2001 DAIRY SITUATION & OUTLOOK and DAIRY POLICY ALTERNATIVES

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27th Annual Southern Dairy Conference
Westin Airport – Atlanta, GA
February 5, 2001

2001 DAIRY SITUATION & OUTLOOK
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TOPICS DISCUSSED

1) Review of State-level and Southeast regional milk production statistics for 2000 versus 1999
   - è **2000 versus 1999 Annual Statistics**
   - è **Review of 15 Southeastern States**
   - ➔ **1997 versus 1998**

2) **Dairy Prices and Milk Price Volatility or Risk**
   - ➔ **Review past 20 years, 1999 and 2000**
   - ➔ **Record high prices followed by sharp declines**
   - ➔ **Critical Supply-Demand Balance**

3) **Milk Price Outlook for 2001**

4) **Class I "Mover" Price or the Base Skim Milk Price**
   - è **benefits to dairy farmers during 2000**

5) **Federal Dairy Legislation/Features for FY2001**
   - è **review features implemented**

6) **Dairy Policy and Programs Expected for FY2002**
   - è **1996 Farm Bill expires at end of 2002**
   - è **review several alternatives**

1) Review State-level & Southeast Region milk production statistics for 1997 vs 1998

Annual Milk Production in Millions of Pounds of Milk

	1997	1998	1997 - 1998	% Change
Alabama	418	386	-32	-7.66%
Arkansas	635	540	-95	-14.96%
Florida	2,476	2,337	-139	-5.61%
Georgia	1,488	1,437	-51	-3.43%
Kentucky	1,815	1,710	-105	-5.79%
Louisiana	794	751	-43	-5.42%
Mississippi	634	579	-55	-8.68%
Missouri	2,362	2,367	+5	+0.20%
N. Carolina	1,304	1,251	-53	-4.06%
Oklahoma	1,249	1,236	-13	-1.04%
S. Carolina	397	374	-23	-5.79%
Tennessee	1,609	1,501	-108	-6.71%
Texas	5,768	5,605	-163	-2.83%
Virginia	1,858	1,841	-17	-0.91%
W. Virginia	266	278	+12	+4.51%
15-State Total	23,073	22,193	-880	-3.81%
California	27,582	27,654	+72	+0.26%
Wisconsin	22,368	22,842	+474	+2.12%
Idaho	5,193	5,765	+572	+11.01%
Total U.S.	156,091	157,348	+1,257	+0.81%

