

Dairy Situation & Outlook

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*What did we say last year?
Remember?*

Milk prices will be better in 2001.



But no one forecasted :

- Record monthly highs for Class III prices:

May = \$13.83

June = \$15.02

July = \$15.46

- Near monthly records for:

August = \$15.55 (\$15.79 1999)

September = \$15.90 (\$16.26 1999)

October = \$14.60 (\$16.04 1999)

- But \$11.31 for November (\$16.04 1998)
- And \$11.80 for December (\$17.34 1998)

U.S. Farm Level Milk Prices 2000 & 2001

Month	2000	2001	Difference
Jan	10.05	9.99	-0.06
Feb	9.54	10.27	0.73
Mar	0.54	11.42	1.88
Apr	9.41	12.06	2.65
May	9.37	13.83	4.46
Jun	9.46	15.02	5.56
Jul	10.66	15.46	4.80
Aug	10.13	15.55	5.42
Sep	10.76	15.90	5.14
Oct	10.02	14.60	4.58
Nov	8.57	11.31	2.74
Dec	9.37	11.80	2.43
Average Class III	9.74	13.10	3.35
Average All Milk Price	12.34	14.94	2.60

So what is going on?

Is some one playing tricks
On the Industry?
Manipulation of prices?



Relatively small changes, or anticipated changes in either milk production or sales of milk and dairy products results in big changes in farm level milk prices.

- Under a \$9.90 support price, this is a very low safety net for dairy farmers.
- Price volatility is the norm.



1998 Summary

- *Average BFP = \$14.24 a record*
- *Average all milk price = \$15.46*
- *Average number of cows 9,154,000 ; -1.1%*
- *Milk per cow 17,189; + 1.9%*
- *Total milk production 157.3 billion Lbs; +0.8%*
- *Commercial disappearance 159.8 billion Lbs;
+2.3%*
- *Imports 4.59 billion pounds; +41.2%*

1999 Summary:

- *Average BFP = \$12.86*
- *Average all milk price = \$14.38*
- *Number of milk cows 9,156,000; +0.1%*
- *Milk per cow 17,772; +3.4%*
- *Total milk production 162.7 billion lbs; +3.5%*
- *Commercial disappearance 164.9 billion lbs; +3.2%*
- *Imports 4.77 billion pounds; +4/0%*

2000 Summary

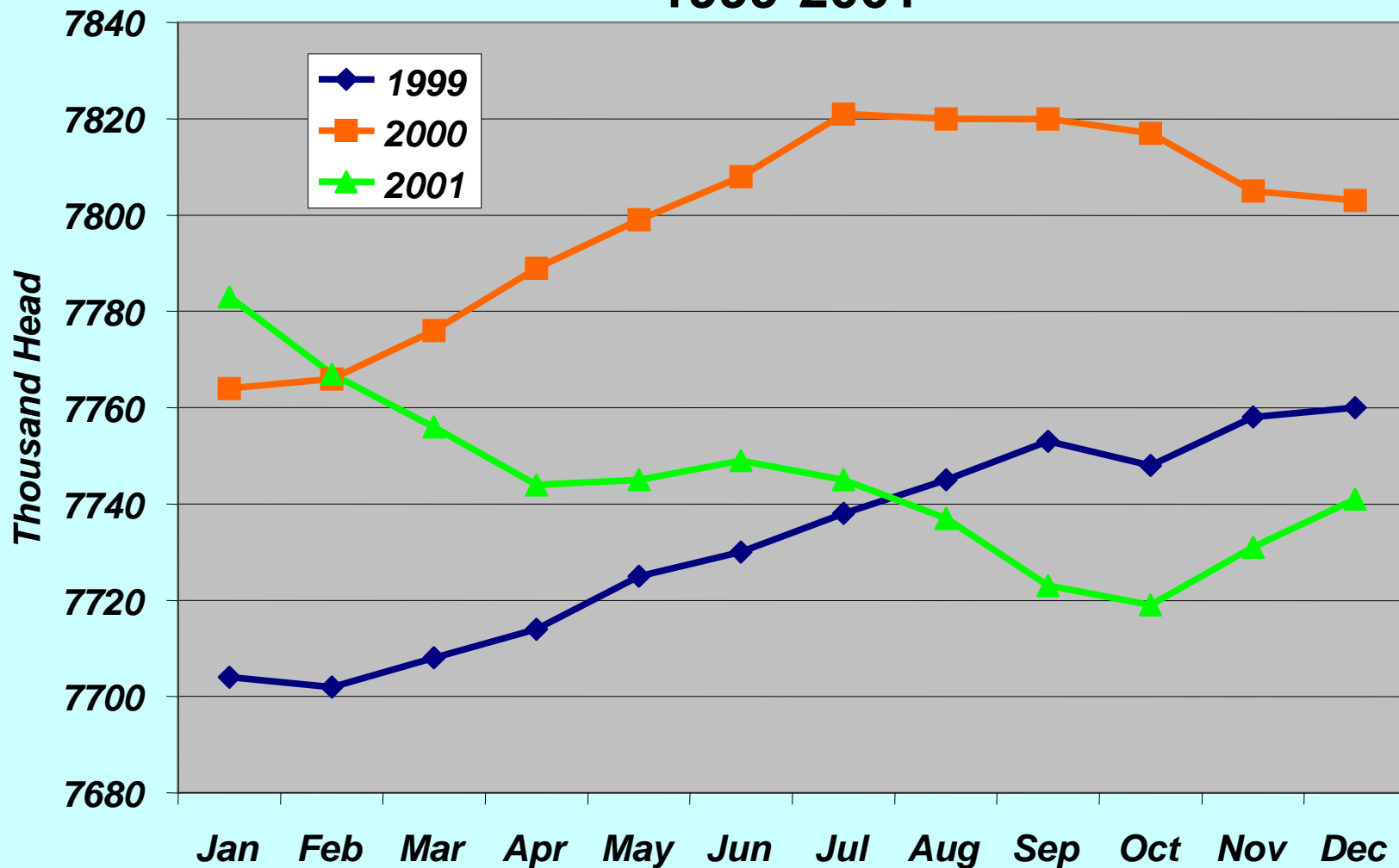
- *Average Class III = \$9.74*
- *Average all milk price = \$12.34*
- *Average number of cows 9,210,000; +0.6%*
- *Average milk per cow 18,204; +2.4%*
- *Total milk production 167.7 billion Lbs; +2.7%*
- *Commercial disappearance 169.2 billion lbs; +2.3%*
- *Imports 4.45 billion lbs; -6.8%*

