



A Better Outlook...with a Couple of Asterisks

Wisconsin Agricultural Outlook Forum, January 28, 2020



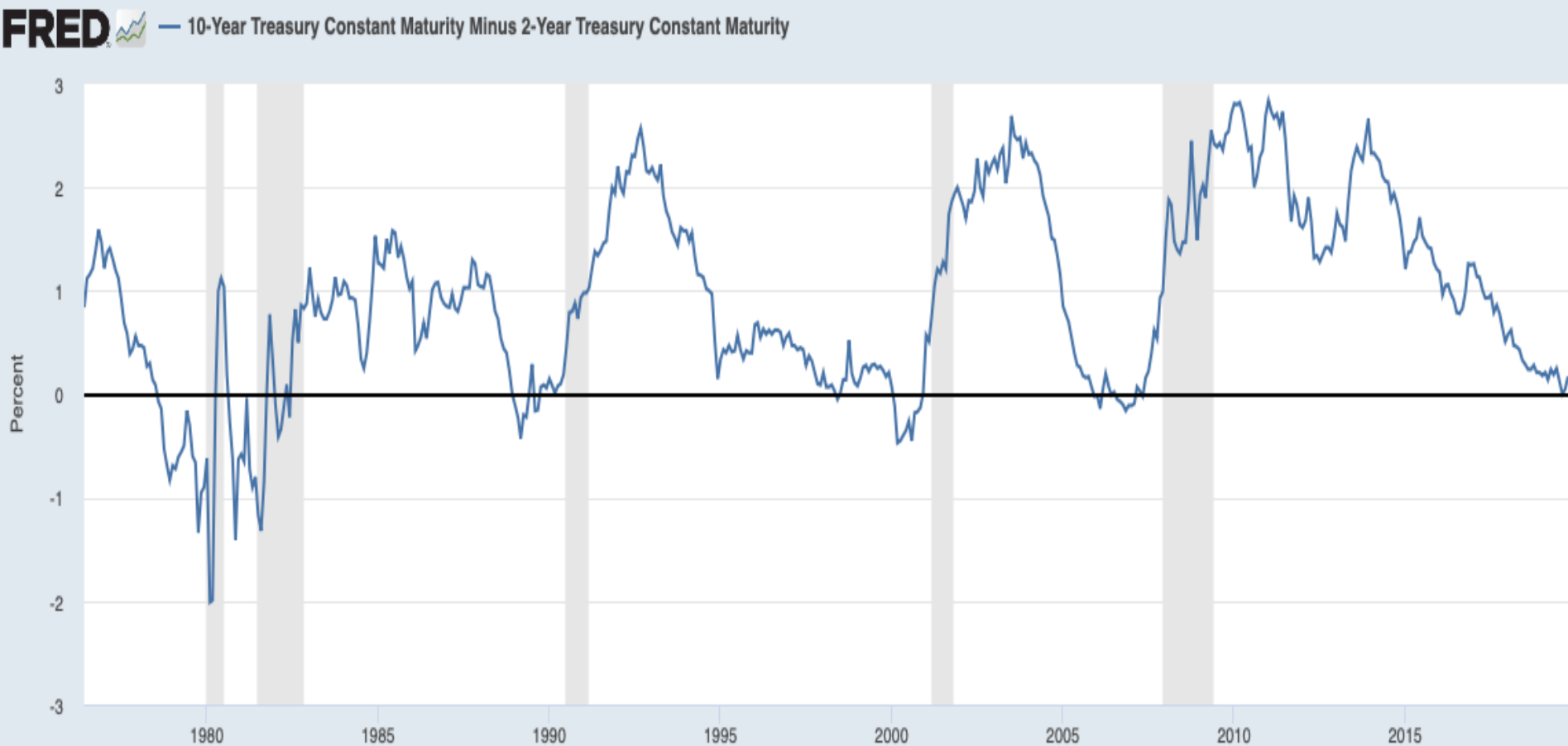
THE UNIVERSITY
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WISCONSIN
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Director of Dairy Policy Analysis

