

# **Dairy Outlook** **2000**



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***Cornell Program on Dairy Markets & Policy***

# 1999–No Ordinary Year!

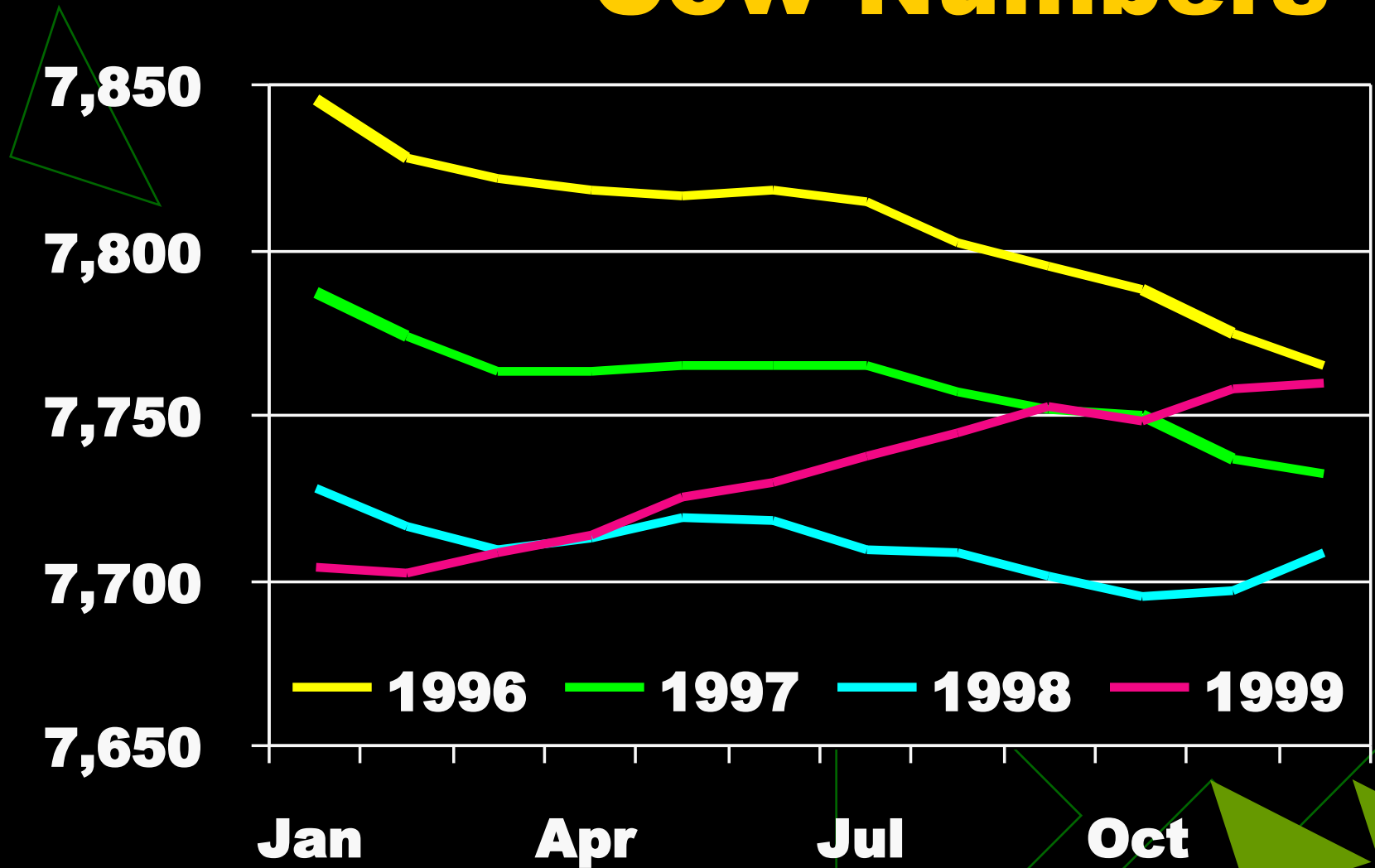
- ◆ Third highest annual price of the decade
- ◆ 3 of top 10 monthly highs ever
- ◆ 2nd & 3rd largest monthly price increases ever
- ◆ 1st & 2nd largest monthly price drops ever
- ◆ Lowest monthly prices in 2 decades
- ◆ **What is going on?**