What happened in 2001?

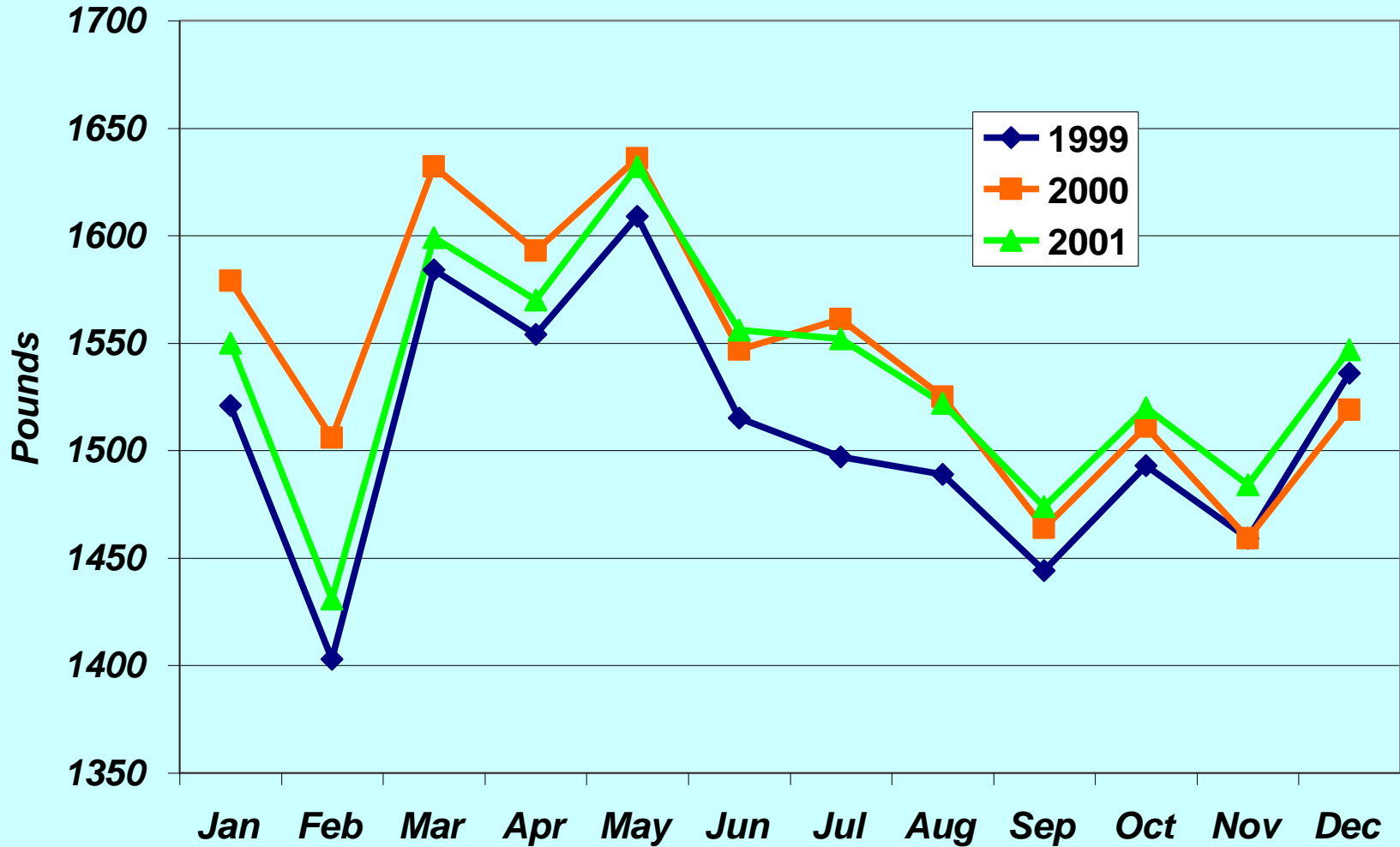
A different environment from 2000:



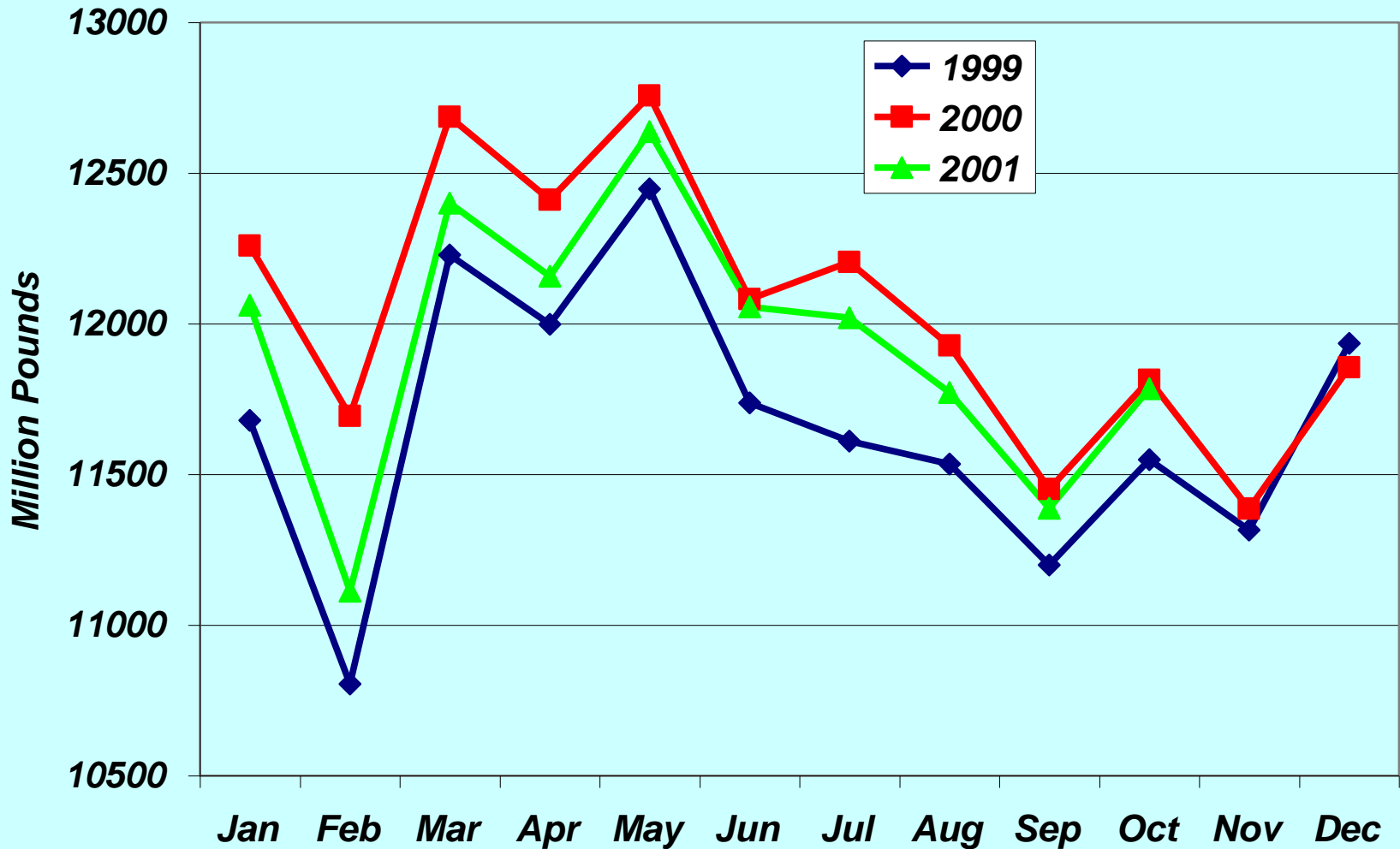
Number of Milk Cows, 20 Selected States 1999-2001



Milk Per Cow, 20 Selected States, 1999-2001



Total Milk Production, 20 Selected States, 1999-2001



2001 Compared to 2000

2000

- 9,210,000 milk cows
- 18,153 pounds per cow
- 167.2 billion pounds of milk

2001

- 9,120,000 cows (-1.0%)
- 18,131 pounds per cow (-0.1%)
- 165.4 billion pounds of milk (-1.1%)

A major factor for less milk is relatively poor production per cow. Why????