Comments on the General Economy

10 Year Minus 2 Year Treasury Bill Spread

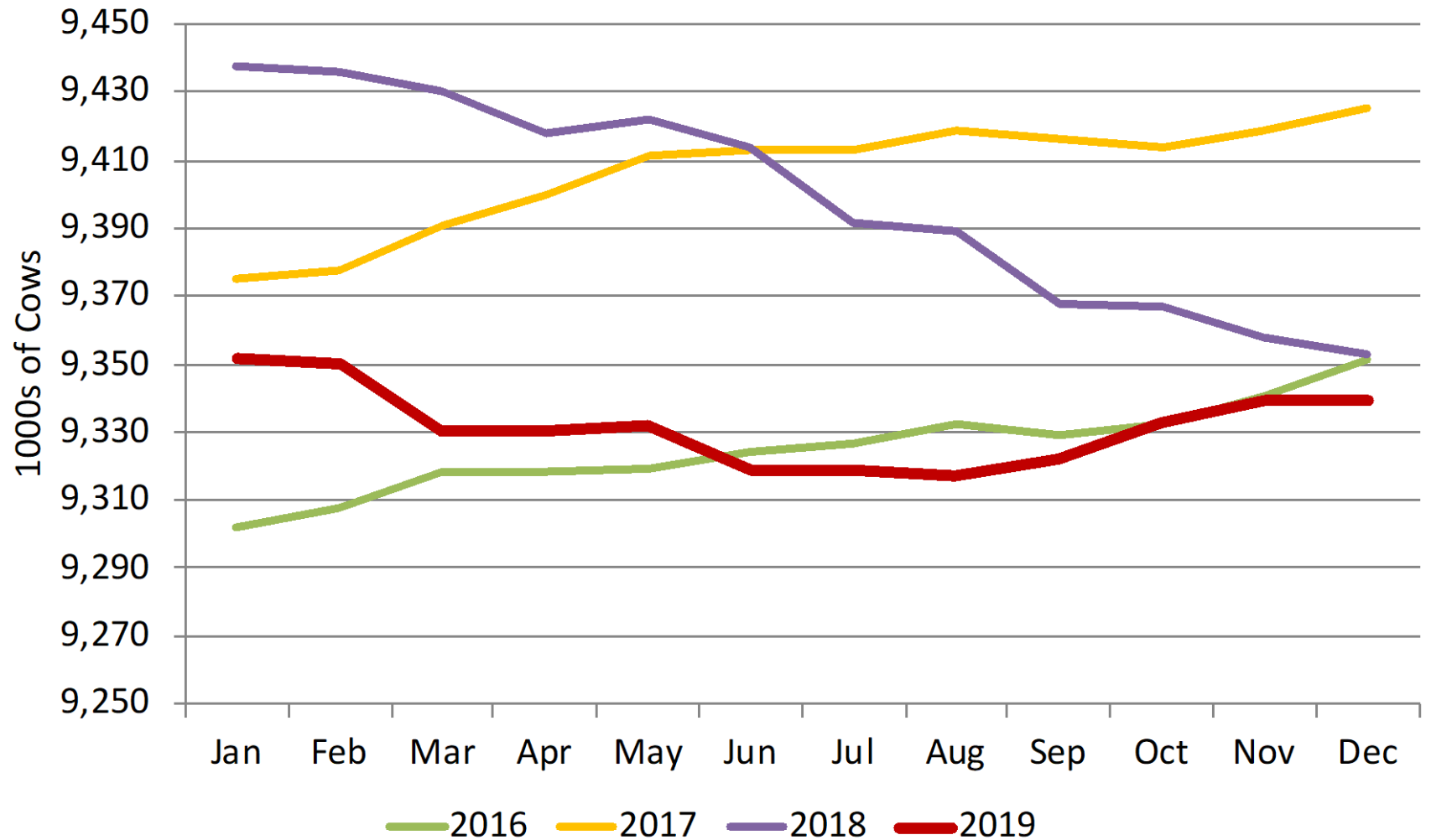


