

# The Milkweed



*Dairy's best information and insights*

Issue No. 363, October 2009

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## U.S. Milk Prices: No Place to Go But UP

by Pete Hardin

How high will U.S. milk prices rebound? How tight will our nation's farm milk supplies become?? Will dairy farmers get an honest price for their milk in the coming upswing???

Analyzing the nation's future milk production potential, at this time, is similar to trying to figure out how many rail cars will remain on the track after the train wreck in progress eventually slides to a halt. For a large number of reasons, *The Milkweed* projects exceedingly tight farm milk supplies in the coming year, except *perhaps* in the Upper Midwest.

Many complex factors are swirling around dairy – making solid forecasting difficult.

Here are the major factors to watch:

**How many dairy farmers (and cows) will survive?** About 10% of California's milk producers are either in, or on the verge of, financial foreclosure. After taking a severe financial drubbing on dairy farm bankruptcies and write-downs (with more to come), financial institutions are extremely leery of lending out any more money to dairy operations. In fact, some farmers who've survived so far may find that their lenders get "cold feet" and pull the plug on financing, once dairy livestock prices strengthen in a few months.

Other dairy farmers may decide that the financial ups and DOWNS of this crazy, crooked milk business are no longer tolerable, once milk prices improve.

**Inadequate feed supplies/quality in several regions.** Another major consideration: financial stress on failed business models that will pull down certain types of operations that are still milking cows, but won't be milking them much longer. Example: take the "Vreba Hoff"-type dairies that have sprouted several dozen such examples in Michigan, northwest Ohio and Indiana. These operations – many of which look like financial and environmental fiascos from a distance – were based upon dairy investors from The Netherlands buying "turn-key" operations that featured hundreds (or thousands) of cows on small acreage. Those dairies relied heavily on purchased feed inputs. Word from that region is that several dozen of these types of dairies have been unable to purchase corn silage this fall. Local corn silage is the best belly-fill a big dairy can stock away. That feed must be purchased in late summer/early fall, when moisture content of the corn plant is appropriate. Otherwise, the corn is best allowed to dry down for harvest as grain. In

these times, suppliers of corn silage to such dairies are nervous about payment and would be crazy to accept terms other than cash-in-advance. Thus, numerous reports of numerous big dairies unable to acquire corn silage are the death knell for many such operations. Perhaps such operations have a few weeks or a couple months (at most) of carry-over feed supplies.

So ... just in the Michigan/Ohio/Indiana region, the specter of three dozen (or so) large dairies unable to secure corn silage means there will be upwards of 50,000 milk cows set to move in coming months. And most of those cows will soon be surrounded by "special sauce, lettuce, pickles onions between a sesame seed bun." Such a slug of dairy cattle headed to slaughter may be more than slaughter facilities can handle, on a short-term basis. Certainly low-ball cull prices lie directly ahead.

All of this background information leads to the following conclusion: U.S. farm milk production is going to be impaired, perhaps severely impaired.

The Northeast presents another feed challenge to dairy farmers. Wet weather during 2009 leaves a generally poor forage crop and immature corn (for

both silage and grain). How will Northeast dairy farmers maintain their herds' output this winter???

**Dairy demand fairly strong – Mozzarella coming back!** The U.S. dairy industry is benefiting from stronger retail sales, due to the nation's troubled economy. Retail dairy product sales in 2009 show spectacular gains, offsetting loss of restaurant and fast food sales. Retail cheese and fluid milk sales are setting recent decades' records for growth. Why? Because more families are making meals at home, and using liberal amounts of cheese and fluid milk. In the past few months, Mozzarella production is staging a comeback – a sign that food service sales are again improving – and that consumers are making more pizzas at home. Why will dairy promotion groups really hop on this astounding dairy trend?

**Weakening dollar = less imports?** The U.S. dollar has been in free-fall in recent weeks. Global investors are discounting the U.S. dollar, because of

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this nation's bedrock financial instability, which has been eroded by years of horrible federal deficits. For dairy, a far weaker dollar translates into few imports and more export opportunities. But a weaker dollar also drives up costs of all dairy farm (and dairy processing) inputs that are based upon global prices: grain and energy being two prime examples.

The weaker U.S. dollar means perhaps that big food processors (like Kraft Foods) will find less efficiency using "outsourced" dairy commodities.

**Global cream & whey prices higher than U.S. values.** Some dairy marketers are surprised that U.S. prices for butterfat and whey are not higher than current values. That's because in Europe, whey prices are nearly 40 cents per pound, and cream is scarce. With the cheaper U.S. dollar in place for some time ahead, this nation will again emerge as a global dairy commodity supplier. Tight global supplies promise to pull up our butter and whey prices. That factor will enhance farmers' milk prices.

**Change of dairy marketing's "Old Guard."** For several decades, the only change in milk pricing/marketing has been that the fat hogs at the trough have only become more ravenous and bully-like.

Refocused attention on dairy competition issues promises, over time, to make the entire dairy industry aware of just how much money has been lost and stolen, as the money flow comes back from the consumer to the dairy farmer.

**What's ahead???** For the upcoming year, *The Milkweed* projects near-impossible milk supplies (for basic needs) in several regions of the country: California, Southwest, Southeast and Northeast. The Upper Midwest should revert to its former role as a supply reservoir for some other regions, IF the row crops (corn, soybeans) finally matured before the first killing frosts hit in early October.

Milk will be tight. Hamburger will be cheap ... for a while. We make no predictions about when and how high farm milk prices will climb ... except to say that dairy farmers need a sustained, significant boost in prices. Survivors will look back at this decade, some time hence, and puzzle how so much money could be drained from dairy farmers' legitimate income by such an array of crooked schemes!