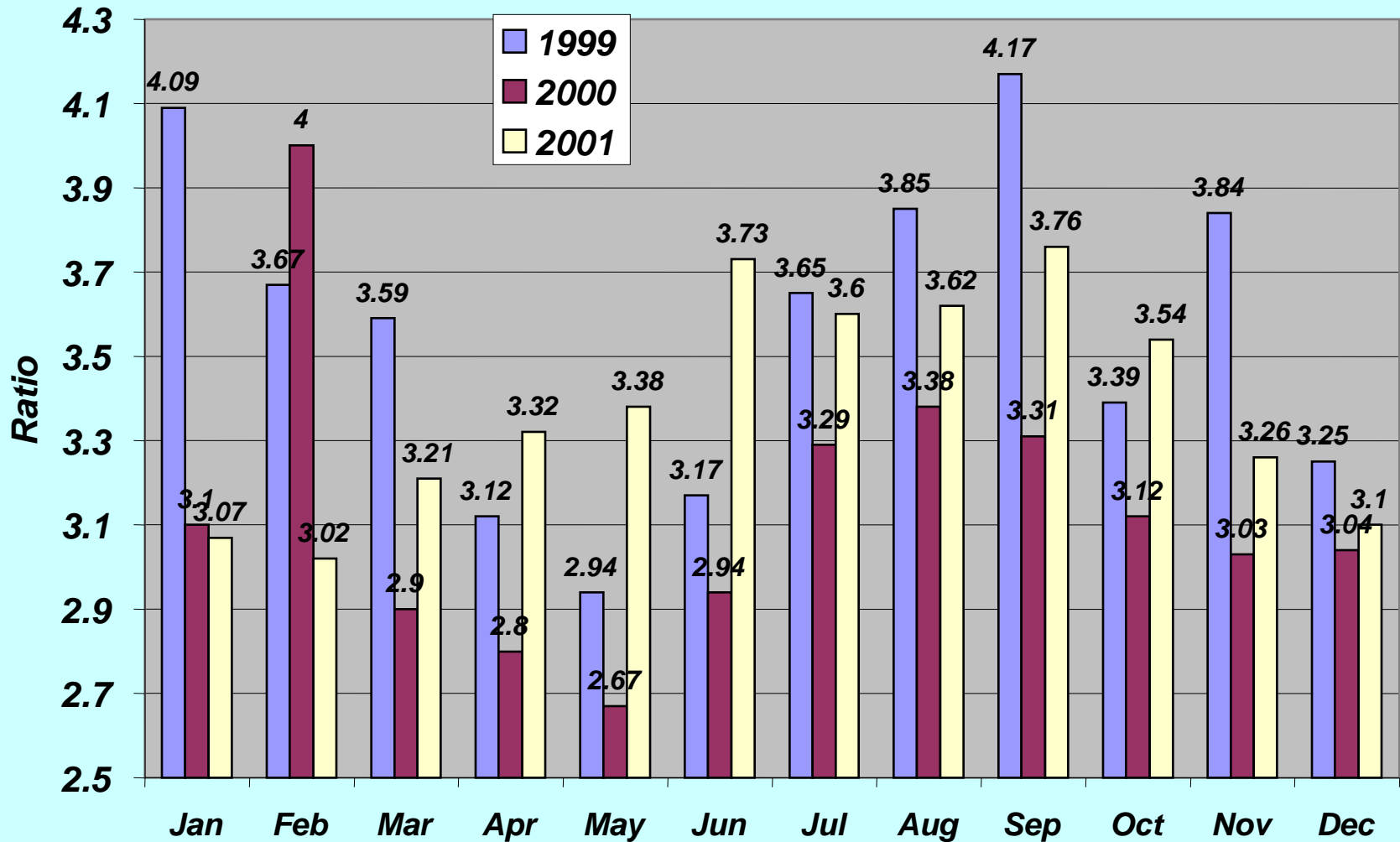
- Weather—a factor for some states
- Feed—poor quality alfalfa hay in major areas, and poor quality corn silage in Northeast
- Late lactation cows and high price of dairy replacements
- Others???