1998 versus 1999 SOUTHERN STATES MILK COWS NUMBERS, OUTPUT PER COW, & MILK PRODUCTION

	Number of Milk Cows				Milk Output per Cow				Annual Milk Production			1998 1999
	------ 1,000 -------			% Change	-------- Pounds --------			% Change	---Million Pounds---			%Change
Alabama	**28**	**27**	**-1**	**-3.57%**	**13,786**	**13,852**	**+66**	**+0.48%**	**386**	**374**	**-12**	**-3.11%**
Arkansas	**45**	**42**	**-3**	**-6.67%**	**12,000**	**12,381**	**+381**	**+3.18%**	**540**	**520**	**-20**	**-3.70%**
Florida	**160**	**158**	**-2**	**-1.25%**	**14,606**	**15,177**	**+571**	**+3.91%**	**2,337**	**2,398**	**+61**	**+2.61%**
Georgia	**93**	**89**	**-4**	**-4.30%**	**15,452**	**16,281**	**+829**	**+5.37%**	**1,437**	**1,449**	**+12**	**+0.84%**
Kentucky	**140**	**133**	**-7**	**-5.00%**	**12,214**	**12,368**	**+154**	**+1.26%**	**1,710**	**1,645**	**-65**	**-3.80%**
Louisiana	**63**	**61**	**-2**	**-3.17%**	**11,921**	**11,656**	**-265**	**-2.22%**	**751**	**711**	**-40**	**-5.33%**
Mississippi	**42**	**38**	**-4**	**-9.27%**	**13,786**	**14,526**	**+740**	**+5.37%**	**579**	**552**	**-27**	**-4.66%**
Missouri	170	159	-11	-6.47%	13,924	13,962	+38	+0.27%	2,367	2,220	-147	-6.21%
N. Carolina	75	73	-2	-2.67%	16,680	16,658	-22	-0.13%	1,251	1,216	-35	-2.80%
Oklahoma	**92**	**92**	**0**	**0.00%**	**13,435**	**13,576**	**+141**	**+1.05%**	**1,236**	**1,249**	**+13**	**+1.05%**
S. Carolina	25	24	-1	-4.00%	14,960	15,375	+415	+2.77%	374	369	-5	-1.34%
Tennessee	**105**	**97**	**-8**	**-7.62%**	**14,295**	**14,608**	**+313**	**+2.19%**	**1,501**	**1,417**	**-84**	**-5.60%**
Texas	352	345	-7	-1.99%	15,923	16,290	+367	+2.30%	5,605	5,620	+15	+0.27%
Virginia	124	121	-3	-2.42%	14,847	15,529	+682	+4.59%	1,841	1,879	+38	+2.06%
W.Virginia	18	18	-0	-0.00%	15,444	15,278	-166	-1.99%	278	275	-3	-1.08%
TOTAL	1,532	1,447	-59	-3.59%					22,193	21,894	-299	-1.35%
AVERAGE					14,218	14,501	+283	+1.99%				

Looking at Preliminary Statistics 1999 versus 2000

for the 15 Southeastern States

	1999	2000	1999-2000 Difference	1999-2000 % Change
Alabama	374	343	-31	-8.29%
Arkansas	520	521	+1	+0.19%
Florida	2,398	2,456	+58	+2.42%
Georgia	1,449	1,436	-13	-0.90%
Kentucky	1,645	1,703	+58	+3.53%
Louisiana	711	707	-4	-0.56%
Mississippi	552	548	-4	-0.72%
Missouri	2,220	2,258	+38	+1.71%
N. Carolina	1,216	1,189	-27	-2.22%
Oklahoma	1,249	1,295	+46	+3.68%
S. Carolina	369	369	0	0.00%
Tennessee	1,417	1,405	-12	-0.85%
Texas	5,620	5,699	+79	+1.41%
Virginia	1,879	1,905	+26	+1.38%
W. Virginia	275	265	-10	-3.64%
15-State Total	21,894	22,099	+205	+0.94%
California	**30,475**	**32,244**	**+1,769**	**+5.80%**
Wisconsin	**23,071**	**23,249**	**+178**	**+0.77%**
Idaho	**6,453**	**7,216**	**+763**	**+11.82%**
Total U.S.	**162,711**	**167,918**	**+5,207**	**+3.20%**

2) Dairy Prices and Milk Price Volatility and ***RISK***

A. The BIGGEST and MOST DIFFICULT problem facing Dairy Farmers today and into the future is the risk associated with PRICE VARIATIONS

(1) Prior to 1987, dairy prices were very stable and were dominated by the government milk price support level.

(2) During the 1984 to 1987 period, the level of dairy price supports were lowered because of the large costs to the U.S. Treasury of operating the dairy program ($2.2B/yr)

(3) With the exception of 2000, dairy product prices have remained well above price support levels since 1987 that augmented and facilitated wide & volatile price swings in milk prices and dairy farmers' incomes

(4) Dairy farmers have been faced with large changes in milk revenues and manage "cash flow" problems within each season

➔ 1999 and 2000 were good examples

(5) During 1999, the second and third largest monthly price increases were recorded along with the first and second largest monthly decreases in milk prices ever recorded

3) Milk Price Outlook for 2001

Most dairy analysts were predicting that milk prices will increase about 50 cents per cwt. above 2000 milk prices.