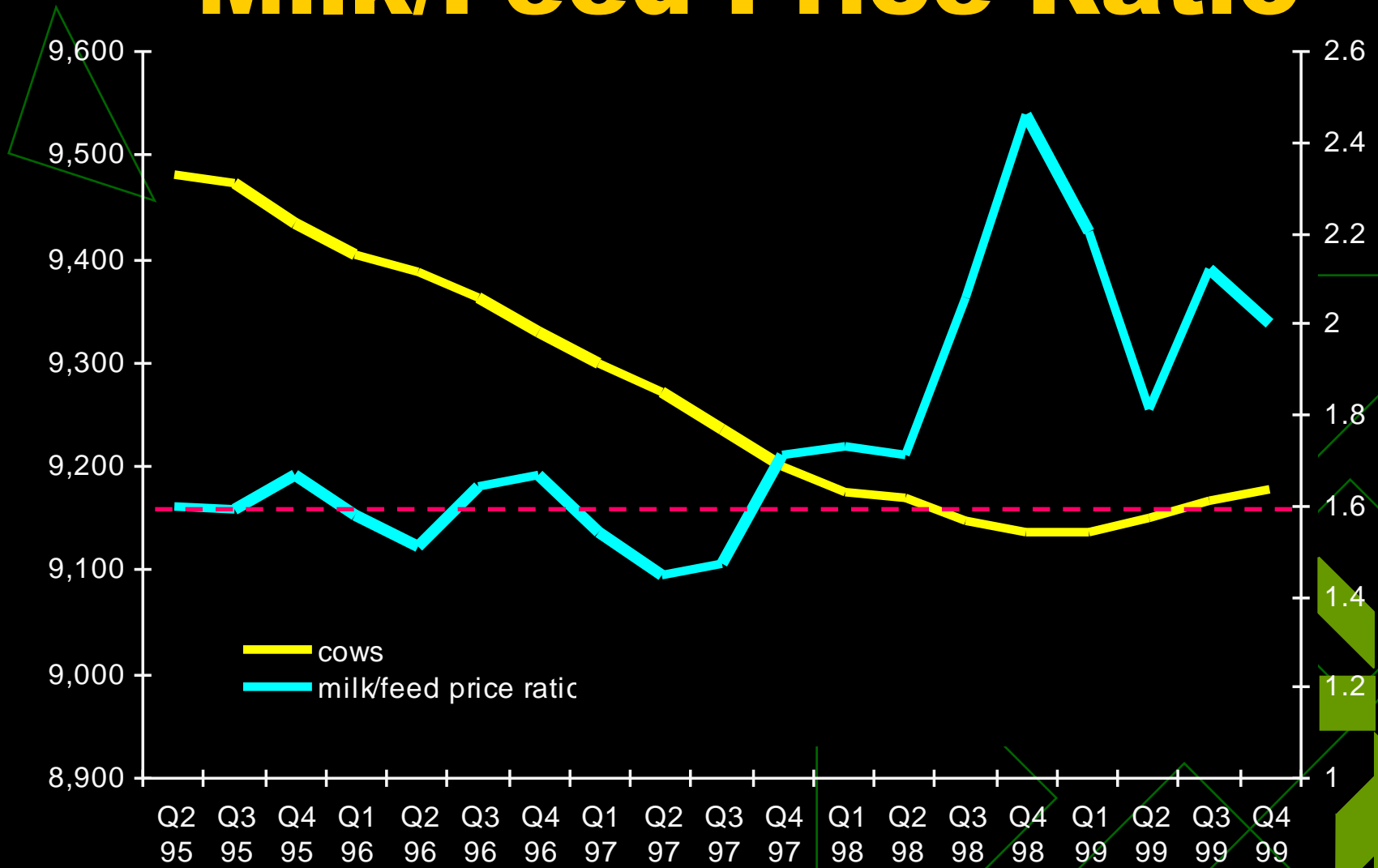
# Review of 1999

- ◆ Milk supplies & products made from them
- ◆ Inventories
  - Market information
  - Price behavior
- ◆ Demand for dairy products
- ◆ Prices
- ◆ Policy