December Milk Production In Selected States

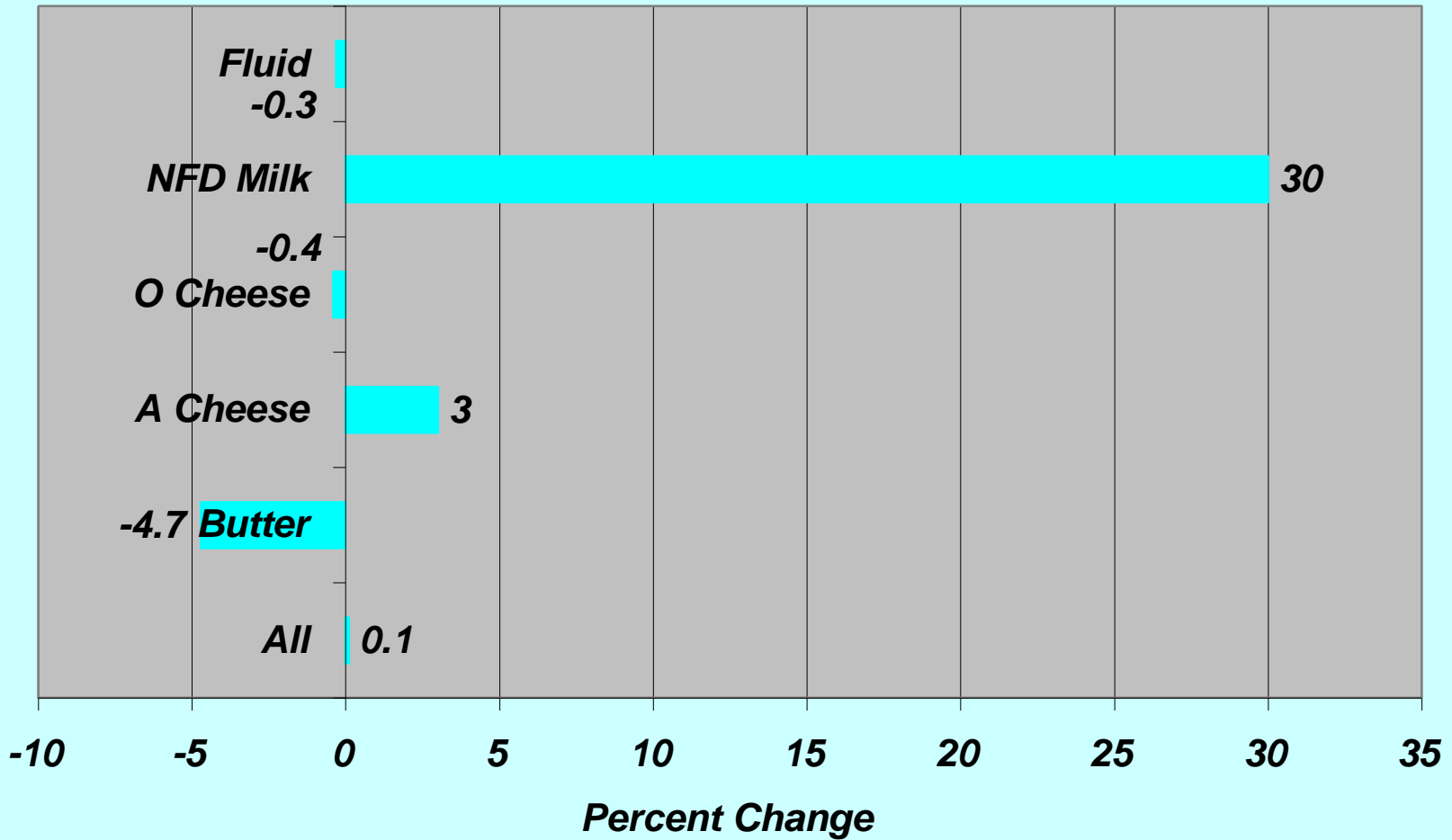
Percent Change from 2000

State	No. Of Cows	Milk Per Cow	Total Milk
AZ	0.0	-0.3	0.4
CA	3.8	-0.3	3.5
ID	5.9	1.2	7.2
NM	10.3	1.8	12.4
TX	-10.0	5.4	-4.7
NY	0.0	2.8	2.9
PA	-3.4	4.8	1.2
WI	-3.8	1.1	-2.8
MN	-4.5	-0.7	-5.4
FL	-2.6	0.4	-2.4
KY	-4.6	5.7	0.7
MO	-6.7	-3.0	-9.6

Milk feed price ratio



Commercial Disappearance, Jan - Oct Percent Change from 2000



Commercial Disappearance 2001 compared to 2000:

2000

- 169.2 billion pounds m.f.e.
- 161.3 billion pounds s.m.e.