Shaded areas indicate U.S. recessions

Source: Federal Reserve Bank of St. Louis

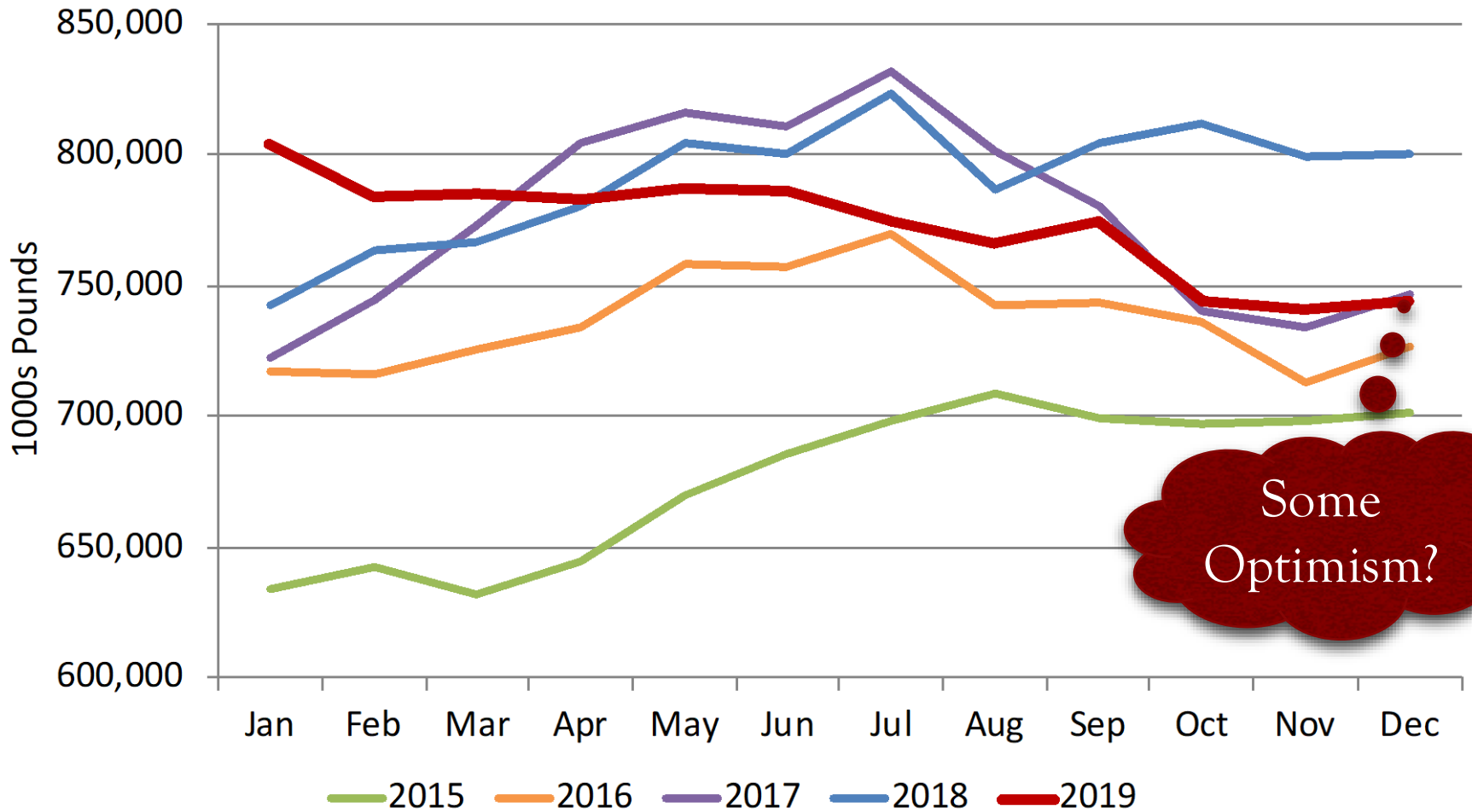
fred.stlouisfed.org

U.S. Number of Cows



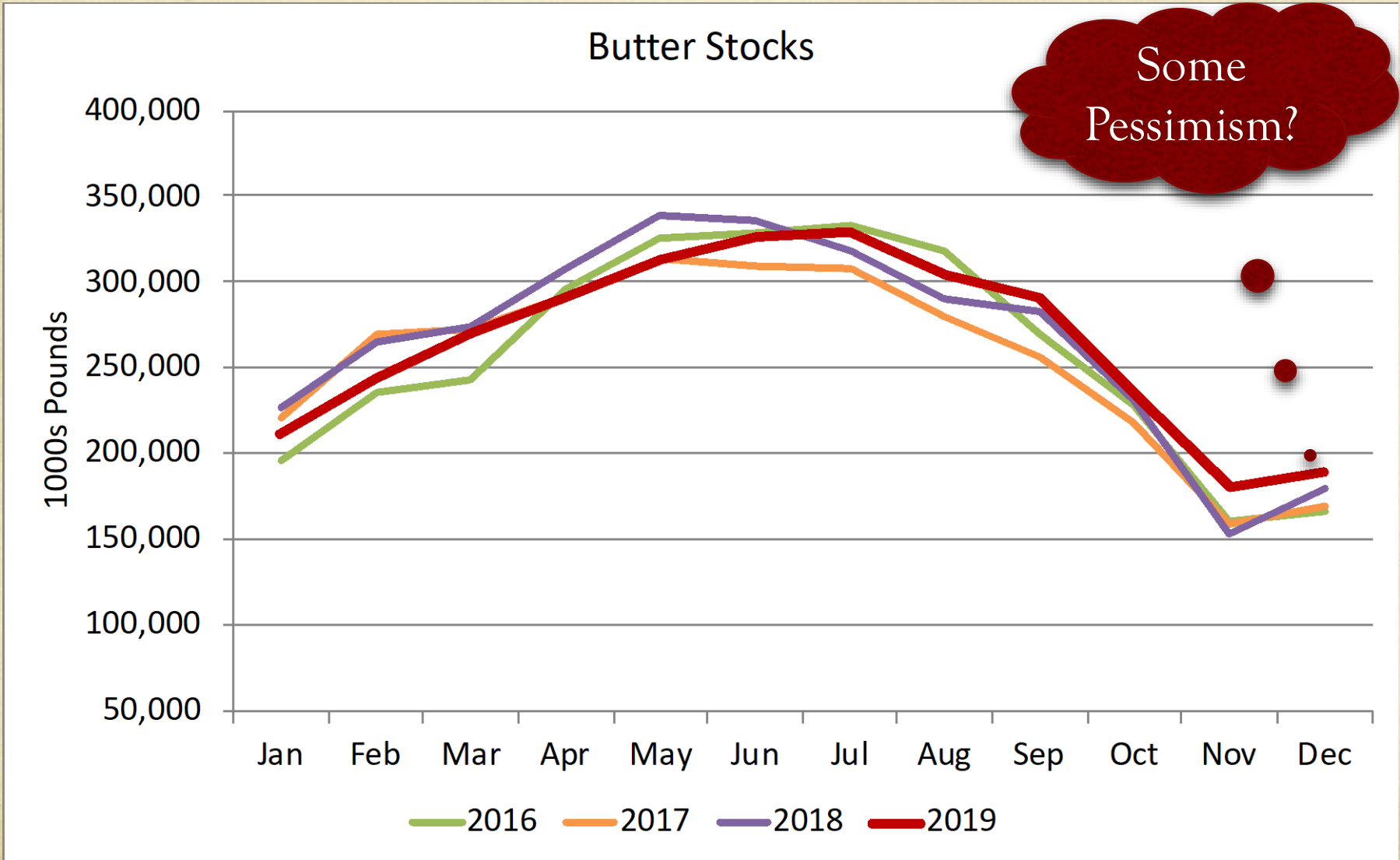
