

# Farm Bill & Dairy Outlook 2002–2003

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*Cornell Program on Dairy Markets & Policy*

Models, models everywhere...

and nothing fit to forecast.

**Back to basics!**

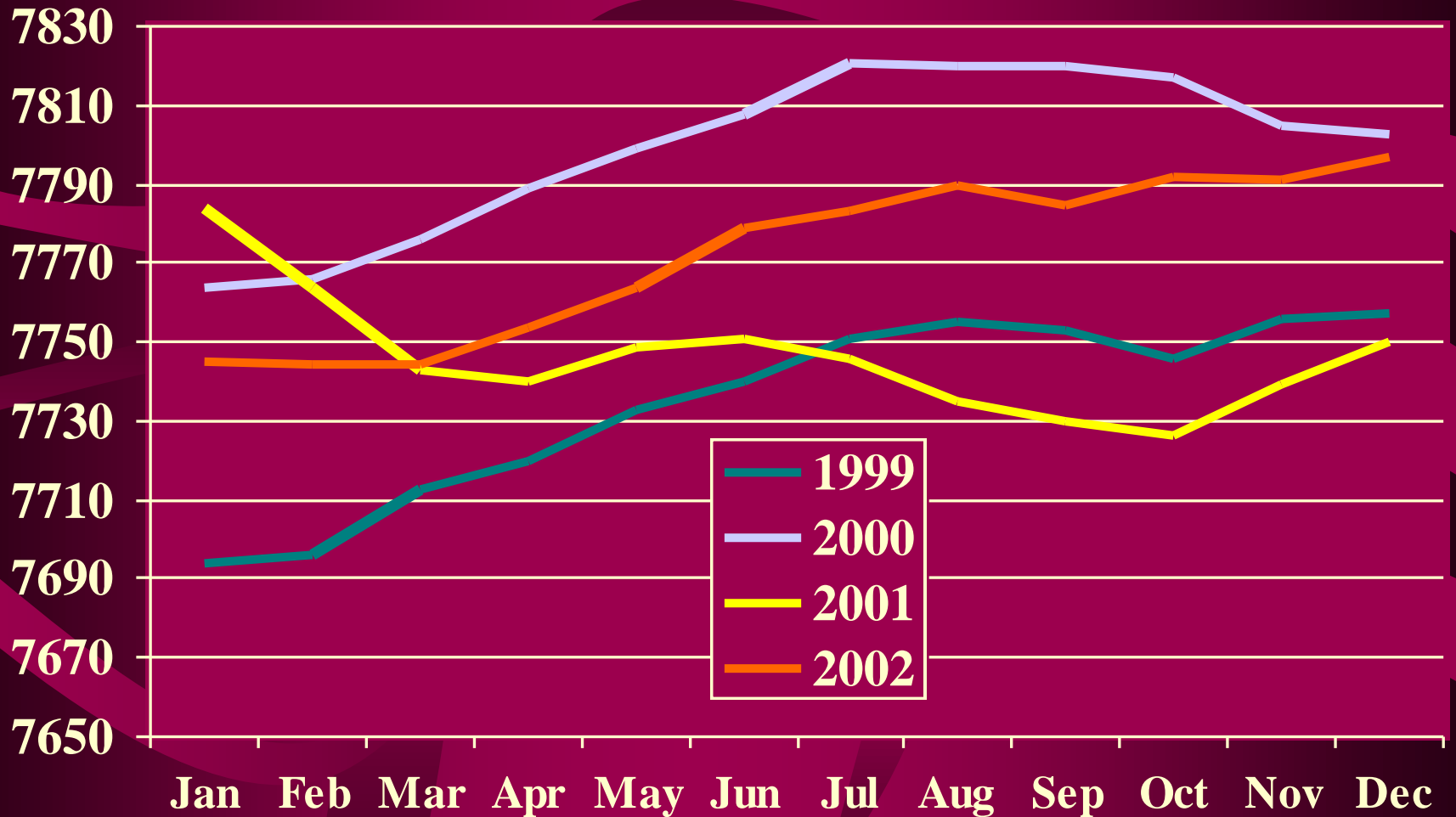
# Supply & Utilization

*(milk equivalent, fat basis)*

	1996*	1997	1998	1999	2000*	2001 <sup>a</sup>	2002 <sup>b</sup>	2003 <sup>c</sup>
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Cows Numbers (thous.)	9,351	9,258	9,158	9,156	9,206	9,115	9,137	9,000
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Marketings	152.8	155.2	156.0	161.4	166.3	164.1	168.4	168.0
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Imports	2.9	2.7	4.6	4.8	4.4	5.7	5.5	5.3
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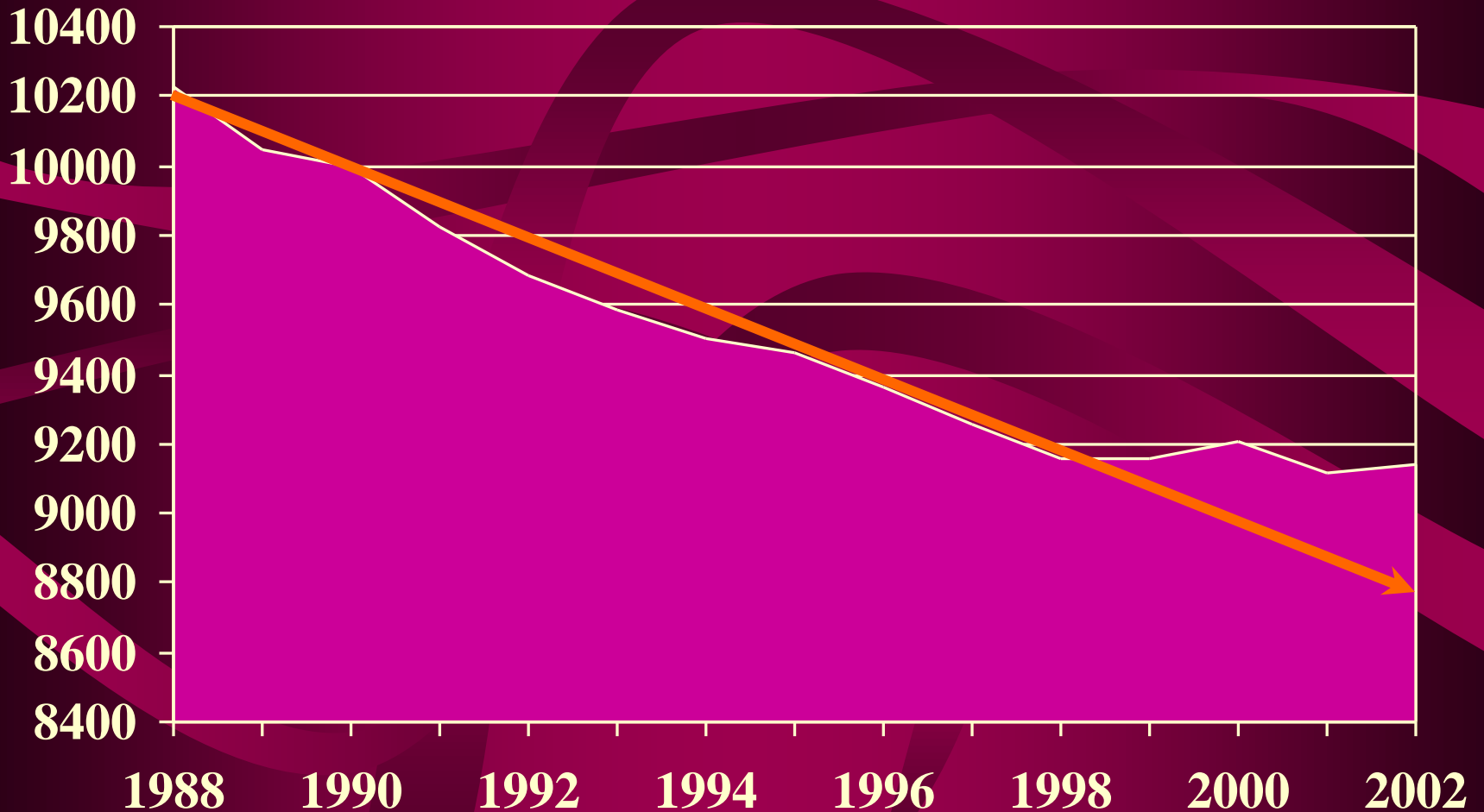
# 20 States Number of Cows