2001

- 170.1 billion pounds m.f.e. (+ 0.5%)
- 165.0 billion pounds s.m.e. (+2.3)%

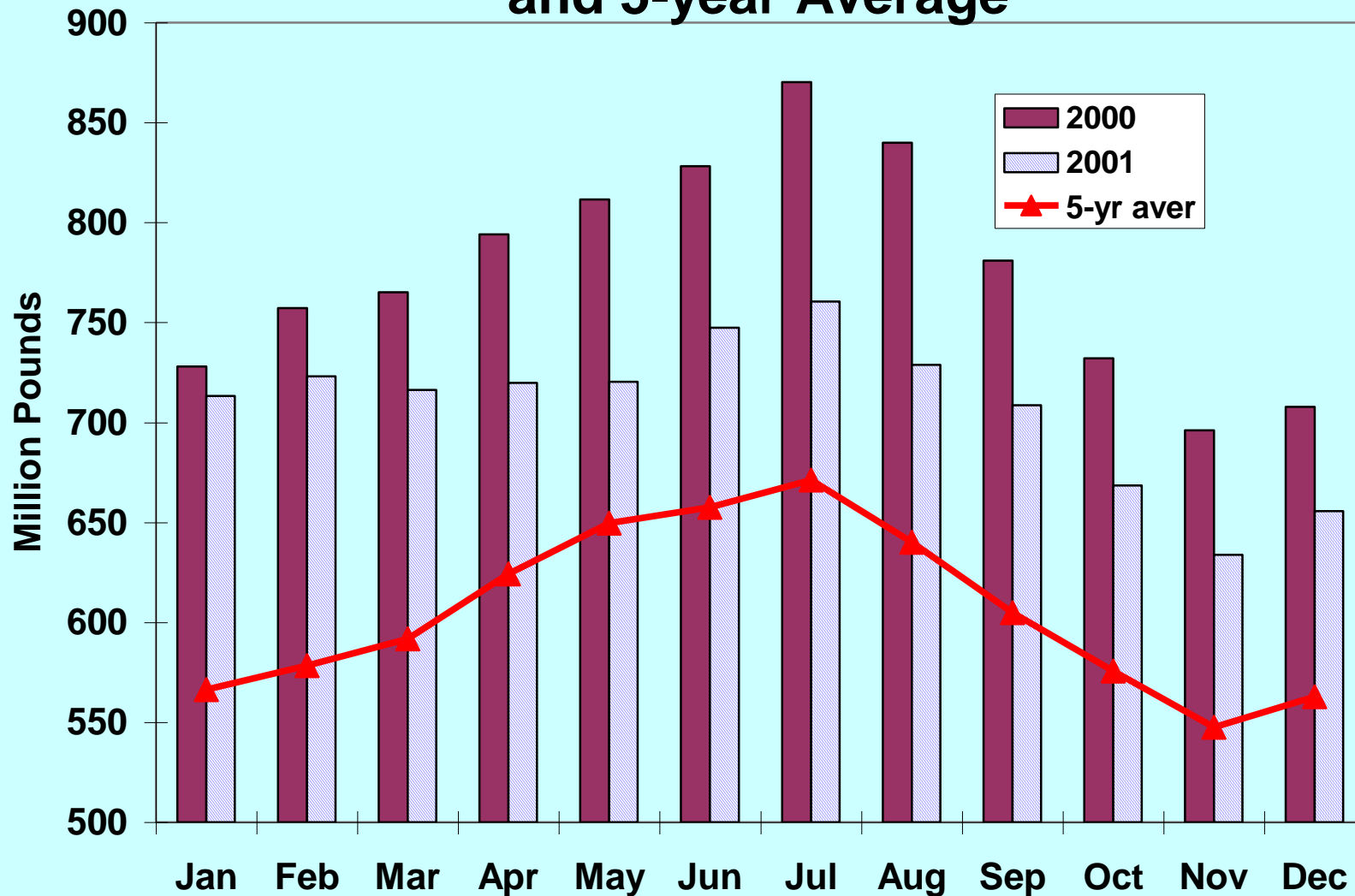
Retail Prices Nov 2001 vs 2000

- All Food +3.4%
- Dairy Products +6.1%
 - Whole Milk +8.0%
 - Cheese +6.0%
 - Butter +27.9%
- Meat, Poultry, Fish & Eggs +4.6%

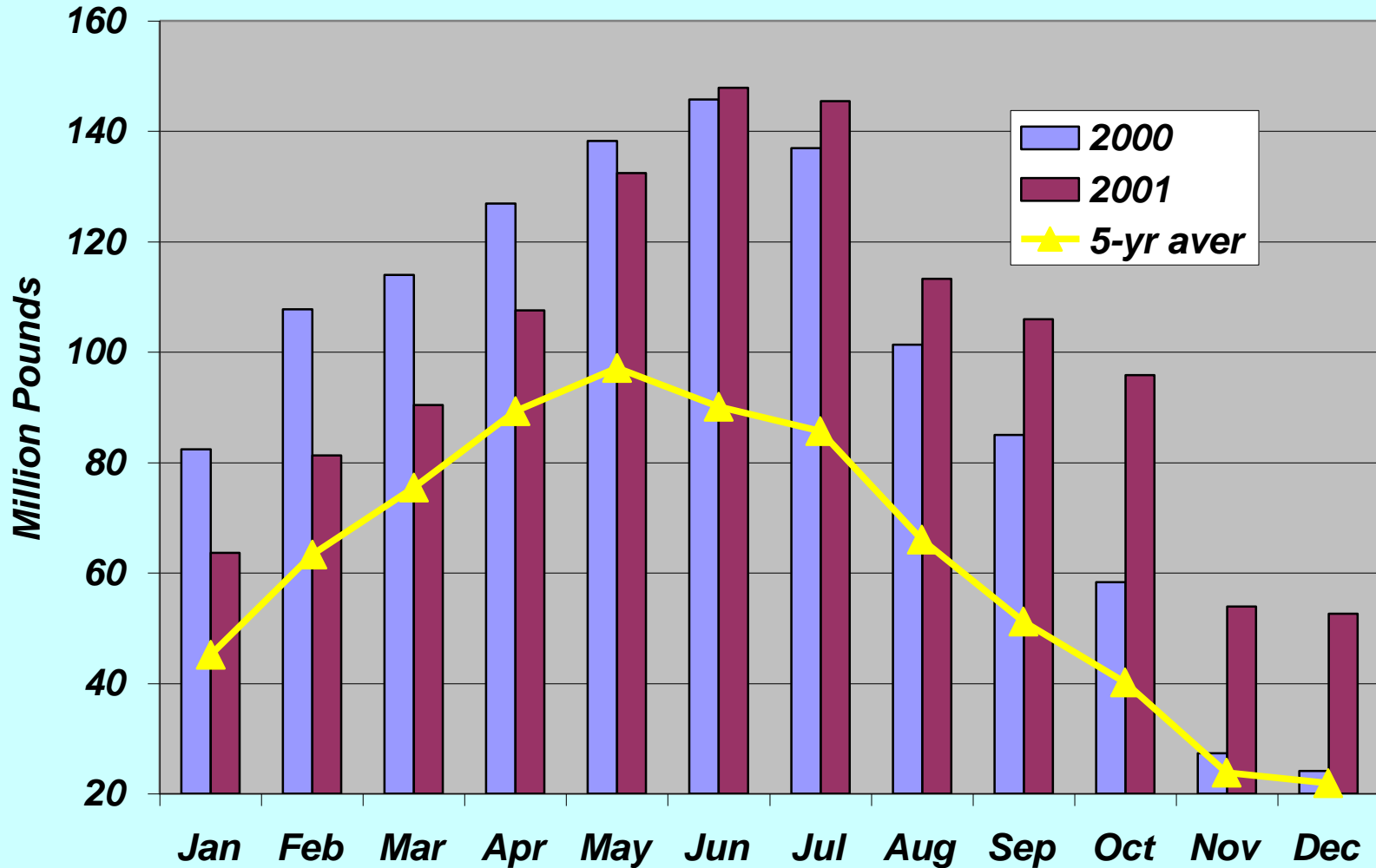
Production of Dairy Products: Nov 2001 vs Nov 2000

