A Better Outlook...with a Couple of Asterisks

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Comments on the General Economy

10 Year Minus 2 Year Treasury Bill Spread

Shaded areas indicate U.S. recessions

Source: Federal Reserve Bank of St. Louis

fred.stlouisfed.org
U.S. Number of Cows

![Graph showing the number of cows in the U.S. from January to December for the years 2016, 2017, 2018, and 2019.](image-url)
U.S. Cheese Stocks

American Cheese Stocks

Some Optimism?

Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

1000s Pounds

850,000
800,000
750,000
700,000
650,000
600,000

2015
2016
2017
2018
2019
U.S. Butter Stocks

Butter Stocks

Some Pessimism?

1000s Pounds

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

2016 2017 2018 2019
Global Butter Prices

Butter Prices

- Oceania Butter
- EU Butter
- US Butter

Years: 2014 - 2019
Values: $1.00 - $4.00
Global Cheese Prices

Cheese Prices

- Oceania Cheddar Cheese
- US Cheddar Cheese

2014 - 2019

Cheese Prices in Oceania and the US from 2014 to 2019.
Prices and Weather are Having a Global Impact
Fluid Milk Sales Continue Slide

U.S. Fluid Milk Sales: Rolling Daily Average

Millions of Pounds

Fluid Thoughts...

- Recently, we’ve heard about the second major bankruptcy in the fluid industry.
- This looks like a segment of the dairy supply chain that isn’t healthy.
- Reflects many things
  - Thin margins
  - Declining sales due to
    - Competing beverages
    - Demographic headwinds
    - Changing preferences
- Does not reflect the overall health of the industry
It’s Not All Bad News

U.S. Per Capita Consumption

- American Cheese
- Other Cheese
- Yogurt
- Butter

Pounds per Person per Year

### Outlook Contributing Factors

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<th>Positive Factors</th>
<th>Negative Factors</th>
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<td>Slowing U.S. and World milk production</td>
<td>Prolonged trade negotiations</td>
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<td>Declining U.S. and world dairy stocks</td>
<td>Slowing GDP growth in some countries like China</td>
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<td>Relatively strong domestic economy</td>
<td>Weak economies in Europe</td>
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<td>Trade improvements ??</td>
<td>Germany, France, UK</td>
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<td>Coronavirus??</td>
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My Forecast...

Watch the “flush”—it will be the next key piece of information. If the flush is light (615 million pounds per day or less in April-May), expect buyers to bid up prices early and perhaps quite high. If it is heavy (620 million pounds per day or above), price strengthening will be slow for the year.
Watch the Flush!

U.S. Average Daily Milk Production

- Heavy Flush
- Neutral Production
- Light Flush

Jan-13 to Oct-19
My Forecast...

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- I am projecting that the 2019 All Milk Price will be up by about $2.36 and that it will continue to climb (absent recession) another $1.20 in 2020. We could hit $20 milk again next year.

- We’ve had a fundamental structural change in the dairy industry. The reasons are different than the 1980s, but I believe that the impact will have been about as great.

- Farm loss will have a long tail—It will take time to settle back into a new equilibrium.
Thunk!
That’s the sound of Coronavirus hitting the market.

- 4,500 confirmed cases
- 7,000 suspected cases
- 100 deaths
- Spreading rapidly
Thank You!