*(thousands)*

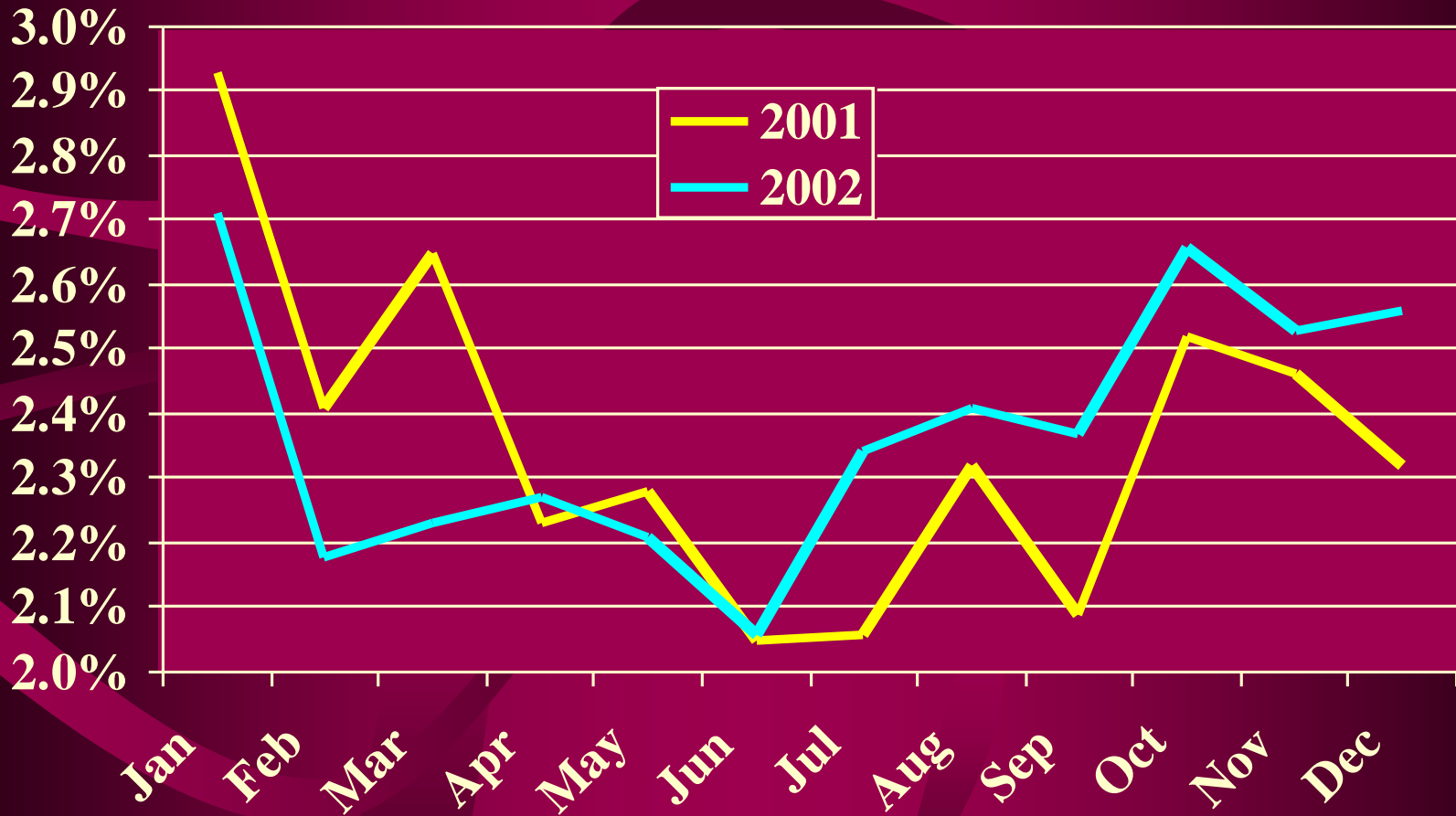


# U.S. Number of Cows

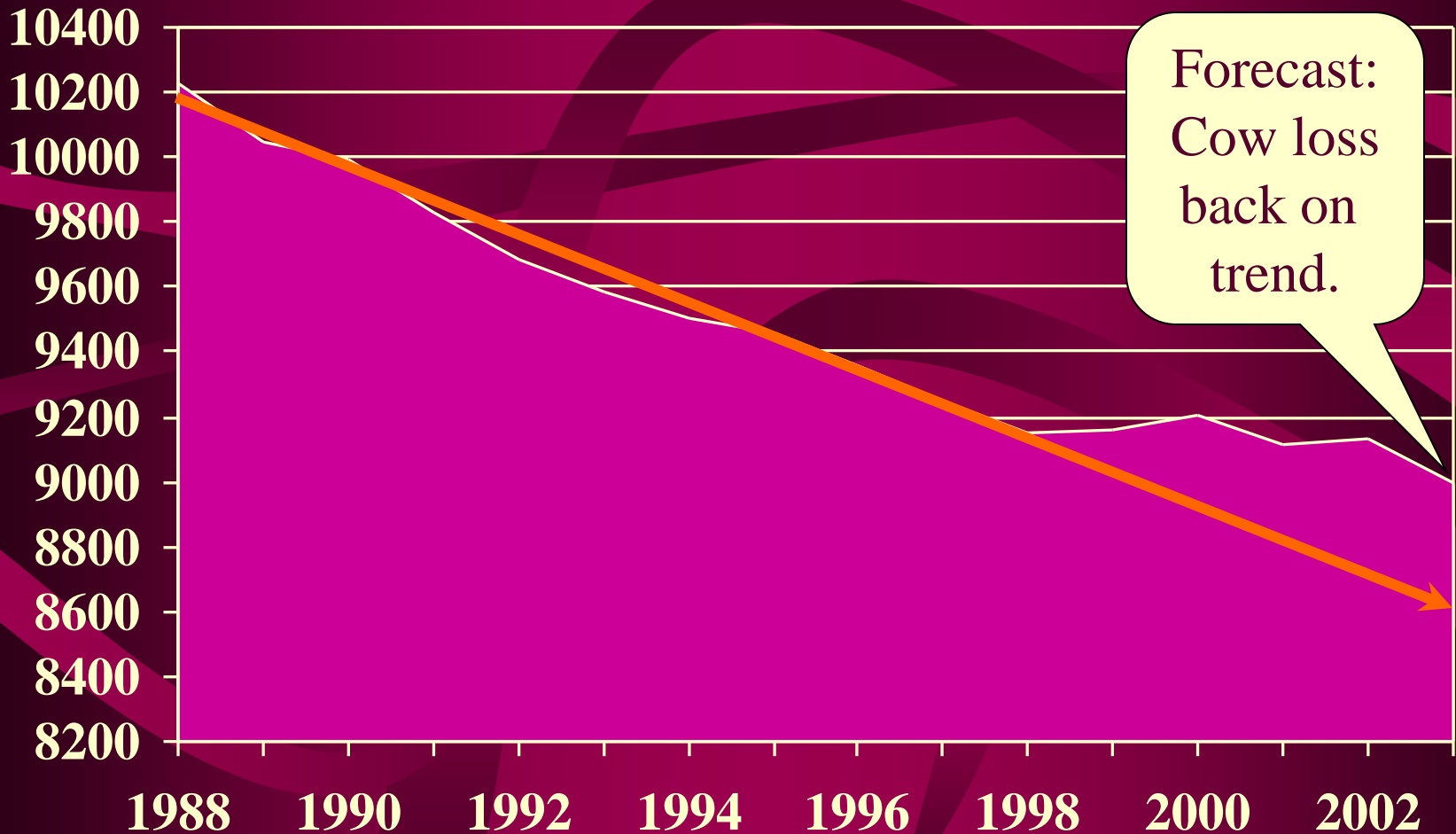
*(thousands)*



# Percent of Cows Culled from the U.S. Herd

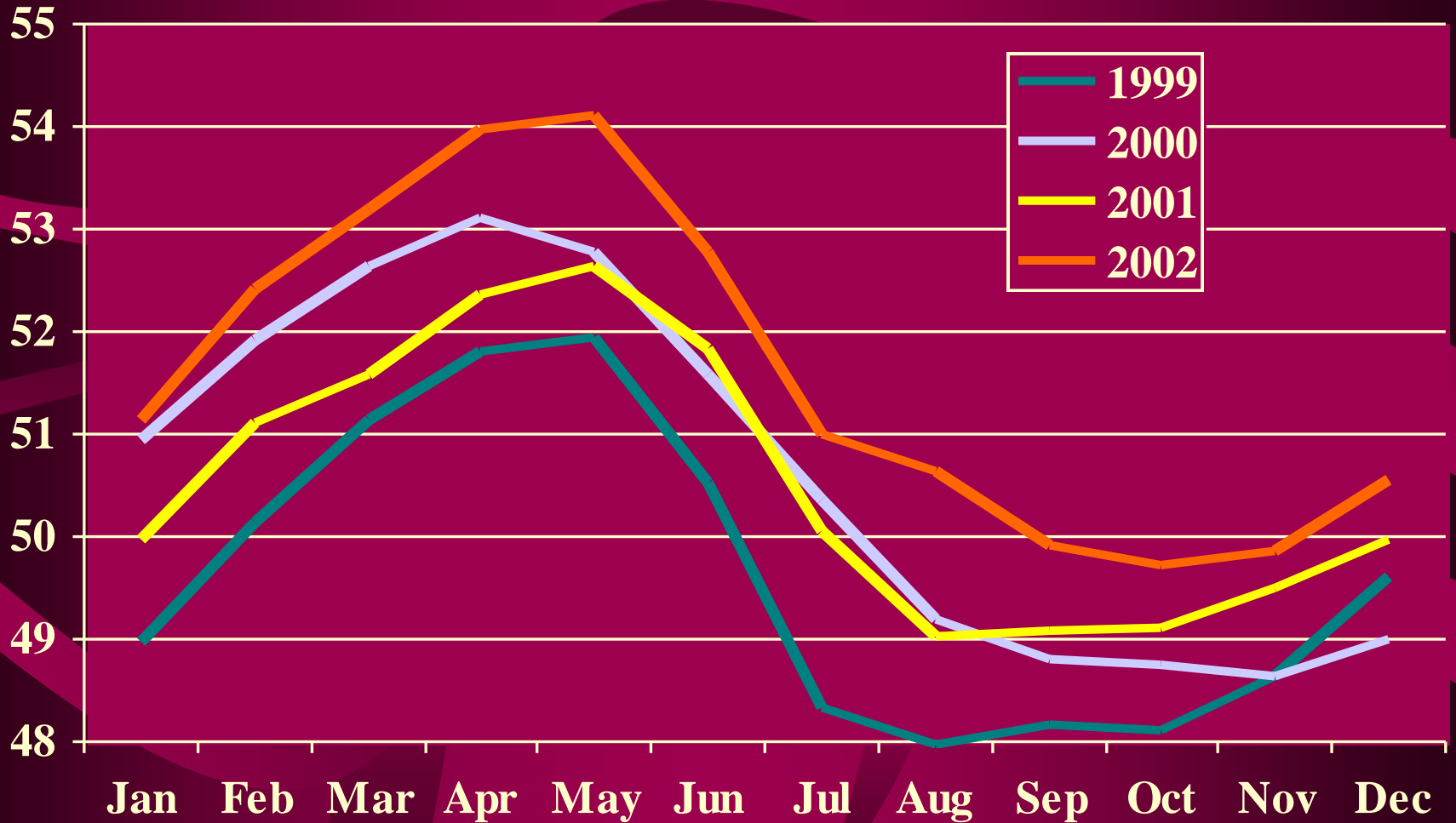