- American cheese +1.9%
- Cheddar cheese +3.9%
- Italian cheese +1.3%
- Total cheese +0.8%
 - Butter - 1.4%
- Nonfat dry milk +5.9%

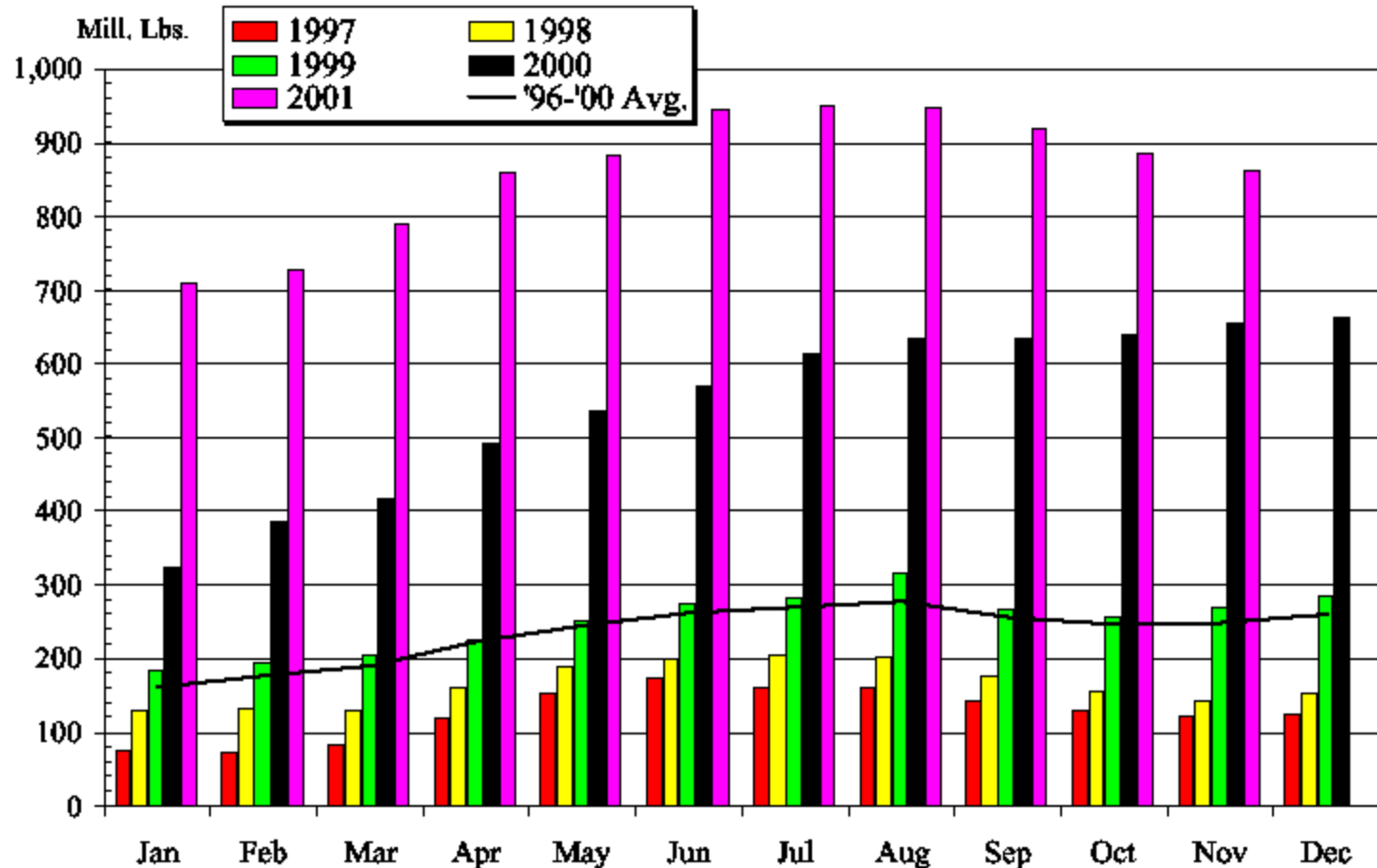
Stocks of Natural Cheese, U.S., 2000 & 2001, and 5-year Average



