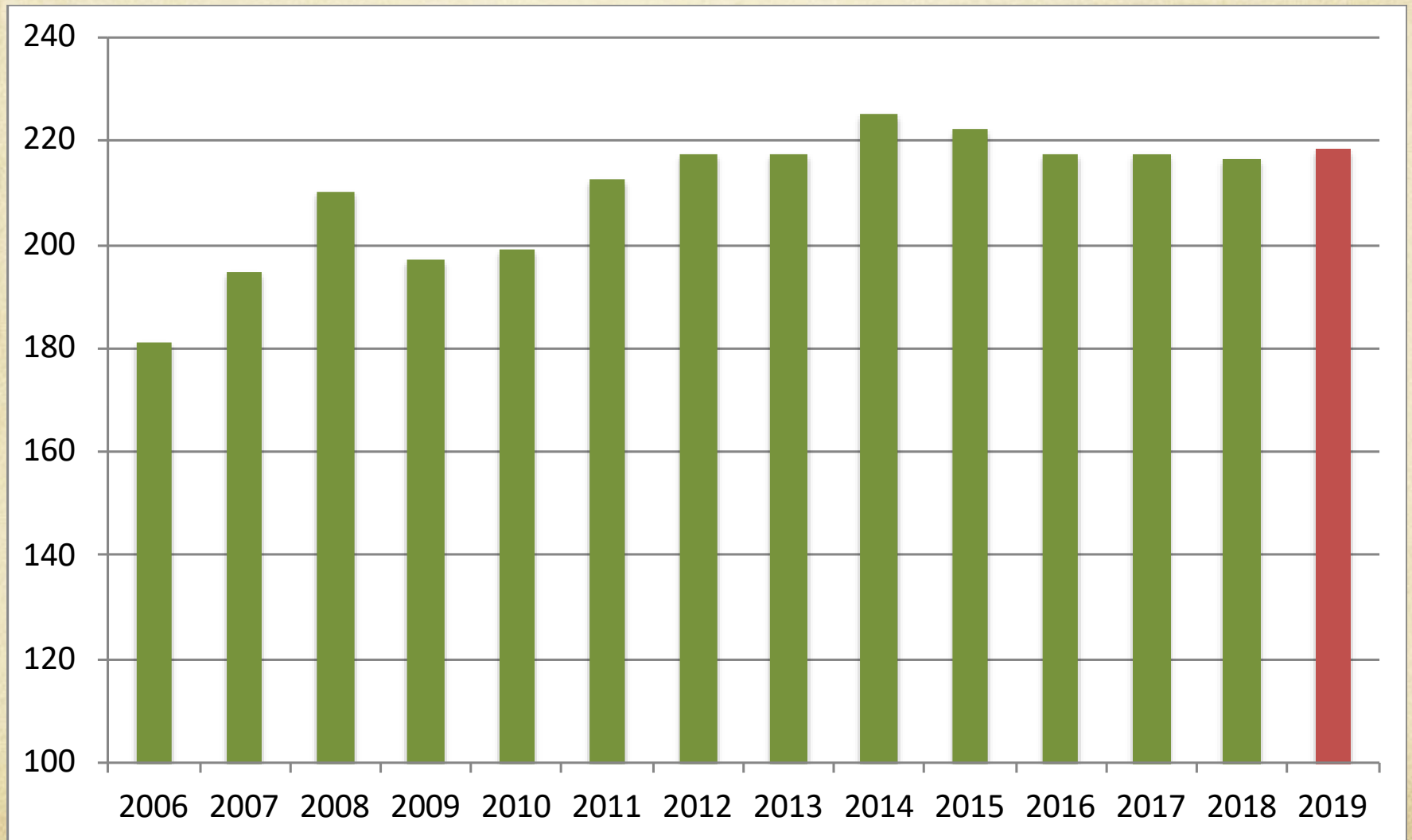


Intervention Stocks Have Overhung Markets, But They're Gone Now.