# Projected U.S. Number of Cows (thousands)

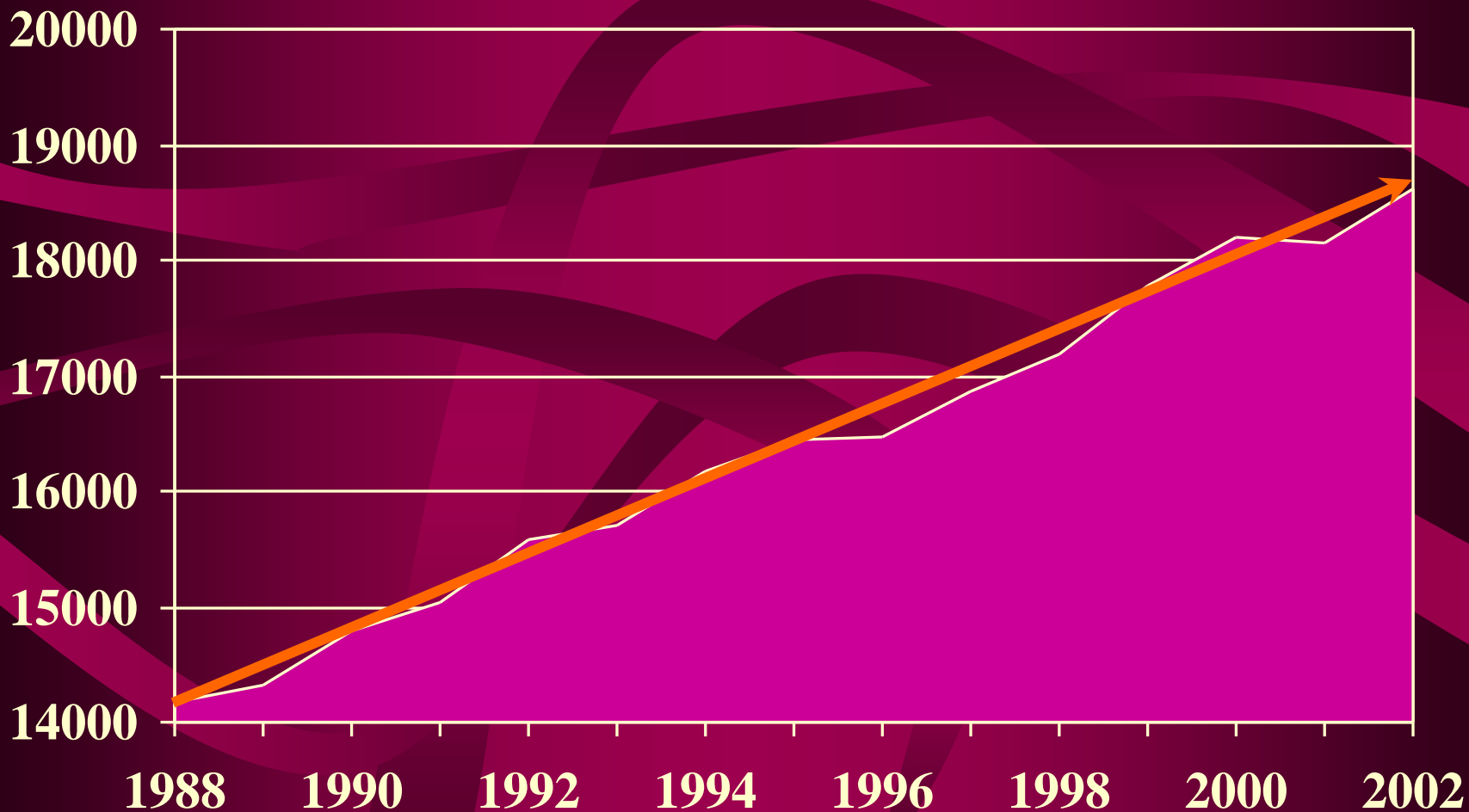


# 20 States Milk per Cow

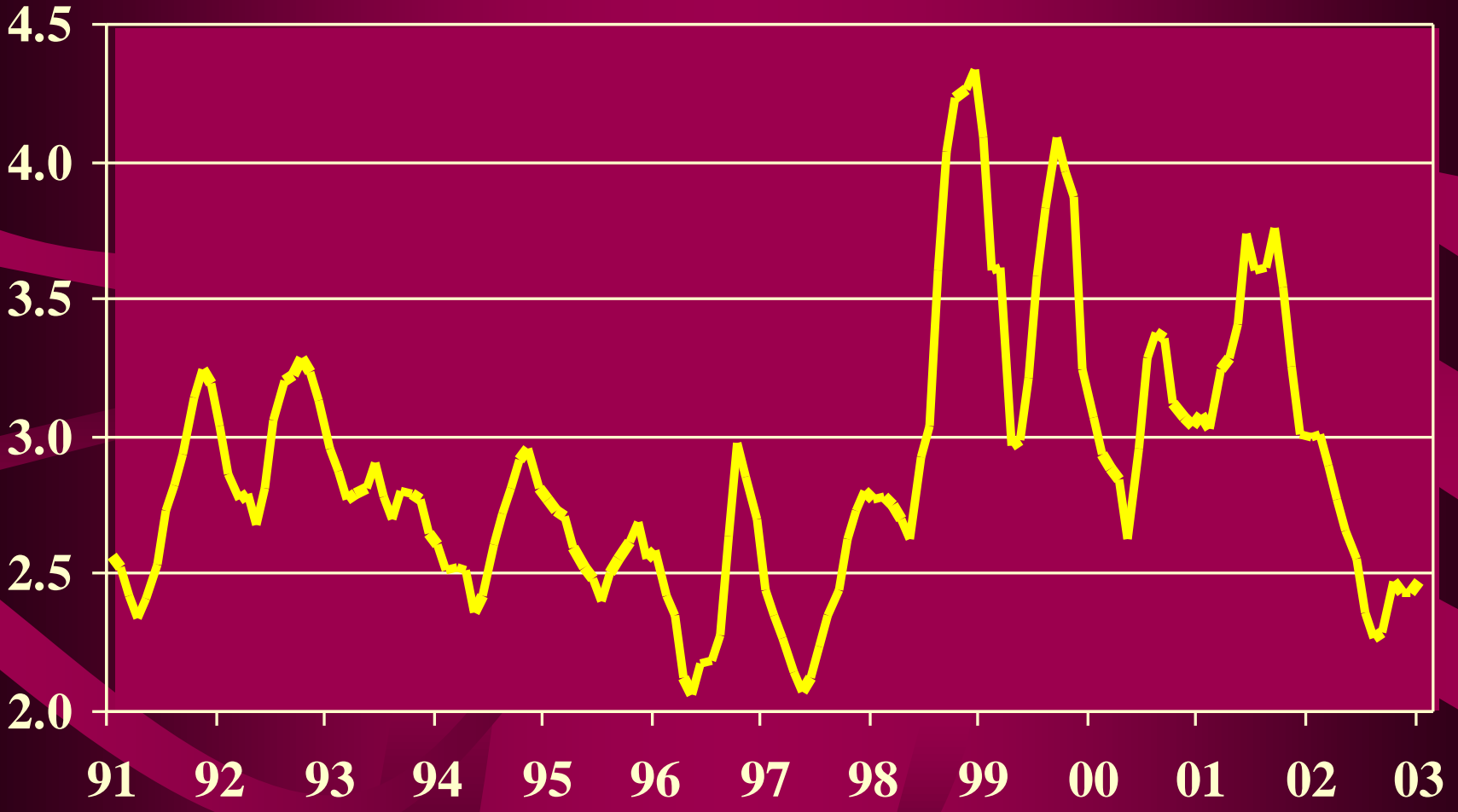
*(pounds per cow per day)*