Butter Stocks, 2000, 2001 & 5-year Average



End-of-Month Total NFDM Stocks



Data from the Univ. of WI Dairy Marketing Website: www.aae.wisc.edu/future

Feb 1, 2002 CME Prices

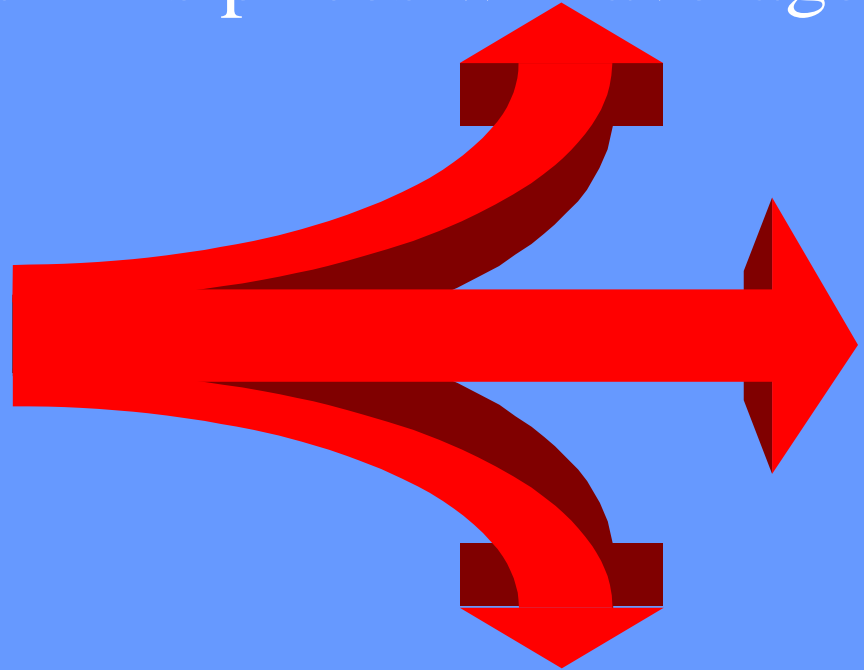
Grade AA Butter \$1.30

Cheddar Barrels \$1.20

40 Pound Cheddar Blocks \$1.235

Outlook for 2002?

- How many of you thinks prices will average higher than 2001?
- Lower than 2001?
- Have no idea?



The reality is:

- *There is a probability that prices could be higher.*
- *There is a probability that prices could be lower.*
- *As of now factors point to greater probability for lower rather than higher prices in 2002 versus 2001.*

Well let's consider some probabilities:

- *Milk cow numbers* averaged 9,120,000 head in 2001, down 1.0%; what about 2002? Down? How about down 0.7% to 9,056,000.
- *Milk per cow* averaged 18,131 pounds in 2001, down 0.1%; what about 2002? Up? How about 2.3% to 18,548 pounds

Out look continued

- *Total milk production* was 165.4 billion pounds in 2001, down 1.1%. What about 2002? Up? How about up 1.6% to 168 billion pounds.
- *Commercial use* was 170.1 billion pounds m.f.e (165.0 s.m.e.) in 2001, up 0.5%; what about 2002? Up? How about up 1.4% to 172.5 billion pounds m.f.e (170.0 s.m.e).

USDA is more pessimistic (optimistic) for 2002

- **Cow numbers will decline only 0.6% to 9.065 million head.**
- **Milk per cow will be relatively strong at 3.3% to 18,735 pounds.**
- **Total milk production will increase 2.7% to 169.9 billion pounds.**
- **Commercial use will increase 1.8% to 173.1 billion pounds (mfe)**

One needs to consider the wholesale prices of dairy products in forecasting milk prices for 2002

Month	AA Butter	Nonfat Dry Milk	Cheddar Cheese	Dry Whey
Jan	1.30	.92	1.29	.29
Feb	1.28	.92	1.28	.28
Mar	1.30	.92	1.27	.25
Apr	1.35	.92	1.27	.24
May	1.40	.92	1.27	.24
Jun	1.50	.92	1.32	.26
Jul	1.60	.93	1.36	.27
Aug	1.70	.93	1.42	.28
Sept	1.80	.93	1.48	.28
Oct	1.80	.92	1.41	.28
Nov	1.50	.92	1.35	.28
Dec	1.30	.92	1.29	.26

Milk Price Forecast For 2002

Month	Class III 2001	Class III 2002	Class IV 2001	Class IV 2002
Jan	9.99	11.90	12.13	12.00
Feb	10.27	11.80	12.70	11.90
Mar	11.42	11.70	13.46	11.90
Apr	12.06	11.60	14.41	12.05
May	13.83	11.70	15.04	12.25
Jun	15.02	12.00	15.33	12.70
Jul	15.46	12.45	14.81	13.20
Aug	15.55	13.00	15.06	13.75
Sep	15.90	13.25	15.59	14.00
Oct	14.60	12.80	12.77	13.25
Nov	11.31	12.40	11.97	12.00
Dec	11.80	11.85	11.79	11.80
Average	13.10	12.20	13.76	12.57
Average All Milk Price	14.94	14.10		

With USDA's stronger milk production, there price forecast is less optimistic for 2002.

Average All Milk Price

\$12.75 to \$13.65

We know that final milk prices may turn out quite different' especially for the second half of the year.

- **Milk price uncertainty will be the norm.**
- **The butter/powder tilt lessened the impact of the “higher of” mover of Class I milk & reduced Class I’s isolation from low cheese prices (Class III).**
- **Will there be another butter/powder tilt in 2002?**

Will the following happen in 2002?

- **The Secretaries recommended changes in Class III & IV formulas go into effect? Could increase Class III 50 cents.**

But, actual producer pay prices may not change much because of lower premiums paid by milk plants.

- **Dairy provisions of 2002 Farm Bill implemented on or even before October 1, 2002**