- ➔ **Cheese and NDM prices mired at support levels**
- ➔ **Milk production/cow numbers beginning to decline**
- ➔ **Record Prices in 1998 and 1999 NOT sustainable**
- ➔ **Dec. 2000 was the first month since Fall 1999 that monthly milk output do NOT increase**

Other Factors influencing Milk Prices in 2001:

a) **Continued strong economic growth has strengthened dairy demand in 2000 & expected to continue in 2001.**

b) # of milk cows & milk output *have begun to decline*
   - ➔ **milk output grew 3.2% in 2000**

c) Moderate/low grain prices and feed costs continues to sustain increased milk production

d) CCC purchases of nonfat dry milk and cheddar cheese during 2000 have been 4 times greater than 1999 levels
   - ➔ USDA purchases totaled 6.2 billion lbs in 2000
   - ➔ since Oct. 1, USDA purchased 184 M lbs of NDM and 10.6 M lbs of processed and block cheeses

SUMMARY:

The good news is cow number and milk production have begun to decline ➔ BUT the U.S. economy has slowed and may enter into a recession which will depress dairy demand

Forecasters NOW expect 2001 Class I milk prices to average about 40 to 50 cents per cwt. *MORE* than 2000.

Atlanta Zone "Advanced" Class I Milk Prices for

1999 & 2000 and 2001 PROJECTIONS

	Actual Class I 1999	Actual Class I 2000	Differ 99 vs 00	"My Guess" 2001
January	$19.92	$14.00	$ -5.92	$17.09
February	$20.42	$13.81	$ -6.61	$15.04
March	$19.35	$13.94	$ -5.41	$15.00*
April	$13.35	$14.03	$ 0.68	$14.50*
May	$14.70	$14.58	$ -0.12	$14.25*
June	$14.89	$14.80	$ -0.09	$14.50*
July	**$14.34**	**$15.56**	**$ 1.22**	**$14.75***
August	$14.50	$15.05	$ 0.55	$15.00*
September	$16.67	$14.94	$ -1.73	$15.50*
October	$18.87	$14.99	$ -3.88	$15.75*
November	$19.34	$14.92	$ -4.42	$15.50*
December	$14.57	$15.23	$ 0.66	$15.00*
Average	$16.74	$14.65	$ -2.09	$15.16*

Obviously, these BFP/milk price projections are VERY sensitive to milk production/weather conditions and, as was seen in 1999, dairy product inventories.

The $15.16 average Class I prices forecast for 2001 is about 50 cents HIGHER than the average price recorded during 2000. BUT, 2001 should be a "better" year for dairy prices and provide more sales revenues for dairy farmers.

* Projections

4) Class I Milk Price Mover or Base Skim Milk Price

One of the most interesting features of Federal Order reform has been the Class I Milk Price Mover. Class I prices are calculated based on the following procedure:

- è **use of the "higher of" of either the Class III or Class IV Advanced Skim Milk price**
- è **then, add the applicable Class I price (location) differential to this Class I "mover" price**

During 2000, the Class I Mover Price feature has meant significant additional revenues to dairy farmers. Under the "old" pricing process, Class I prices were calculated by adding the Class I price differential was added to the Class III price, only.

➔ **For example, the actual monthly Class III and Class IV Advanced Skim Milk prices for 2000 were:**

Month	Class III	Class IV	Difference
January	$ 6.57	$ 7.72	$ 1.15
February	$ 7.23	$ 7.72	$ 0.49
March	$ 6.38	$ 7.71	$ 1.33
April	$ 6.24	$ 7.70	$ 1.46
May	$ 5.58	$ 7.70	$ 2.12
June	$ 5.29	$ 7.70	$ 2.41
July	$ 4.51	$ 7.71	$ 3.20
August	$ 6.43	$ 7.70	$ 1.27
September	$ 6.14	$ 7.70	$ 1.56
October	$ 6.66	$ 7.76	$ 1.10
November	$ 6.30	$ 7.74	$ 1.44
December	$ 4.14	$ 7.75	$ 3.64
12-mo AVG.	$ 5.96	$ 7.72	$ 1.76