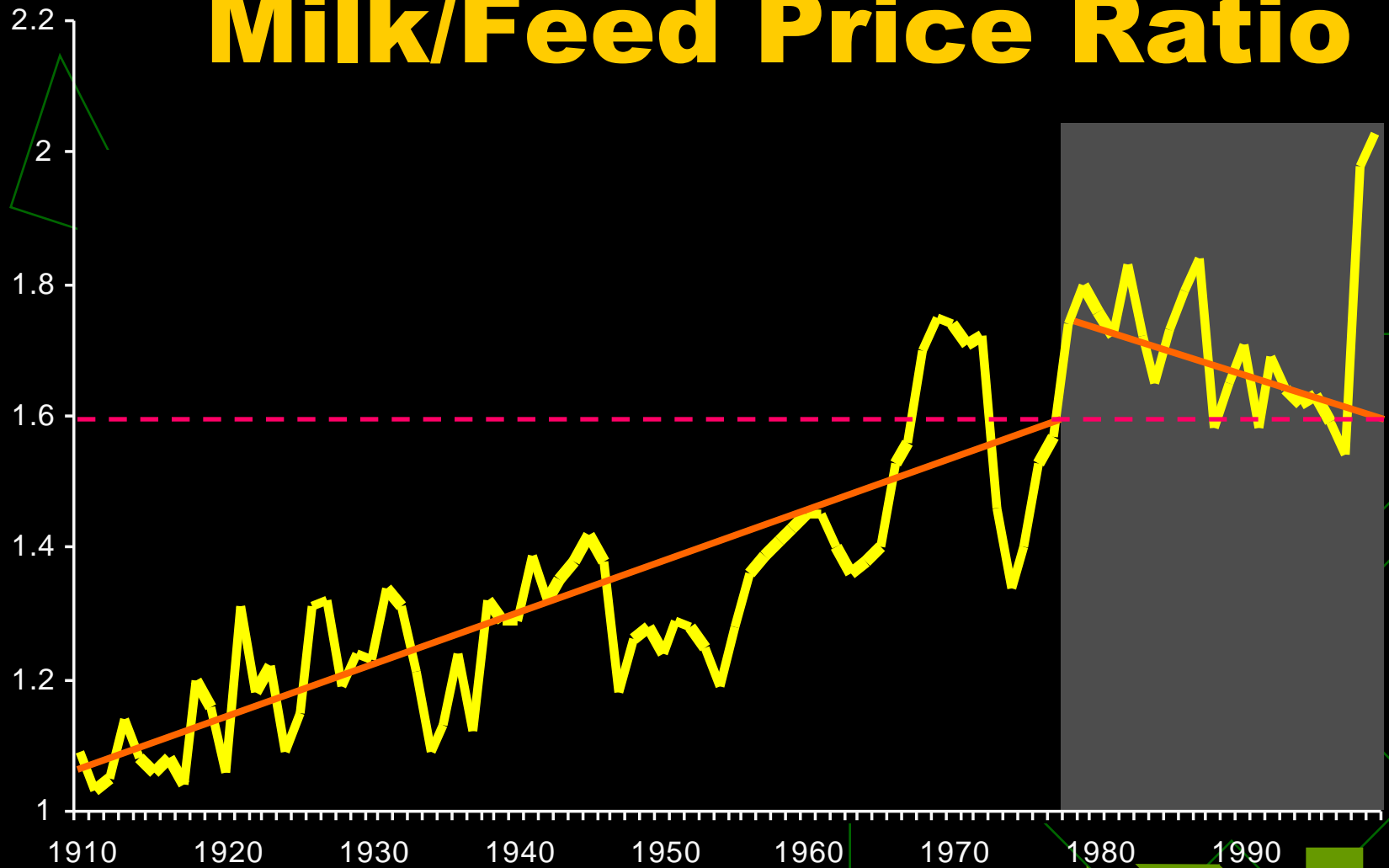
# 20-State Cow Numbers



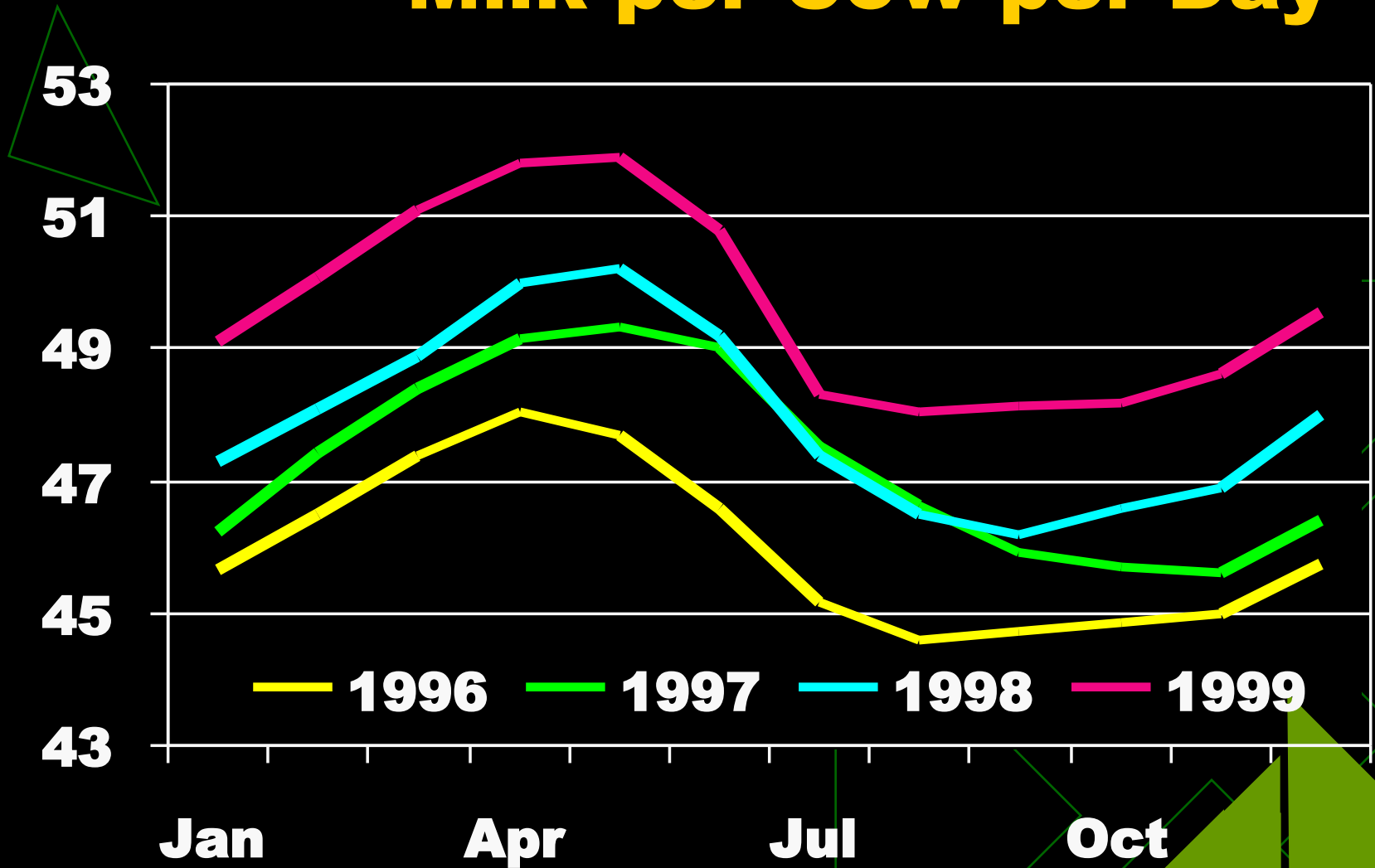
# US Cow Numbers versus Milk/Feed Price Ratio