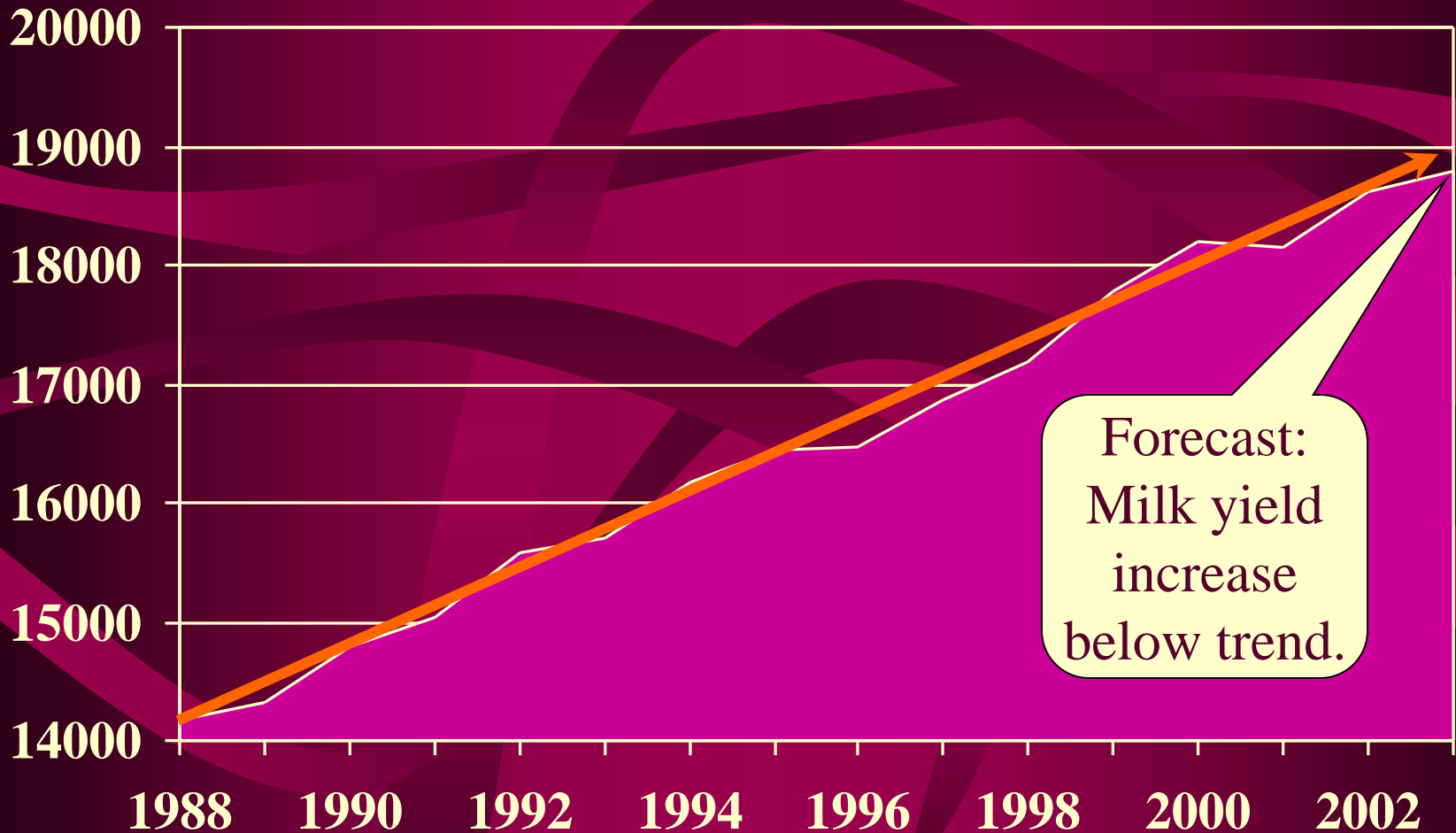
# U.S. Milk per Cow per Year



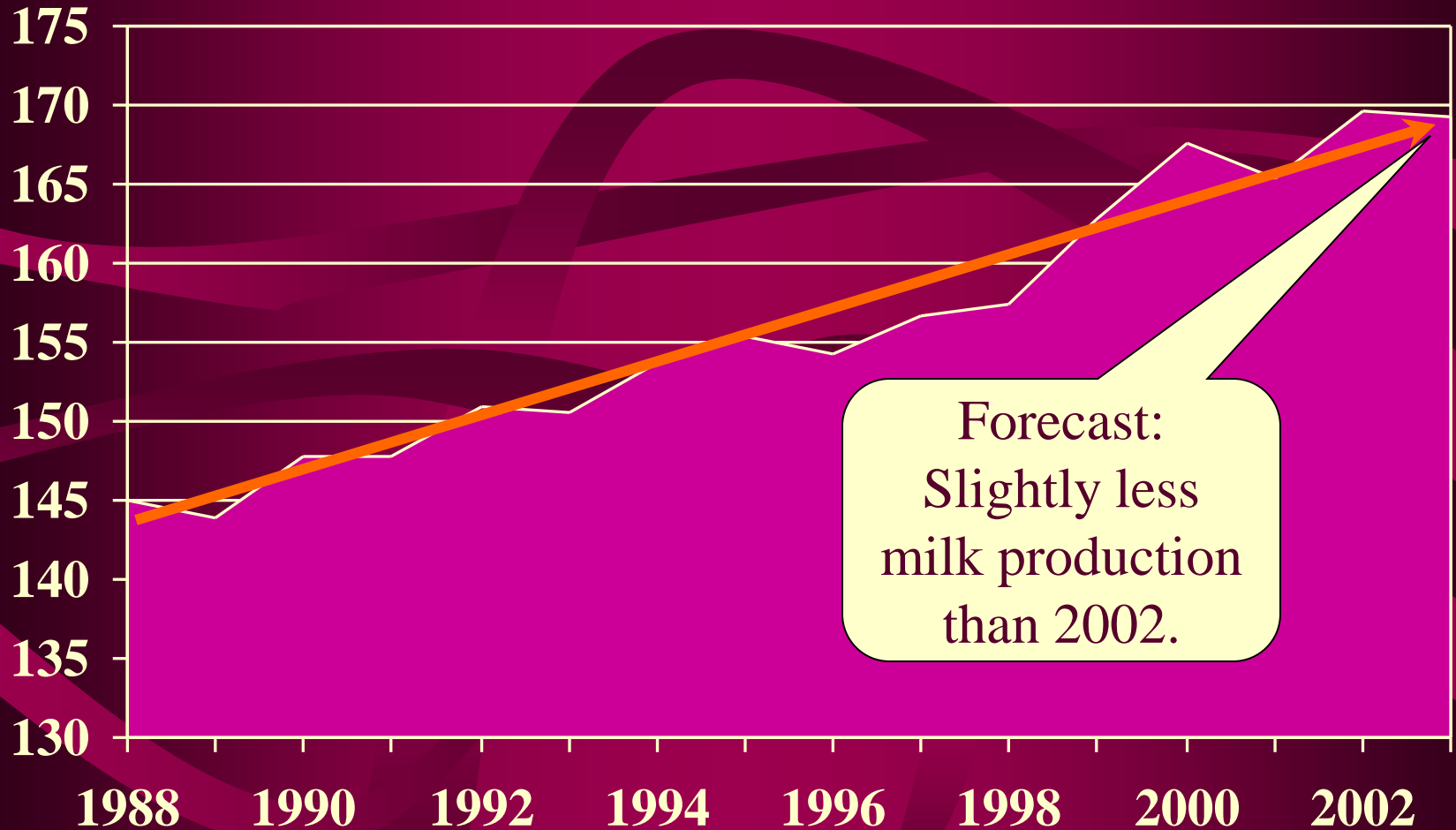
# U.S. Milk-Feed Price Ratio



# Projected U.S. Milk per Cow per Year



# U.S. Milk Production