➔ **so, dairy farmers in the Southeast that have usually 60% to 80% of their milk processed in Class I dairy products this feature has realized an additional $1.05 to $1.40 per cwt. in farm revenues**

- **for a farmer producing 100,000 lbs per month, this has meant about $10,000 to $14,000 more income**

therefore, the Class I "Mover" allows the value of "fluid" milk to be based on the either the value of skim milk used in producing cheese or in processing butter, whichever has a higher value/price

- **this "higher of" feature will NO longer penalize dairy farmers' Class I milk sales revenues when the relative prices of cheese fall below butter prices**
- **during 2000, butter prices were 50% to 200% above the support level (65 cents/lb) while cheese prices were stuck near or below support levels (~$1.10/lb)**

5) Federal Dairy Legislation/Features for FY 2002

a) Some dairy farmer groups are urging Congress to assist in establishing a Dairy Supply Management Plan

- **designed to increase dairy/milk prices via production controls – similar to Canada's dairy "quota" program**
- **Congress has NOT shown *much* interest or support in the past – BUT, many members want to scrap the 1996 "Freedom to Farm" Bill and could consider this feature**

Few industry people believe that Congress will pass any policy or program that includes any type of mandatory milk supply management scheme.

But during May 2000, Northeast Dairy Compact producers approved a "voluntary" supply management plan

- **allocated a portion of the Compact premium for this supply management scheme** è **however, these voluntary schemes usually have NOT been effective in controlling or limiting milk output**

b) Dairy Export Incentive Programs (DEIP) is expected to receive continued support

➔ **but, must satisfy WTO guidelines and specifications**

è **DEIP has been instrumental in bolstering farm-level milk prices via USDA-subsidized exports of NDM, whole milk powder, butteroil, etc.**

c) Dairy Compacts – Northeast Compact expansion and creation of a Southern Compact (and other regions??)

➔ **no political "champion" for the Southern Compact**

è **Dairy Compacts expected to the "eye" of this storm of controversy with various members of Congress promising to make this single issue a "lynch pin" in passing agricultural and general appropriations bills.**

d) Disaster relief payments – similar to the Dairy Market Loss Assistance Payments (DMLA) received by farmers for 1998, 1999, and 2000 – will probably be provided during 2001.

è **1998 -- $200 million**

è **1999 -- $125 million**

è **2000 -- $650-700 million**

è **2001 -- $???**

Outlook for the 2002 Farm Bill

The current Farm Bill (FAIR Act) expires December 31, 2002 and Congress plans to start considering the new Farm Bill during the next 2 years

è **<u>many options being considered, some alternatives are:</u>**

1) **supply management – but NO consensus for how??**
2) **elimination of Dairy Price Support Program(DPSP)**
3) **continuation of FAIR (1996) "freedom to farm" bill**
4) **counter-cyclical payments to support farm incomes**
5) **farm revenue "safety net" -- revenue insurance?**
6) **demand expansion programs – export subsidies?**

➔ **<u>Question??</u> – Will Congress attempt to change or scrap the 1996 Farm Bill during 2001 or wait until 2002 to develop new farm legislation?**

Most observers believe that the 1996 Farm Bill will NOT be "overhauled" during 2001 – but farm programs will be debated and specified issues addressed, in both Senate and House hearings.

- è **Congress wants to avoid a continuation of the disaster relief and other "special" payments that occurred in 1998, 1999, and 2000 (and probably *<u>again</u>* in 2001)**
- ➔ **when in 2000, Congress allocated $32+ Billion in FY'01 to agricultural producers (all pymts)**
  - ➔ **these payments accounted for about 40% of total farm income for 2000/01**