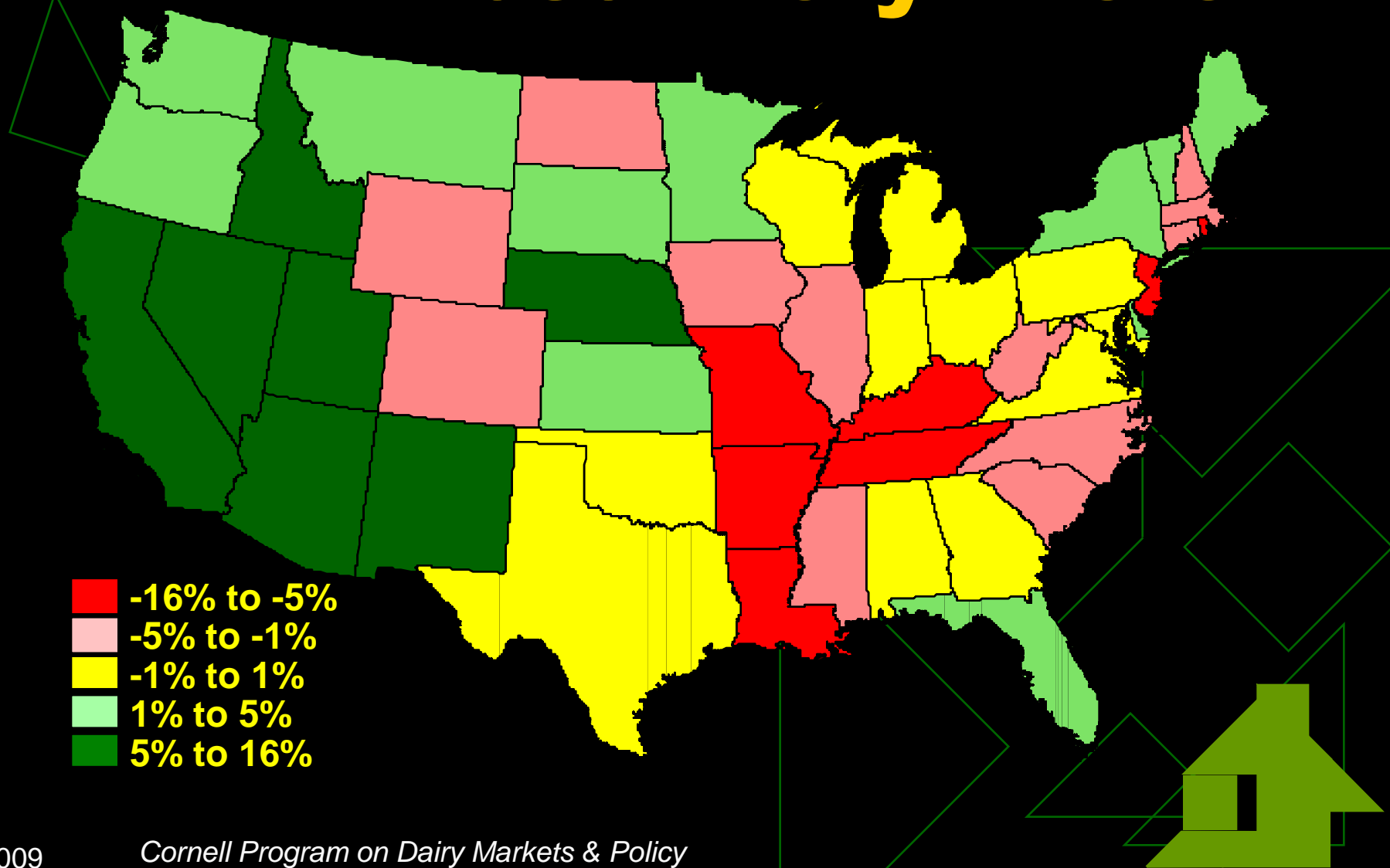
# Annual Milk/Feed Price Ratio



# 20-State Milk per Cow per Day



# We are Making a Lot of Milk Almost Everywhere!

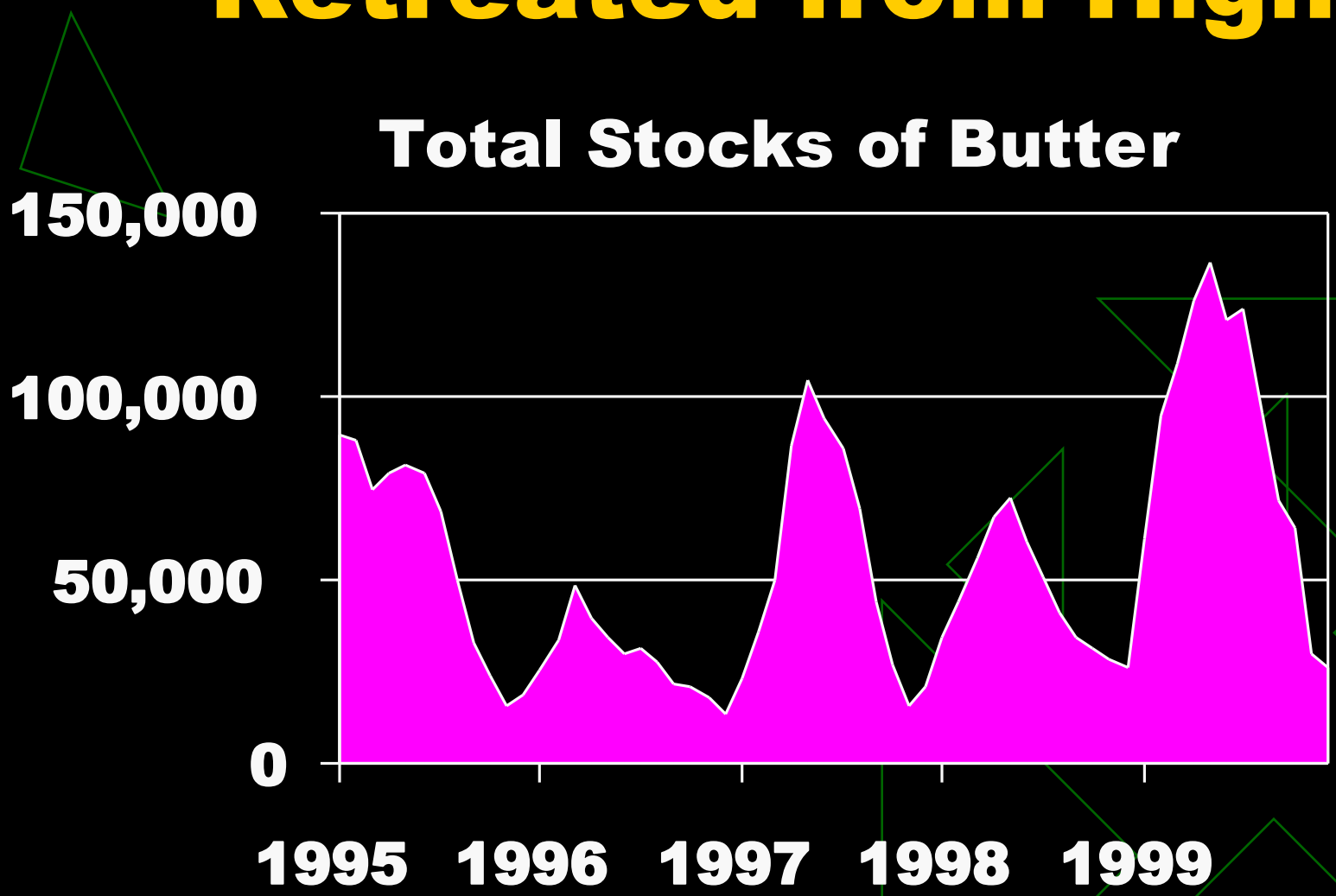


# We are Making a Lot of Dairy Products!

- ◆ Butter up almost 8 %
- ◆ American cheese up nearly 9%
- ◆ Mozzarella up more than 7%
- ◆ Nonfat dry milk up more than 21%

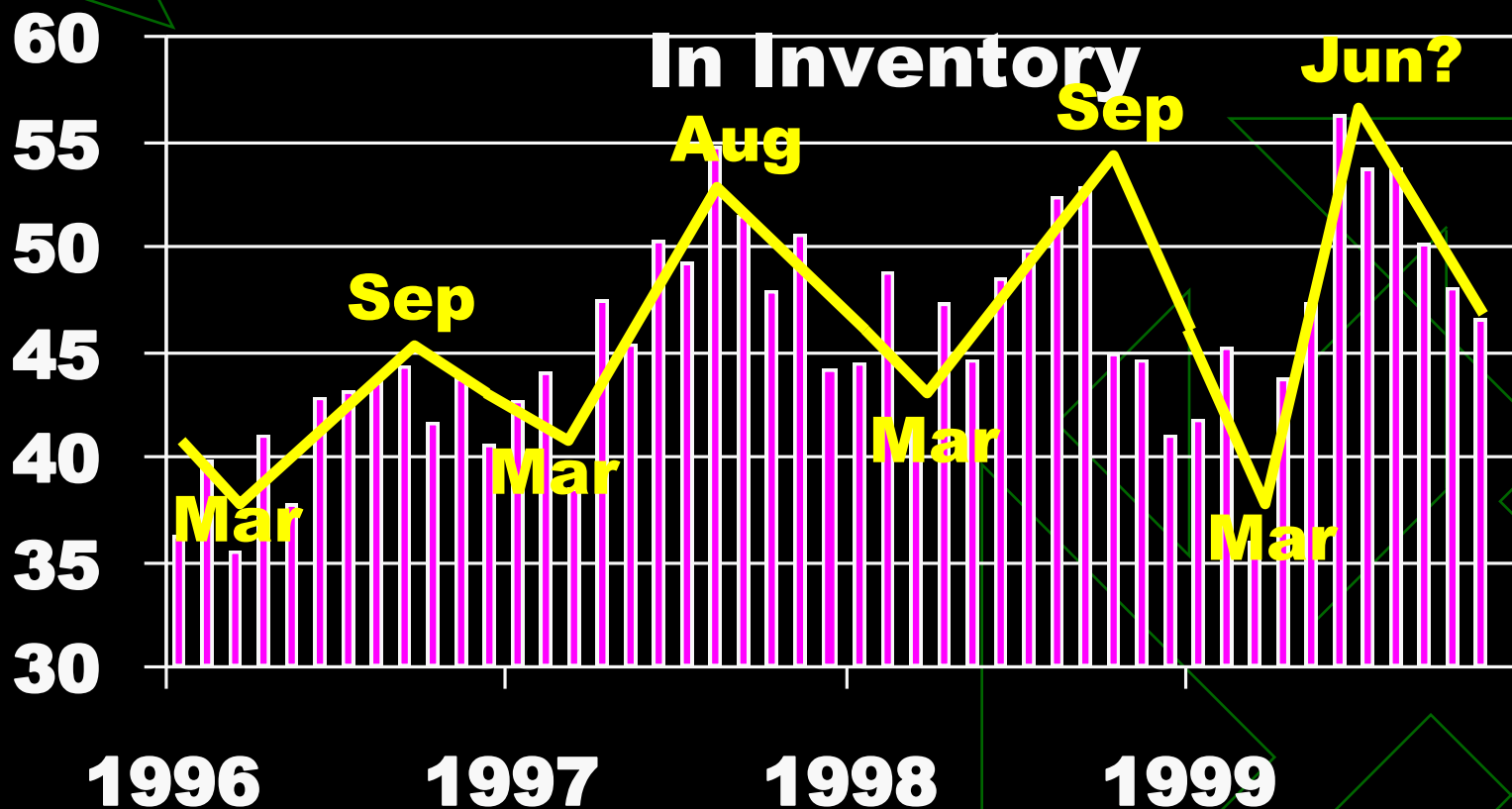
# Inventories Levels have Retreated from Highs