# Supply & Utilization

*(milk equivalent, fat basis)*

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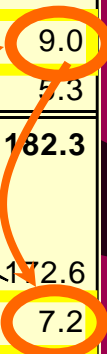
Forecast:  
Farm use is  
insignificant but  
declining.

# Supply & Utilization

*(milk equivalent, fat basis)*

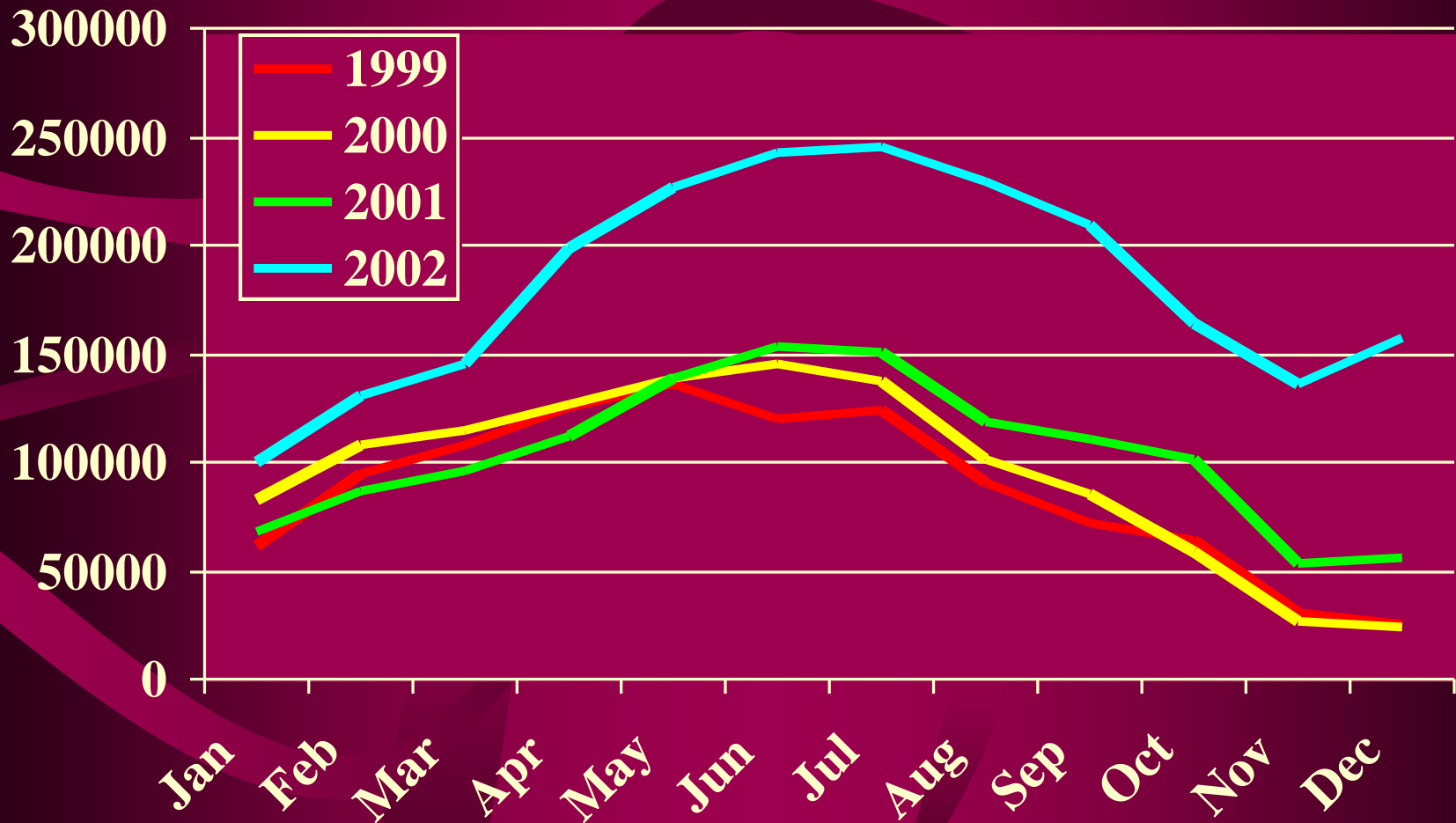
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Forecast:  
Stocks are too high. They must come down.