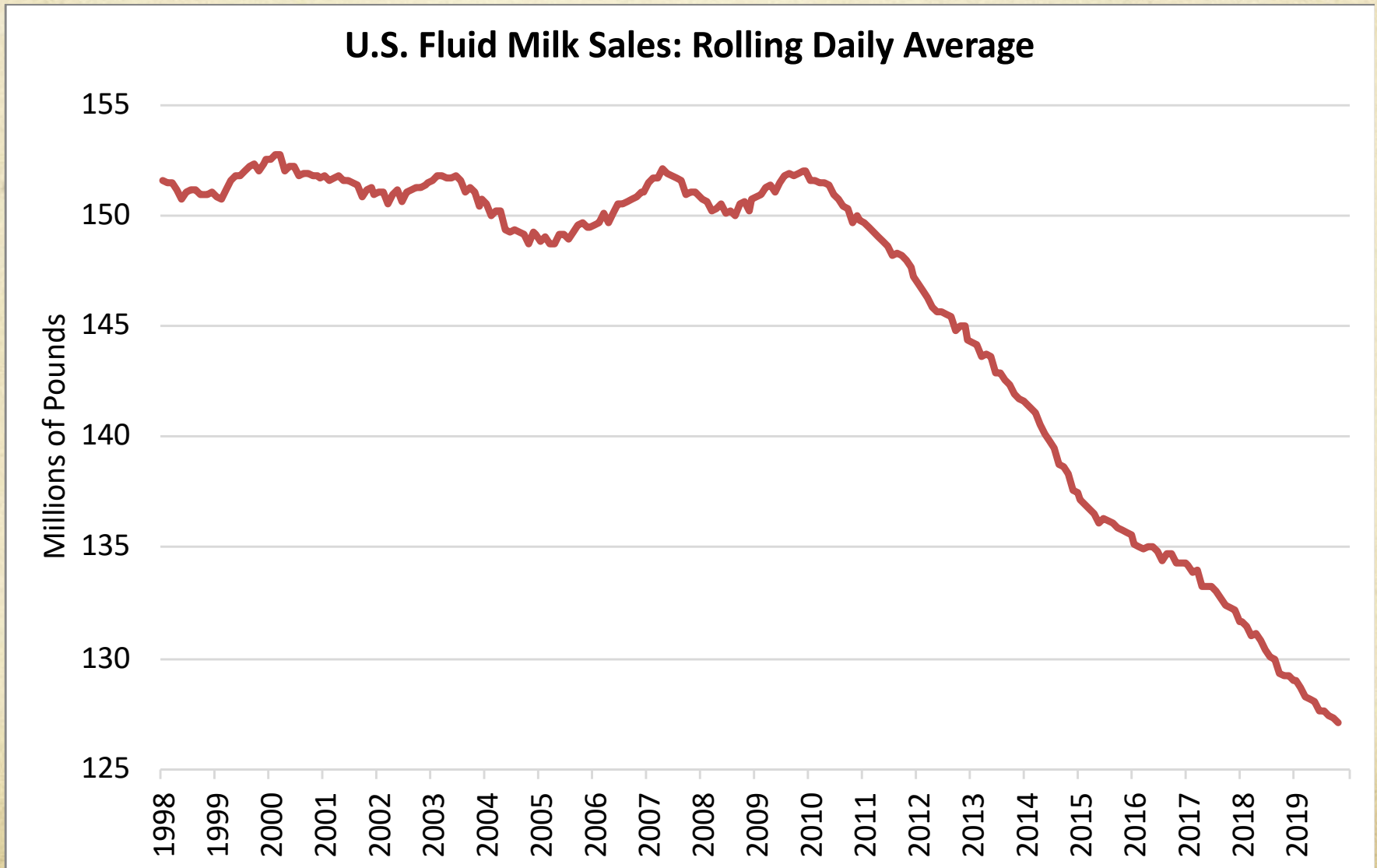


Dairy Products are a Good Buy

BLS – Dairy and Related Products