## Total Stocks of Butter



# Inventories of Other Products are OK

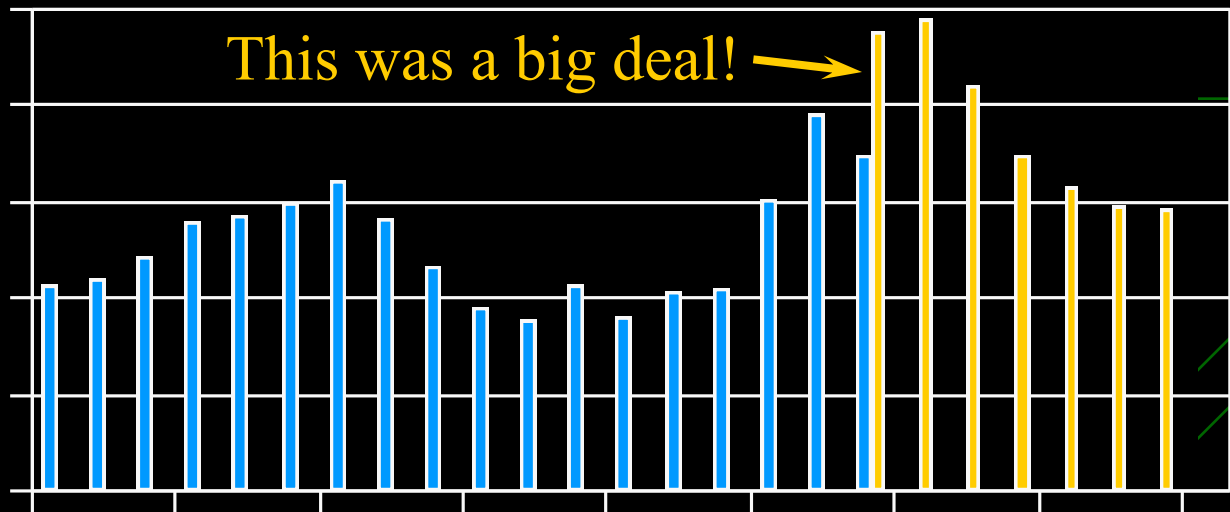
## Cheese, Days of Production



# Focus on Cheese Inventories

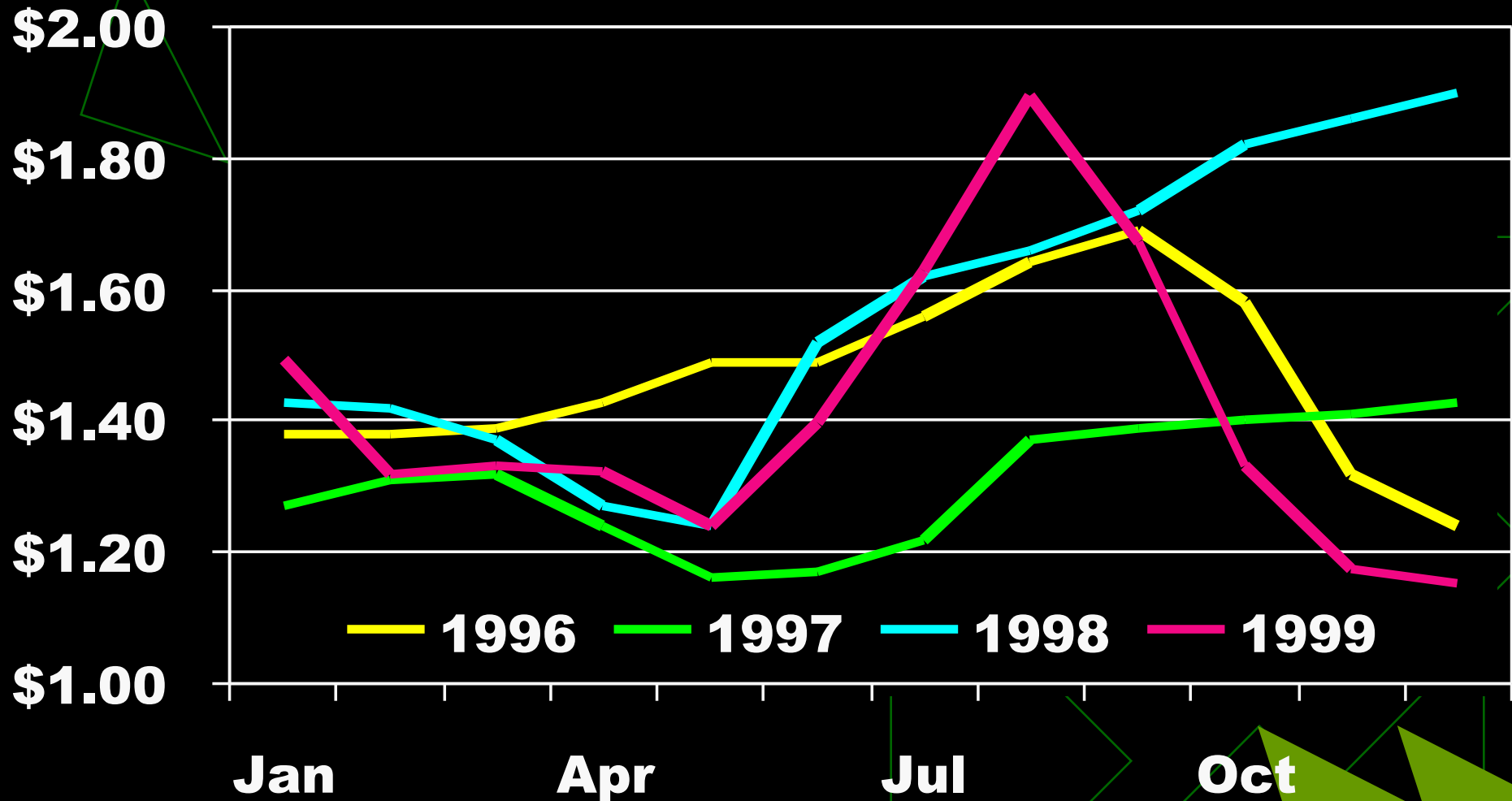
## American Cheese Stocks

550,000  
500,000  
450,000  
400,000  
350,000  
300,000



**Ja**   **Ap**   **Ju**   **Oc**   **Ja**   **Ap**   **Ju**   **Oc**   **Ja**  
**n-**   **r-**   **l-**   **t-**   **n-**   **r-**   **l-**   **t-**   **n-**  
**98**   **98**   **98**   **98**   **99**   **99**   **99**   **99**   **00**

