The Milkweed

Dairy's best information and insights

Issue No. 357, April 2009

Many Indicators Point to Tighter Dairy Supply-Demand

by Pete Hardin

Properly skeptical after what they're being dragged through, U.S. dairy farmers won't believe milk prices financially are going to improve until they see actually see the money in their milk checks.

That said … *The Milkweed* sees numerous factors coming together to improve farm milk prices faster and higher than most "experts" imagine. Across the board, dramatic factors are at work that should result in significantly higher dairy commodity and farm milk prices. Here's our analysis:

Stronger fluid milk sales. Since early January 2009, fluid milk sales in many parts of the country have strengthened. Increased fluid milk demand is benefits major changes in American's dietary habits: more meals prepared at home. When persons eat at home, milk is more frequently their beverage … and milk is commonly used as an ingredient in numerous home-prepared foods. In some markets, consumers have seen decreased prices for gallons of retail milk at the supermarkets, as processors and retailers have passed through some of their lower milk costs. In other markets where milk prices have not significantly declined during 2009's first quarter, some parties between the farmer and consumer are committing grand larceny. (See related article, page 2 this issue.)

Strong retail cheese sales. Many of the same factors boosting fluid milk sales are also improving supermarket cheese sales. More meal preparations at home mean more retail cheese purchases – as an ingredient in prepared meals, as sandwich filler, or just plain straight-up on crackers. In just three months, cheese sales have turned around from a couple percentage points lower (than year-ago figures) to one percent higher. That's a big turnaround during the December 2008-February 2009 period!

Declining U.S. milk production. U.S. milk producers are reeling from low milk prices' devastation. Our nation's dairy productivity is threatened by recent month's price events. Production is trending down. Take California – the nation's largest dairy state – as an example. Look at the past four reported months' milk output trends: November 2008 (-0.3%), December 2008 (-0.8%), January 2009 (-1.4%), February 2009 (-2.4% – adjusted for the extra day in 2008). That four-month trend represents a near doubling of the decline each month, from November through February!

Don't be fooled by some of those western states that have showed big milk production gains in recent months, like Texas, New Mexico and Colorado. Many producers in those states are suffering severe drought and cash flow maladies.

Across much of the nation, milk production will decline due to many financial stresses on milk producers.

Severe western states' drought. Varying degrees of serious drought are impacting large regions of the American West. California's severe drought – deep into its third year – is getting most of the publicity. But areas of other key dairy states – like Texas and Colorado – are also being pinched by serious drought. In many areas, agricultural producers are competing with urban and industrial interests for scarce water supplies. In such situations, agriculture loses. Alfalfa – a key crop for dairy – sees production in California threatened by lack of water. Pay close attention to California's forage production/prices. Reports from California tell of alfalfa growers so angry about low prices for which they can currently sell their crop (due to rock-bottom milk prices) that the alfalfa growers are thinking about letting subsequent cuttings go to seed!

Surplus milk powder goes to nutrition programs. In late March, USDA Secretary Tom Vilsack instructed the Commodity Credit Corporation to designate all 200+ million pounds of surplus nonfat dry milk to be dedicated to nutrition and feeding programs. That action "clears the deck" of surplus milk powder. In turn, commercial prices have started rising. Global prices for dairy protein powders are rising. Global events move U.S. prices, for better or worse.

UPCOMING U.S. BEEF SHORTAGES WILL BOOST DAIRY CULL DEMAND!!! As *The Milkweed* noted in last month's issue, USDA forecasts that this nation's commercial beef industry will see the **lowest number of calvings since 1951.** 1951? Harry Truman was U.S. president Marilyn Monroe was young. The U.S. population was less than half of today's total.

Sometime between late spring 2009 and late summer, the U.S. meat packers are going to panic and start bidding up prices for cull dairy cows. We could see live-weight prices for dairy culls go to all-time peaks. And big cull checks would certainly help solve any "surplus" milk production that may remain by the time the bite of western states' drought starts to set in.

So far in 2009, the big flow of dairy culls to slaughter has covered up a bigger trend: low beef cattle numbers and tight supplies of beef animals for slaughter.

U.S. consumers have been on a "hamburger diet" in late 2008 and so far in 2009. Top-end cuts of beef aren't selling, but hamburger is flying off the store shelves. Predictable, serious shortfalls in U.S. beef supplies mean significantly higher dairy cull prices ahead. The only question is when the meat buyers fall into a panic over supplies.

CONCLUSION:

We cannot say when dairy farmers will see significant improvement in their prices, nor can we predict "how high" those prices will climb. Many of the factors influencing U.S. dairy supply-demand are in place for a huge improvement in dairy commodity and farm milk prices.

If anything, dairy farmers have been ill-served by the dairy pricing and marketing systems. Such putrid, late 1970s-style milk prices as dairy farmers have seen for February and March 2009, have not just created buckets of red ink on U.S. dairy farms. These ruinous prices – results of a crooked, corrupt dairy pricing system – have broken the spirits of the nation's greatest optimists.

No way to feed a nation …

Inside This Issue