

The Milkweed

Dairy's best information and insights

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2016: Uncertainty for Dairy Producers

by Pete Hardin

Yes, 2016 is off to a dismal start, price-wise. The “experts” opinions cite futures prices stretching out through much of 2016 that will yield 2015-style farm milk prices. And dairy livestock prices are generally down, from first-half 2015 levels.

Yes, we’ll concede that the first couple months of 2016 will probably continue stagnant dairy commodity and farm milk price trends. But *The Milkweed* strongly urges dairy producers to look beyond the short-term, because the U.S. dairy has a number of challenges to production and good trends happening that “experts” (and their Chicago Mercantile Exchange-based futures/options gambling games) do not recognize. No, we’re not predicting another 2014, when “expert” missed the Class III (cheese) milk price averages by about \$6.00/cwt. But we cannot follow the pack mentality that is writing off 2016 farm milk prices and profits as a repeat of 2015. Why?

Butter: Demand for butter on the table and used in meal preparation, both at home and in restaurants, enjoys great momentum. Butter is recognized for its taste and nutrition value. So where are the CME cash-settled butter futures for September/October 2016? In the \$2.00-\$2.10/lb. range. *The Milkweed’s* sources expect CME Grade AA butter prices to eclipse 2015’s peak of just over \$3.00/lb.

Weather challenges for California/Southwest: Two major dairy regions are struggling with a “double-whammy” —adverse weather and low milk prices. Severe, prolonged Drought and low dairy protein prices are pulling down California’s milk output. California dairies have shipped too many heifers out of state in the past year or two. And dairy protein powder prices — a key basis for California’s milk-pricing system — will be the last dairy commodity to see significant price increases from current levels, which are akin to mid-1970s powder prices.

Meanwhile, the eastern New Mexico/west Texas dairy region faces severe challenges as producers clean up following winterstorm *Goliath*. Estimated deaths of 30-35,000 milk cows are just the start of headaches for producers hit by that ferocious storm.

(See articles on pages 8-9 of this issue.) Producers must also struggle with tens of thousand injured animals. Many frost-bitten udders promise reduced milk production, vet and drug bills, plus milk quality problems in coming months. Deaths of young stock are believed to dramatically eclipse milk cow losses.

Thus, we project further declines in California and Southwest milk production. Elsewhere across the country, many dairy farm families are wondering how much longer they can keep on milking cows for red ink. An unfortunate structural change is occurring in the U.S. dairy industry. But “big boys” geared up to make lots more milk, imagining that the Asian export boom would continue for years. But China’s dairy demand from mid-2012 into early 2014 turned out to be a bust. Now, big co-ops are buffering the impact of low milk prices for super-sized dairy producers with volume premiums. That income transfer extracts income from small- and medium-sized dairy producers, dropping their milk incomes. In regions where farm milk is being regularly dumped into manure pits, why do major dairy cooperatives continue paying volume premiums and encouraging big dairies to expand cow numbers?

Dairy’s challenge is to quit flapping its gums about exports and sell more products, better products, more profitably to U.S. consumers. The money is in the domestic market place! Just look at the November 2015 Consumer Price Index (CPI) data for “Natural Cheese.” The CPI for Natural Cheese in November 2015 showed U.S. consumers paying \$5.43/lb. — that’s a two-cent *increase* over what consumers paid for natural cheese in November 2014 ... even though commodity cheese prices were substantially lower in November 2015 than the prior November.

That same basic farm-to-consumer economic inequity is found in hamburger and steak prices. On page 14 of this issue, Jan Shepel contributes an article, titled “Retail Hamburger & Steak Prices Remain Top Shelf,” that shows little decline in the CPI prices for hamburger and steak, even though slaughter cattle prices paid to producers have taken a dramatic tumble since fall 2014.



At Dutch Road Dairy (Muleshoe, Texas), Winterstorm *Goliath’s* 60 to 85 m.p.h. winds drove the 20-inch snowfall everywhere. Yes, all this van’s windows had been shut during the storm. Winterstorm *Goliath* killed an estimated 30,000 to 35,000 milk cows in the intense dairy region of eastern New Mexico and west Texas. Many more dairy animals were injured. Death losses to young stock eclipsed milk cow losses. See pages 8-9 for coverage. *Photo from Dutch Road Dairy.*

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