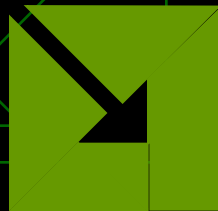
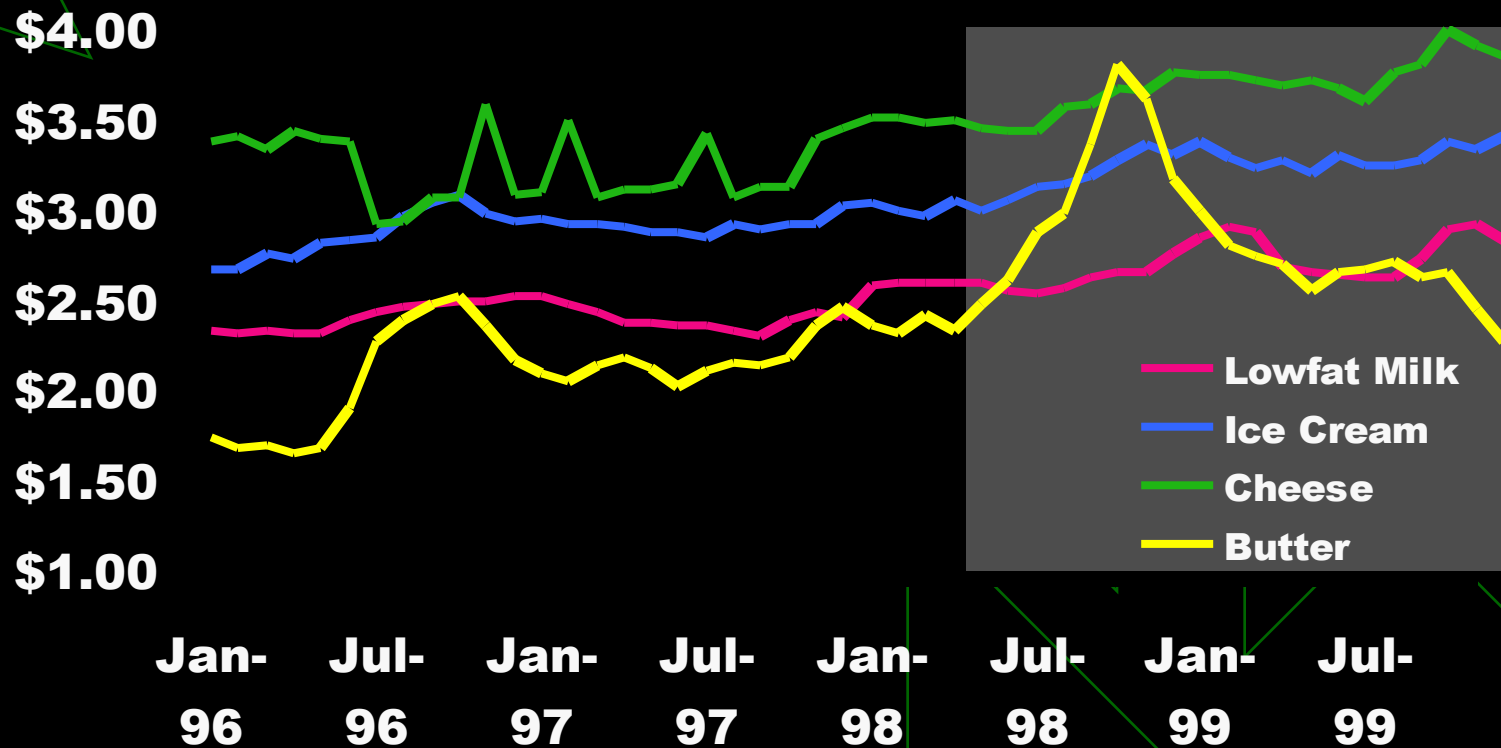
# CME 40 Pound Blocks



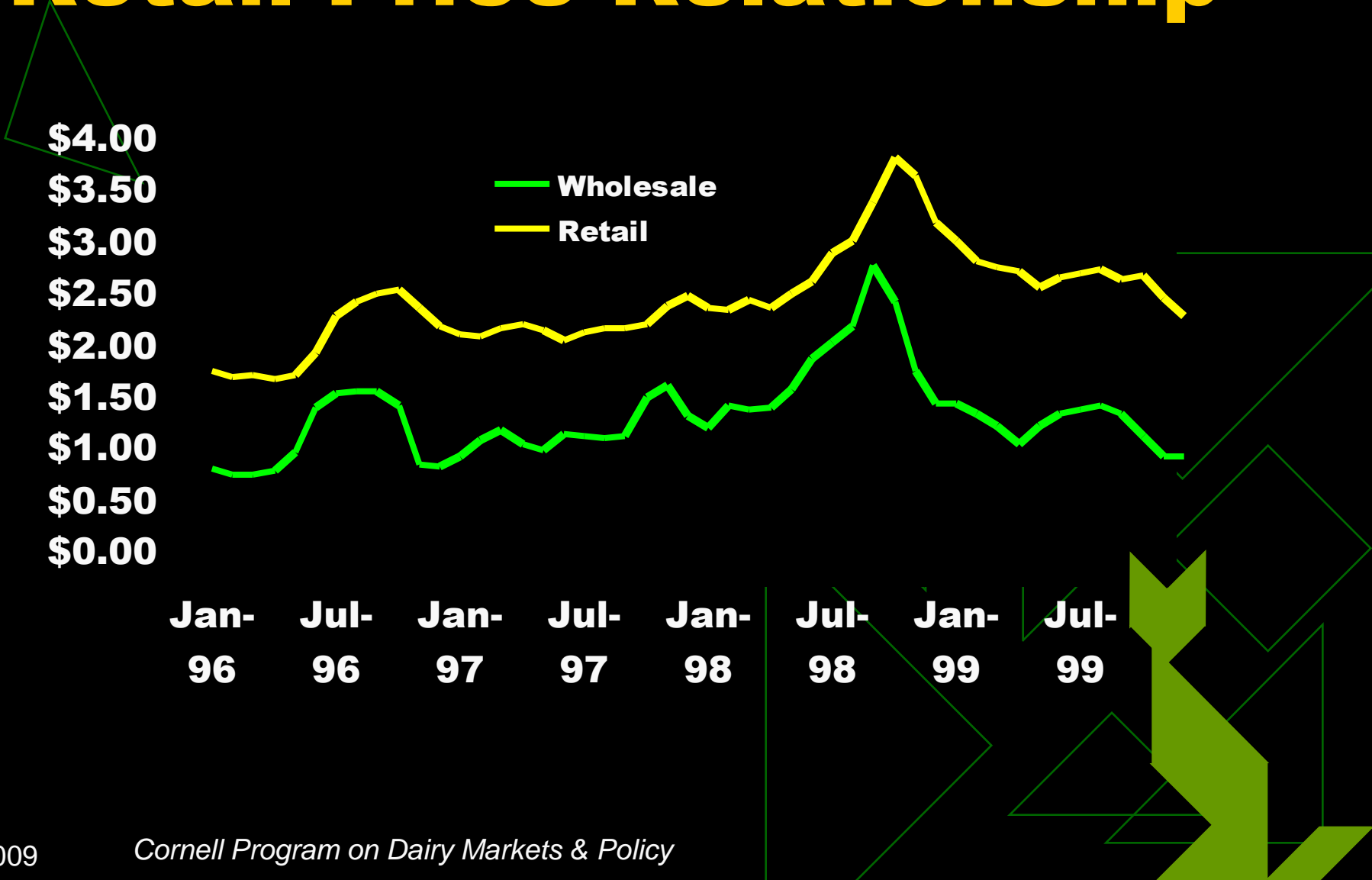
# Demand for Dairy Products

- ◆ Commercial disappearance is a calculation
  - Production plus stocks and imports
  - Minus USDA removals and ending stocks
- ◆ Would suggest that year-to-date all dairy products up almost 2.5%
- ◆ Cheese up more than 7%