Fluid Milk Sales Continue Slide

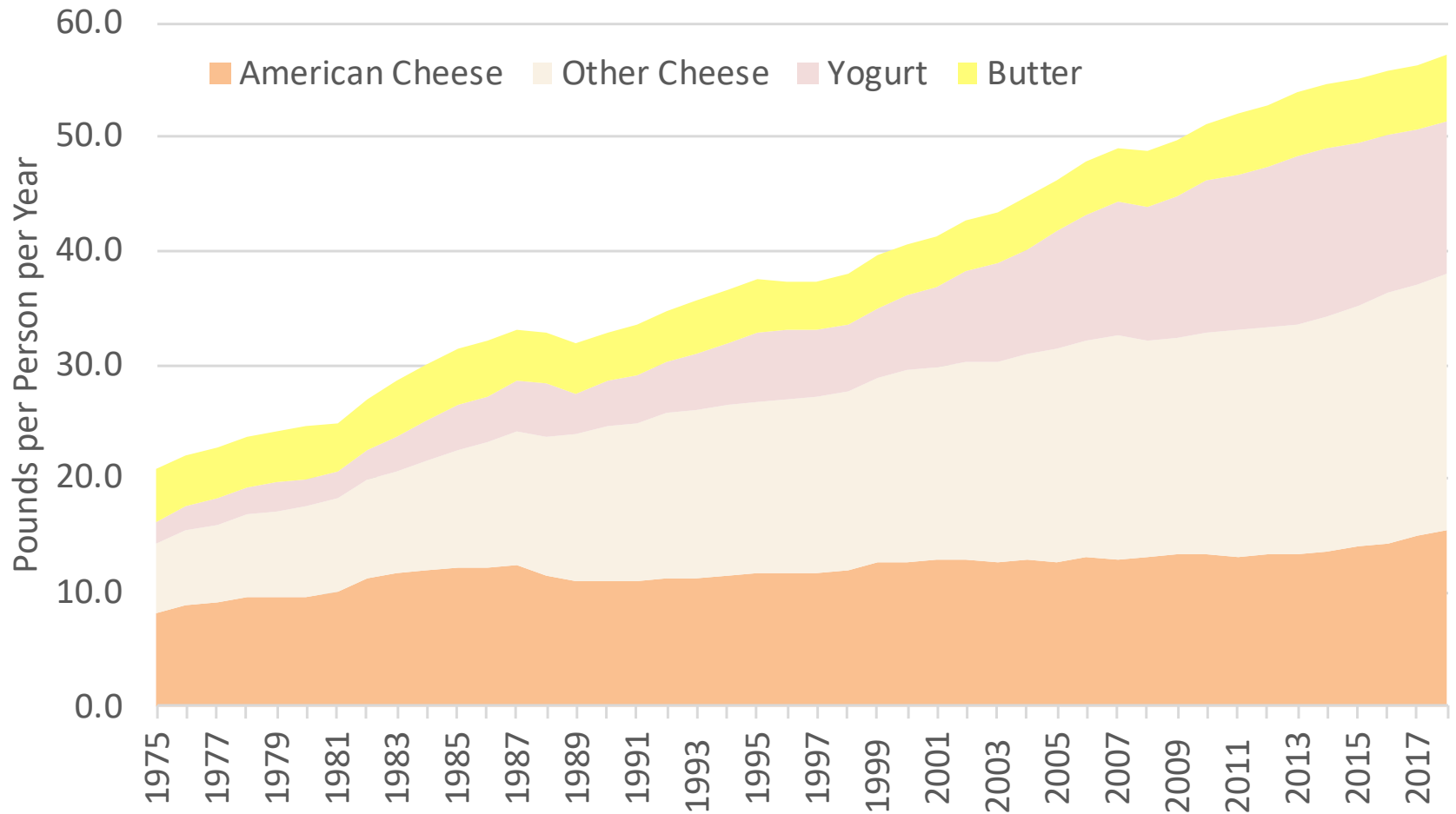


Fluid Thoughts...