# Commercial Stocks of Butter

*(in thousands of pounds)*



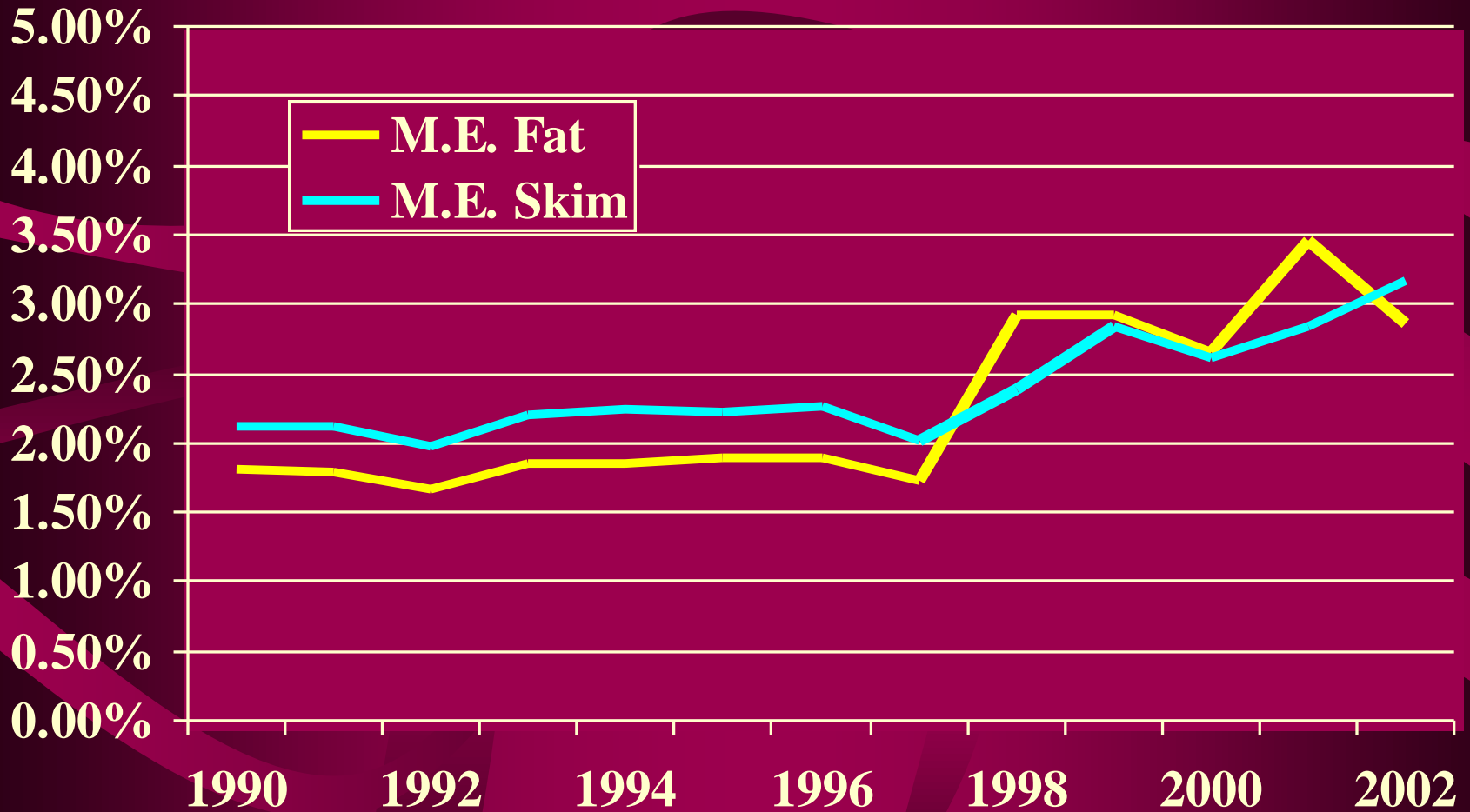
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Forecast:  
Imports will  
decline modestly.

# Import Levels as a Percent of Milk Production



# Supply & Utilization

*(milk equivalent, fat basis)*

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Forecast:  
Subsidized exports  
will increase  
modestly.

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**Forecast:  
CCC purchases  
on a fat basis,  
will increase.**

# “Tilt” is an Important Consideration

- “Tilt is the relationship between the CCC purchase prices for butter and nonfat dry milk.
- Tilt was changed in May, 2001 and again on November 15, 2002. (*butter prices were raised 19.52¢ and NDM prices lowered 10¢*)
- The government was holding an accumulated 1.3 billion pounds of NDM
- This will make imported solids less attractive