# Most Retail Prices had/are Retreating.

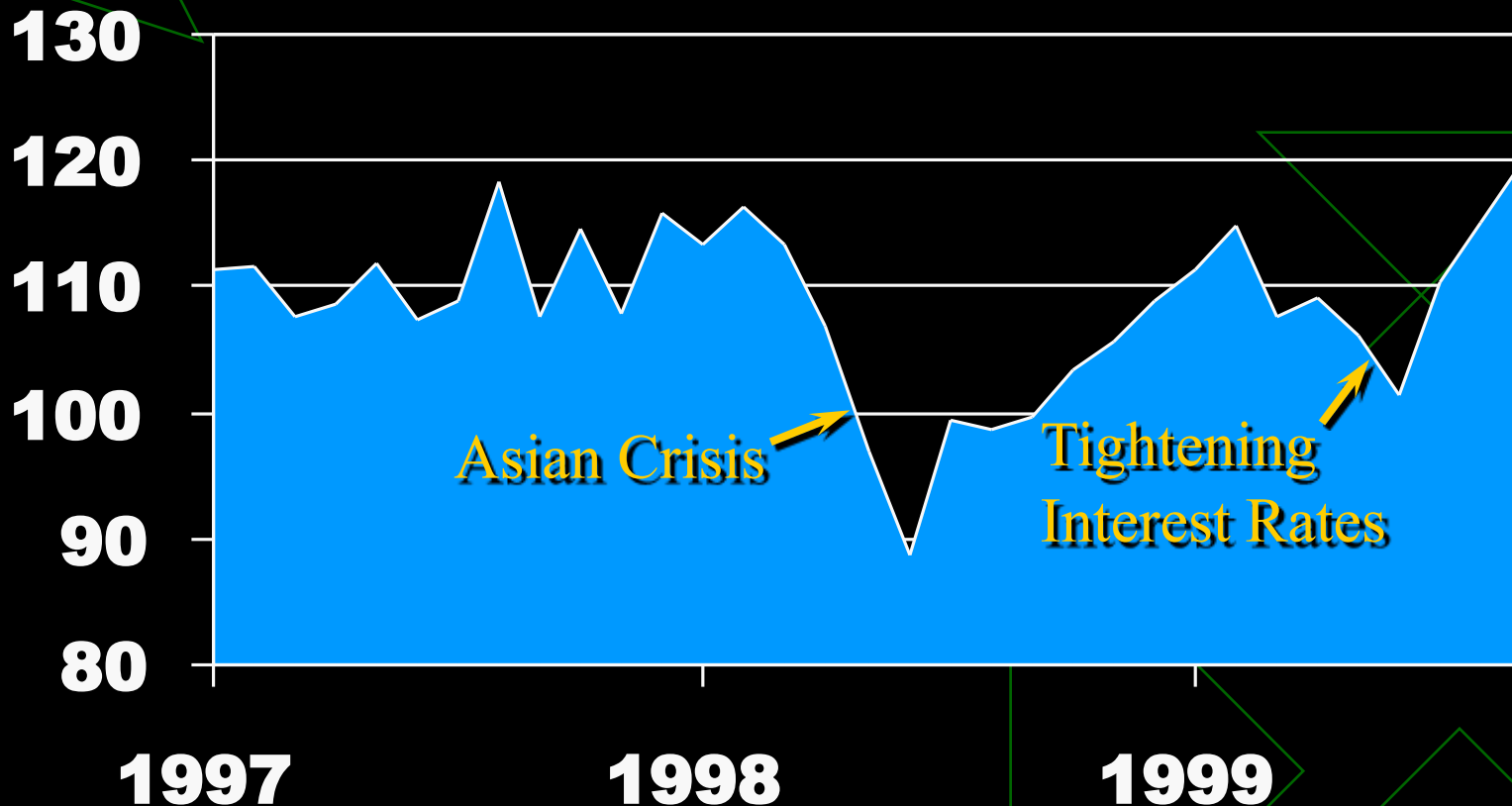


# Butter—Wholesale to Retail Price Relationship



# Consumer's Confidence in the Economy is Strong

## CCB Index of Expectations



# October BFP Contract



# Policy in 1999

- ◆ Referendum on FMMO reform in August
  - Overwhelmingly passed in all 11 new orders
  - Three law suits filed to block implementation
- ◆ Agricultural Appropriations bill passed in October
  - \$125 million in disaster relief for dairy
  - Continuation of price supports through 2000

# Policy in 1999

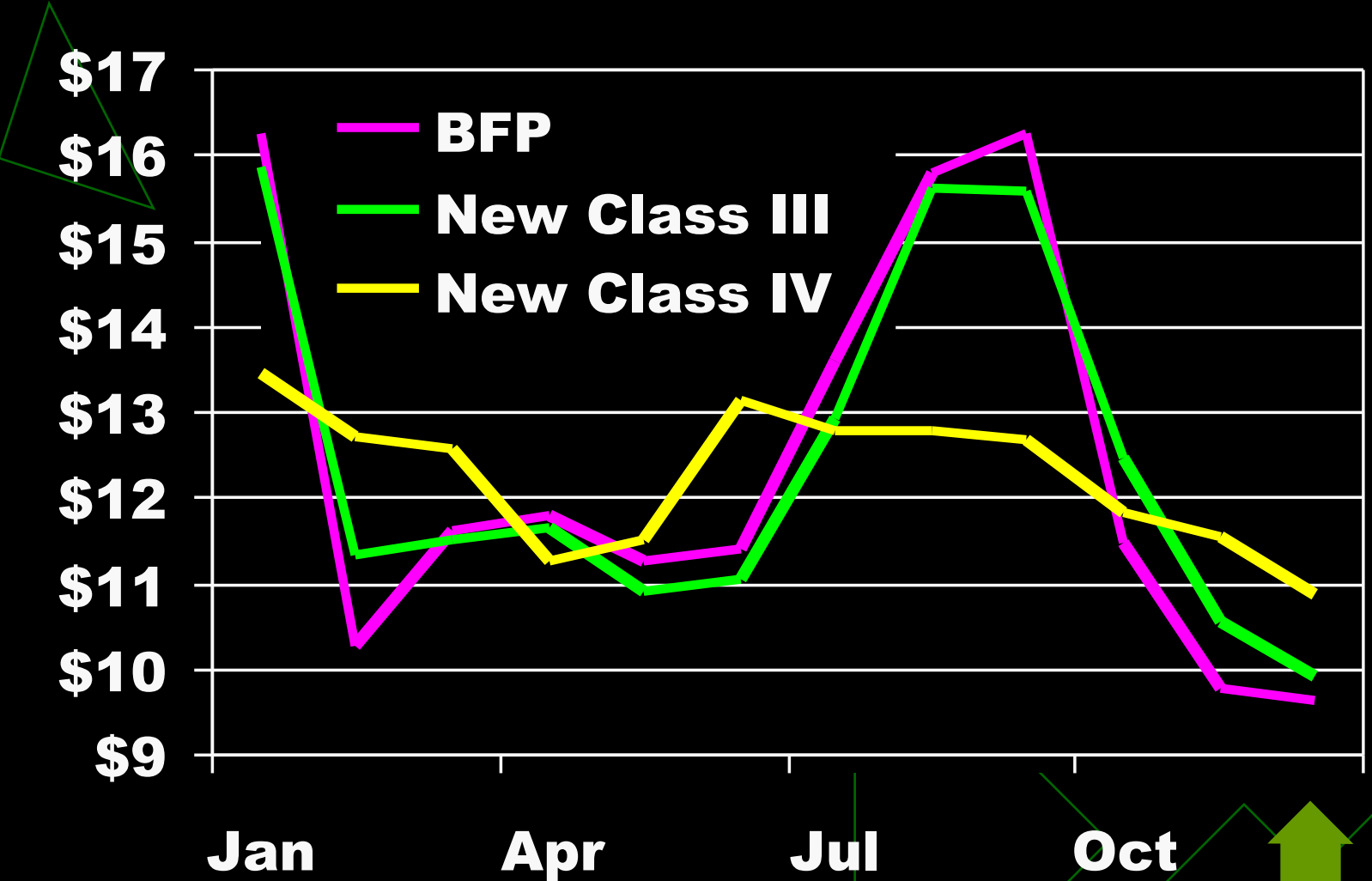
- ◆ United States Spending Bill passed in November
  - Changed class I differentials
  - Require USDA to reconsider pricing formulas
  - Trial period for processors to forward contract.
  - Extension of the Northeast Dairy Compact until September 2001.
  - Was implemented in January, 2000