- Recently, we've heard about the second major bankruptcy in the fluid industry.
- This looks like a segment of the dairy supply chain that isn't healthy
- Reflects many things
 - Thin margins
 - Declining sales due to
 - Competing beverages
 - Demographic headwinds
 - Changing preferences
- Does not reflect the overall health of the industry

It's Not All Bad News

U.S. Per Capita Consumption



Despite Trade Tensions...

- China's per capita dairy consumption is still small and expected to grow (75 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. This is causing milk production contraction.
- China has historically purchased a lot of U.S. whey and we are re-negotiating trade. Will a "phase 1" make a difference?
- USMCA has been signed by Mexico and Canada with slightly improved access to Canada. U.S. still needs to ratify.
- Mexico has started to purchase again.

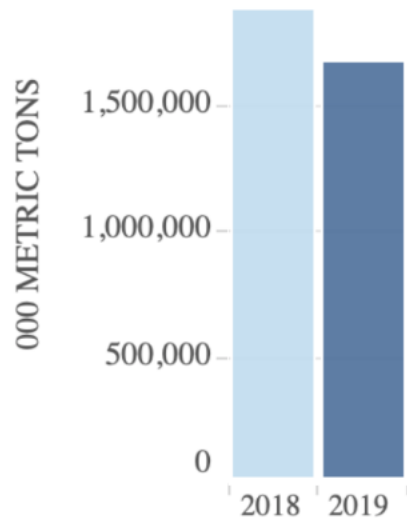
Year to Date Net Exports

U.S. Exports (Volume, MT)