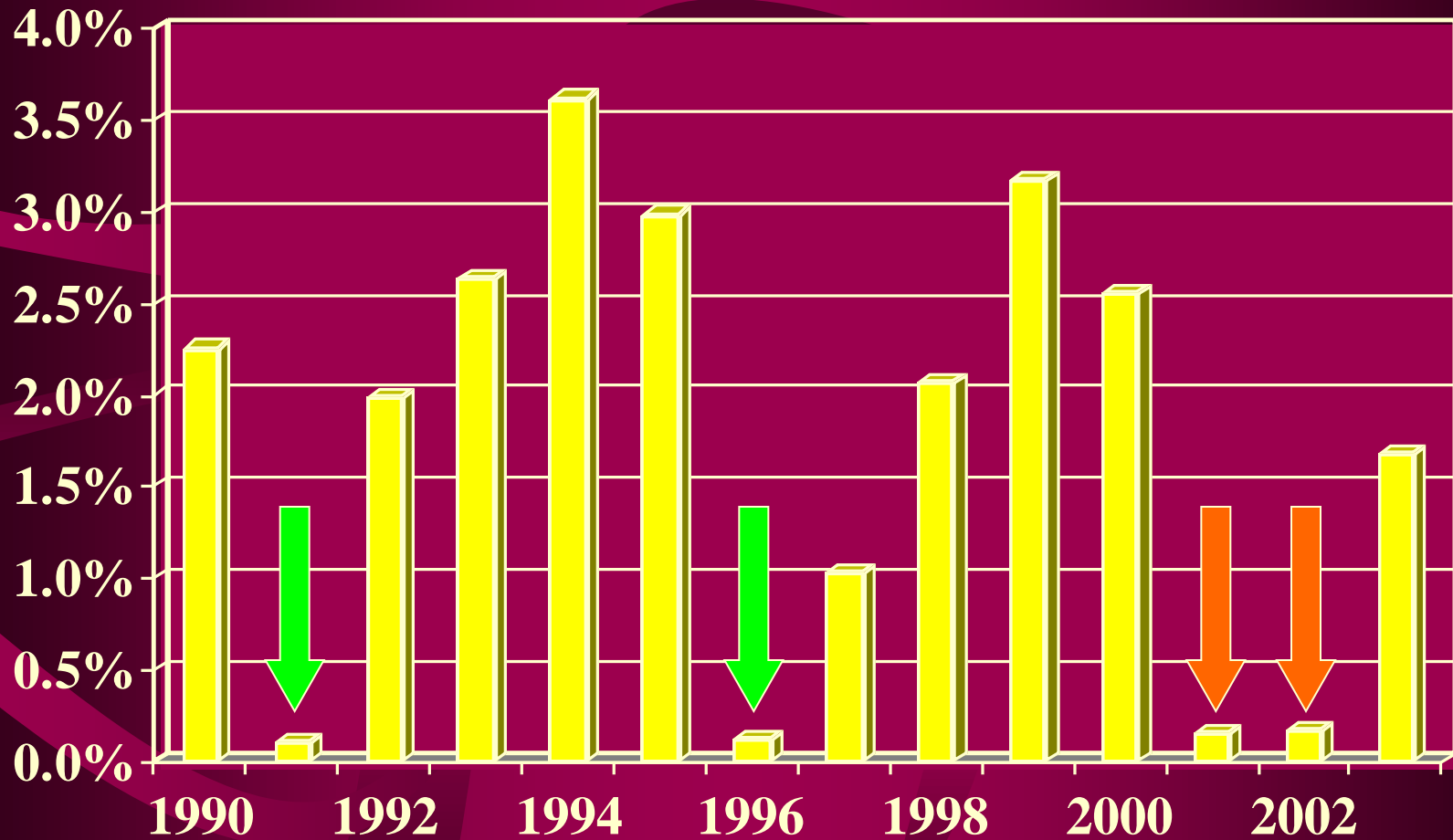
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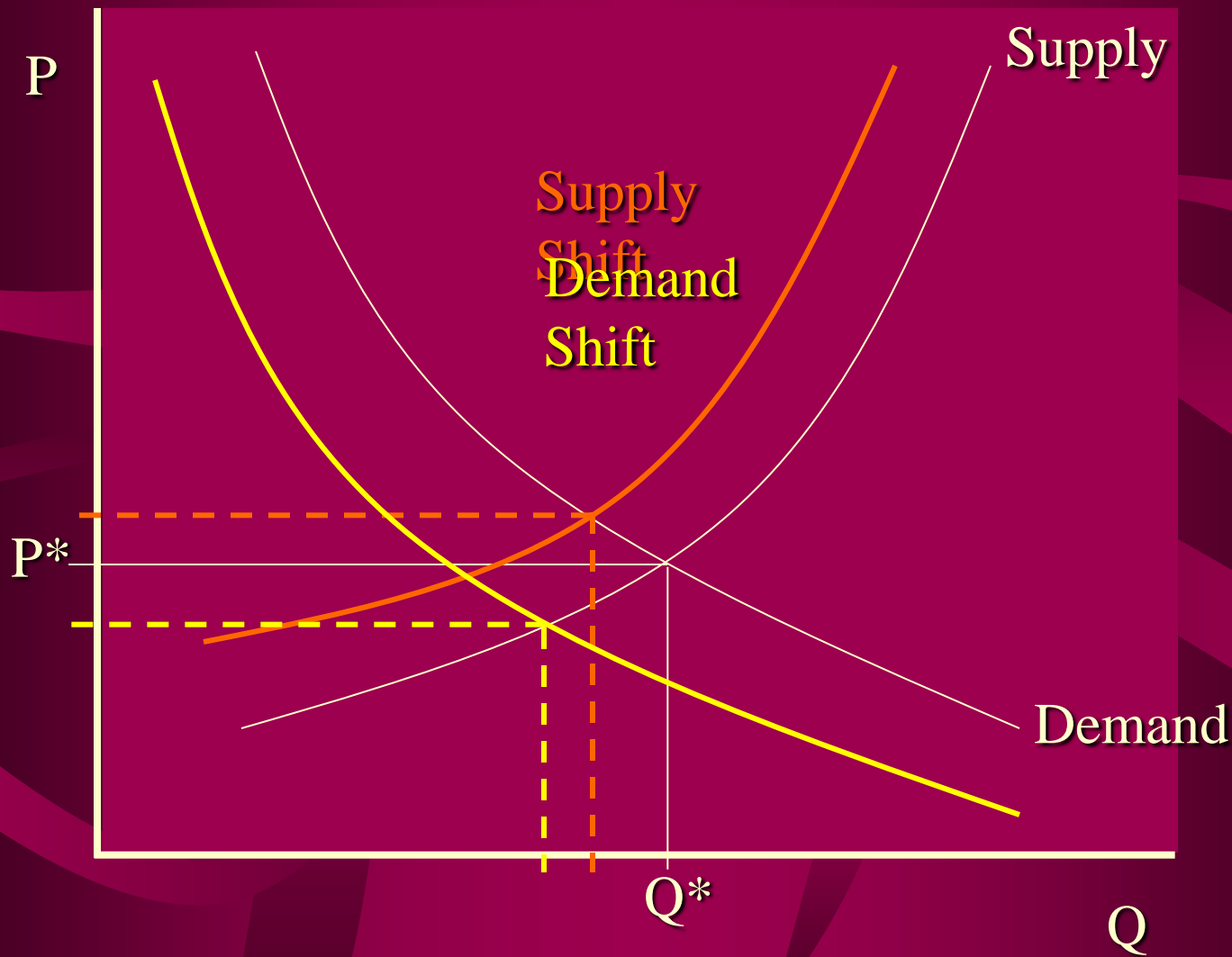
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Forecast:  
Modest growth  
in commercial  
disappearance.

# Percent Change in Commercial Disappearance



# Demand Shift vs. Supply Shift?



# Consumer Confidence

*(Index of Expectations)*



# Supply and Utilization Summary

- Modest decline in milk production
  - Fewer cows (low milk prices this year)
  - Modest growth in milk per cow (higher feed costs)
- Modest decline in imports
- Commercial stocks must decline (primarily butter)
- Government purchases may be up somewhat
  - More butter and cheese, less NDM
- Modest increase in DEIP exports (on a butterfat basis)

# My Class III and Class IV Forecast



# Boston Uniform Price

	2001	2002	2003
Jan	\$13.76	\$13.81	\$12.28
Feb	\$13.62	\$13.48	\$12.39
Mar	\$14.50	\$13.05	\$12.51
Apr	\$15.24	\$12.94	\$12.72
May	\$16.32	\$12.63	\$12.92
Jun	\$17.08	\$12.38	\$13.27
Jul	\$12.21	\$12.05	\$13.91
Aug	\$12.53	\$12.16	\$14.14
Sep	\$12.76	\$12.20	\$13.99
Oct	\$12.04	\$12.40	\$13.63
Nov	\$15.28	\$12.31	\$13.50
Dec	\$13.72	\$12.24	\$13.27
Average	\$15.67	\$12.64	\$13.21

Forecast:  
Up almost  
60¢ per cwt.

# Other Considerations...

- MILC payments
  - Averaged \$1.21 in 2002
  - Projecting an average of \$0.87 in 2003
- Over Order Premiums
  - Look as though they have dropped by about 50¢ in 2002
  - May see some recovery in the Fall of 2003
    - Perhaps 25¢
- Tilt will be modestly price reducing (perhaps 5¢)
- Final decision on Class III/IV pricing
  - Modestly price enhancing (perhaps 12¢)

# In Summary...

- 2003 will see price improvement
  - More in the second half of the year
- MILC checks will help
  - Especially smaller farms
- Farms are learning to accommodate price volatility
  - Tremendous pre-purchases of feed and other inputs in 2001 have kept producers in much better financial shape through a very poor price year.