# Y2K Balance Sheet

	1998	1999	2000*
<b>Supply</b>			
<b>Cows Numbers (thous.)</b>	<b>9158</b>	<b>9142</b>	<b>9078</b>
<b>Production/cow (lbs)</b>	<b>17191</b>	<b>17743</b>	<b>18080</b>
<b>Production</b>	<b>157.4</b>	<b>162.2</b>	<b>164.1</b>
<b>Farm Use</b>	<b>1.4</b>	<b>1.4</b>	<b>1.3</b>
<b>Marketings</b>	<b>156.1</b>	<b>160.8</b>	<b>162.8</b>
<b>Beginning Commercial Stocks</b>	<b>4.9</b>	<b>5.3</b>	<b>7.0</b>
<b>Imports</b>	<b>4.6</b>	<b>5.0</b>	<b>4.8</b>
<b>Total Supply</b>		<b>171.2</b>	<b>174.7</b>
<b>Utilization</b>			
<b>Commercial Disappearance</b>	<b>159.9</b>	<b>163.9</b>	<b>167.6</b>
<b>Ending Commercial Stocks</b>	<b>5.3</b>	<b>7.0</b>	<b>5.0</b>
<b>DEIP</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>
<b>Net Removals (excluding DEIP)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.7</b>
<b>Total Use</b>	<b>165.6</b>	<b>171.2</b>	<b>174.7</b>

25% more than we  
Have ever carried!

# New Class Prices



# The Final Rule—as a Package—was not that Bad

- ◆ Prices are better than expected!
  - Higher of class III or class IV
  - Utilizations may be higher
- ◆ MCP may require new milk production strategies
- ◆ The “Final Rule” is not yet final.
- ◆ Check out <http://cpdmp.cornell.edu>



# Is there a Comparable Time Period to Reference?

- ◆ Herd buildup in the 1980s
  - We had an active and persistent Price Support Program then
- ◆ Must go back to 1951 & 1952
  - 18% increase in milk price
- ◆ Required 2 years of low prices to bring the national herd down to market clearing levels



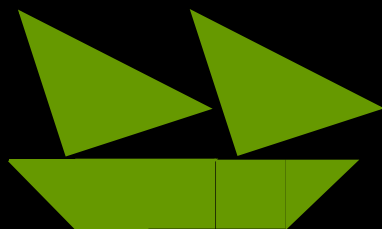
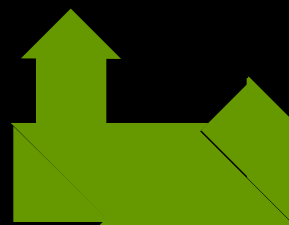
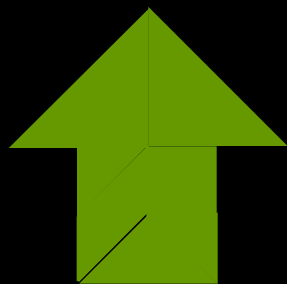
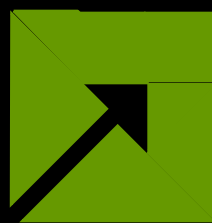
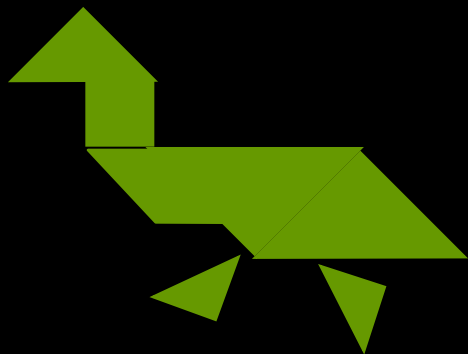
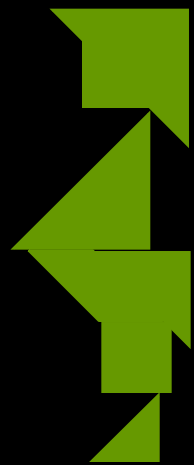
# Price Forecast for 2000



<b>Month</b>	<b>Class III</b>	<b>US All Milk</b>
<b>Jan</b>	<b>\$10.05</b>	<b>\$10.76</b>
<b>Feb</b>	<b>\$10.00</b>	<b>\$10.66</b>
<b>Mar</b>	<b>\$10.50</b>	<b>\$11.15</b>
<b>Apr</b>	<b>\$11.00</b>	<b>\$11.41</b>
<b>May</b>	<b>\$11.10</b>	<b>\$11.72</b>
<b>Jun</b>	<b>\$11.20</b>	<b>\$12.02</b>
<b>Jul</b>	<b>\$11.25</b>	<b>\$12.09</b>
<b>Aug</b>	<b>\$11.55</b>	<b>\$12.31</b>
<b>Sep</b>	<b>\$12.10</b>	<b>\$12.66</b>
<b>Oct</b>	<b>\$12.60</b>	<b>\$13.09</b>
<b>Nov</b>	<b>\$12.90</b>	<b>\$13.53</b>
<b>Dec</b>	<b>\$13.00</b>	<b>\$13.83</b>
<b>Average</b>	<b>\$11.44</b>	<b>\$12.10</b>

# What's the Bottom Line?

- ◆ Prepare for average farm prices that are \$1.75-\$2.00 lower than 1999.
  - Low component herds could be worse off
- ◆ For the third consecutive year, expect feed prices to be low.
- ◆ I am not as pessimistic as others about the possibility of modest price recovery.
- ◆ There will probably be two years of these prices.



# Northeast Mailbox Prices