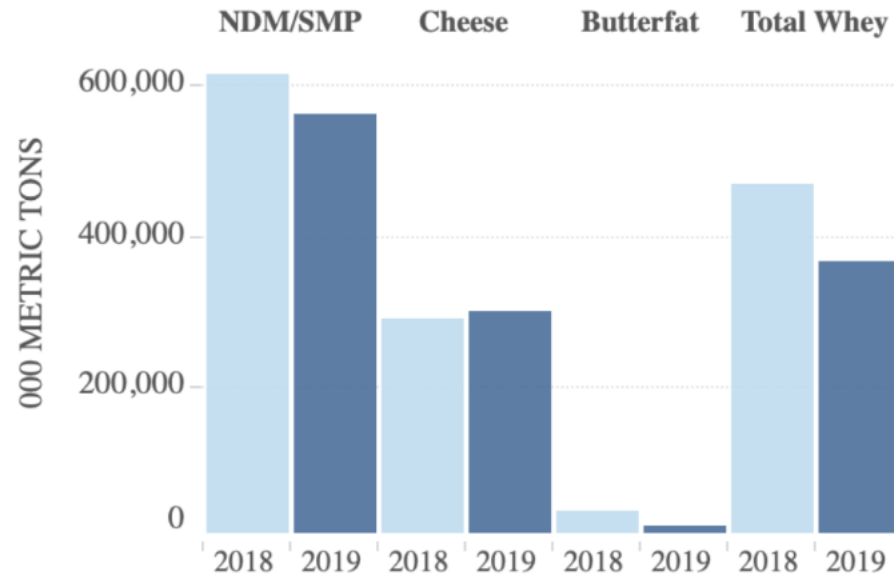
Data updated to Oct. 2019

Show YTD ▼

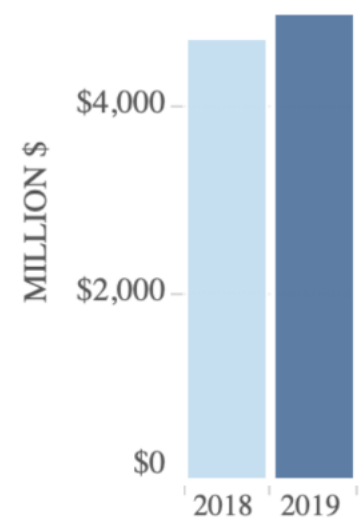
U.S. Exports Aggregate Volume* - YTD



U.S. Exports Volume - YTD

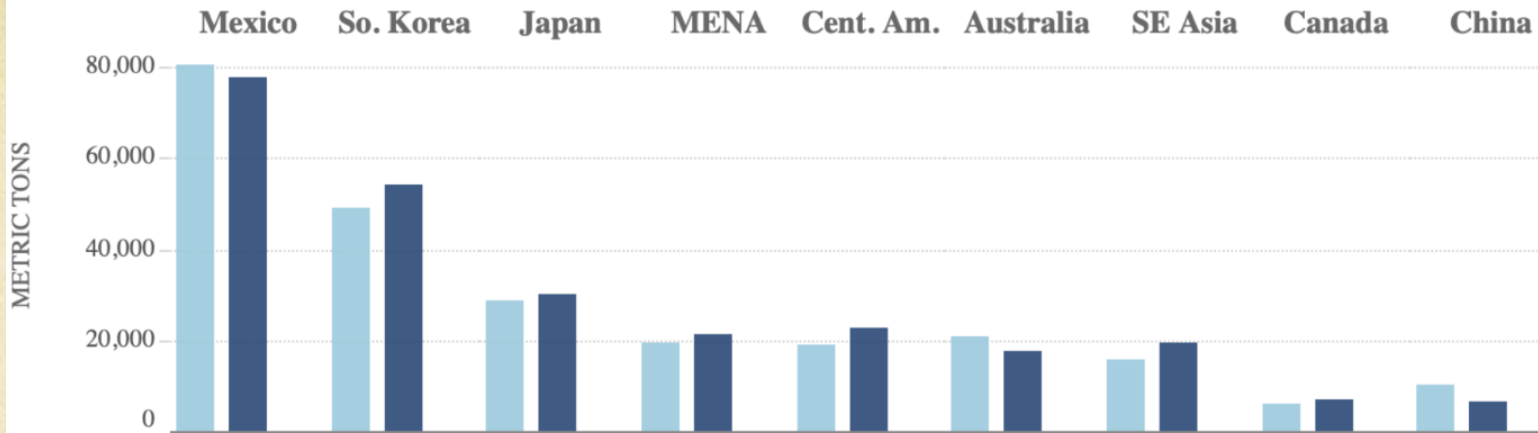


U.S. Exports Value - YTD

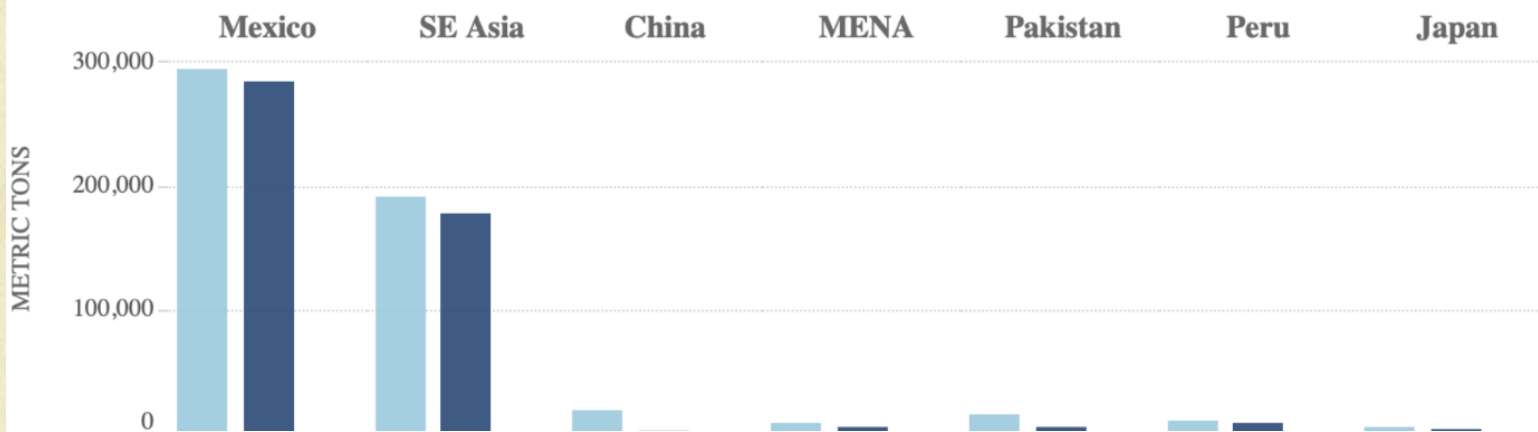


Year-to-Date Change in Exports

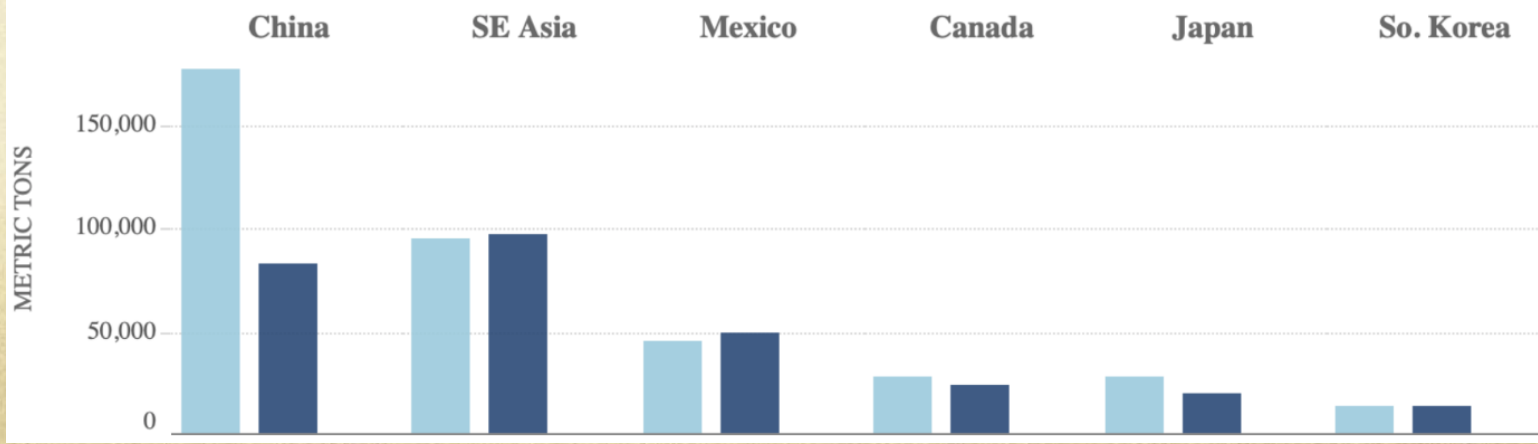
Cheese Exports By Volume, YTD



NDM/SMP Exports By Volume, YTD



Total Whey Exports By Volume, YTD



The Alternative to Producing Milk

Cull Cow Price

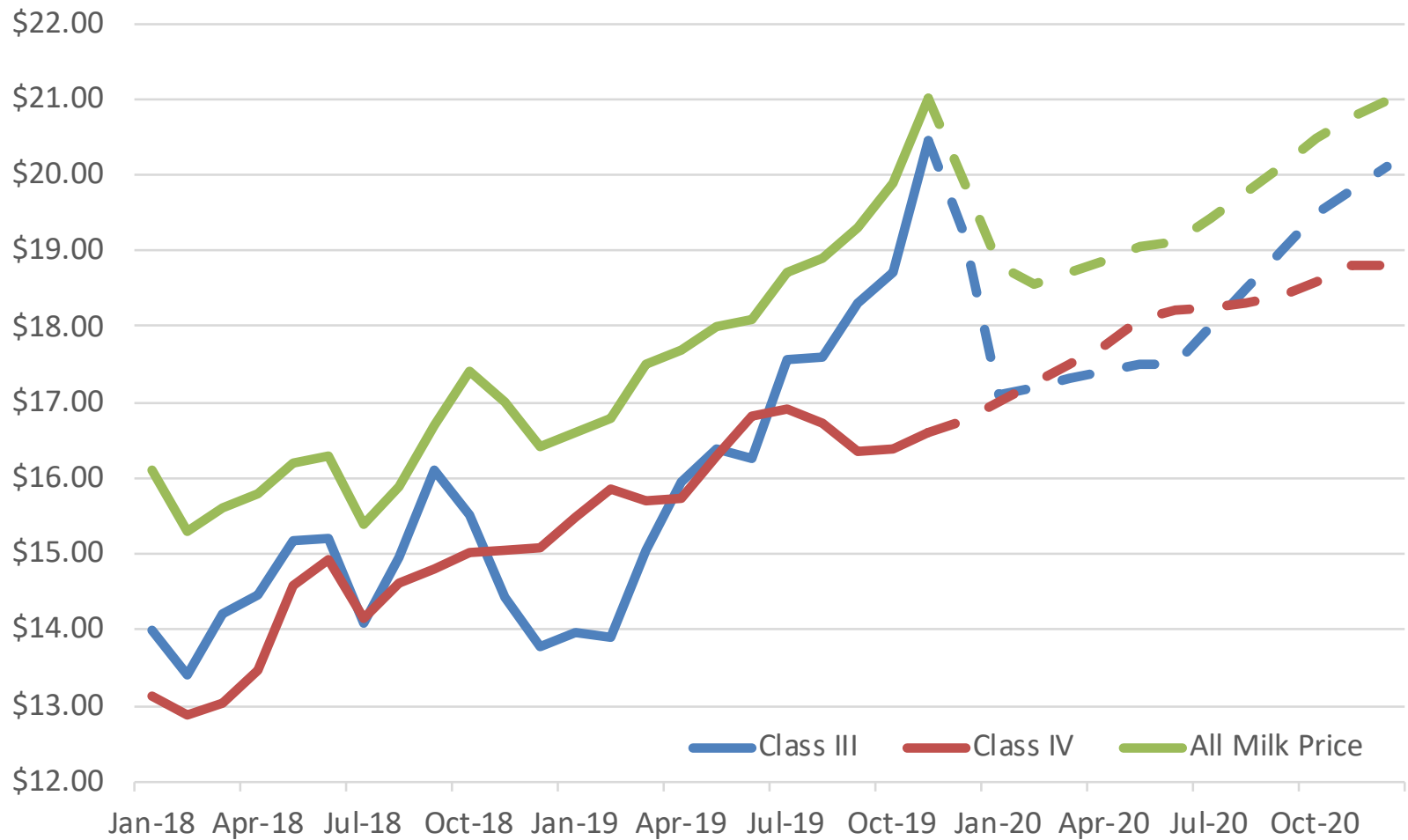


Other Factors

- DMC looks promising—especially for smaller dairies. 2019 net benefit of almost 40¢ at \$9.50 level for Tier 1, but no projected payments for 2020.
- Genomics has been breeding low end cows to beef bulls. Fewer heifers in the pipeline.
- Some larger producers around the country are not looking for expansion opportunities. They are more circumspect this time.
- A more general economic downturn is the one thing that could temper my expectation for a more complete milk price recovery.

Price Forecasts

Actual and Forecast Milk Prices



Outlook Contributing Factors

Positive Factors

- Slowing U.S. and World milk production
- Declining U.S. and world dairy stocks
- Relatively strong domestic economy
- Trade improvements ??

Negative Factors

- Prolonged trade negotiations
- Slowing GDP growth in some countries like China
- Weak economies in Europe
 - Germany, France, UK
- Possibility of U.S. recession

My Forecast...

- Watch the “flush”—it will be the next key piece of information. If the flush is light, expect buyers to bid up prices early and perhaps quite high. If it is heavy, price strengthening will be slow for the year.
- I am projecting that the 2019 All Milk Price will be up by about \$2.35 and that it will continue to climb (absent recession) another \$1.30 in 2020. We could hit \$20 milk again next year.
- We’ve had a fundamental structural change in the dairy industry. The reasons are different than the 1980s, but I believe that the impact will have been about as great.
- Farm loss will have a long tail—It will take time to settle back into a new equilibrium.

Questions?