U.S. Cheese Stocks

American Cheese Stocks

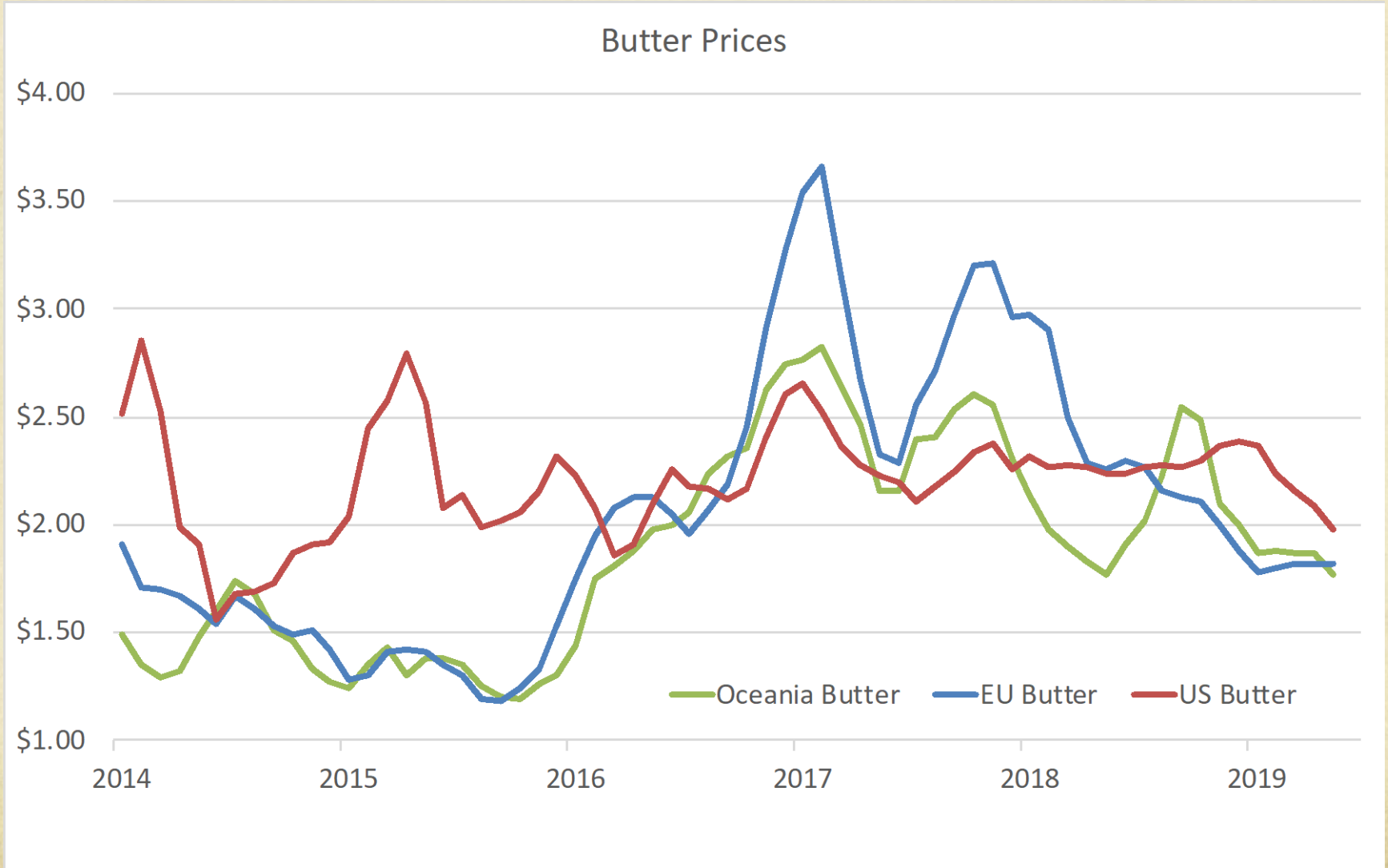


Some
Optimism?

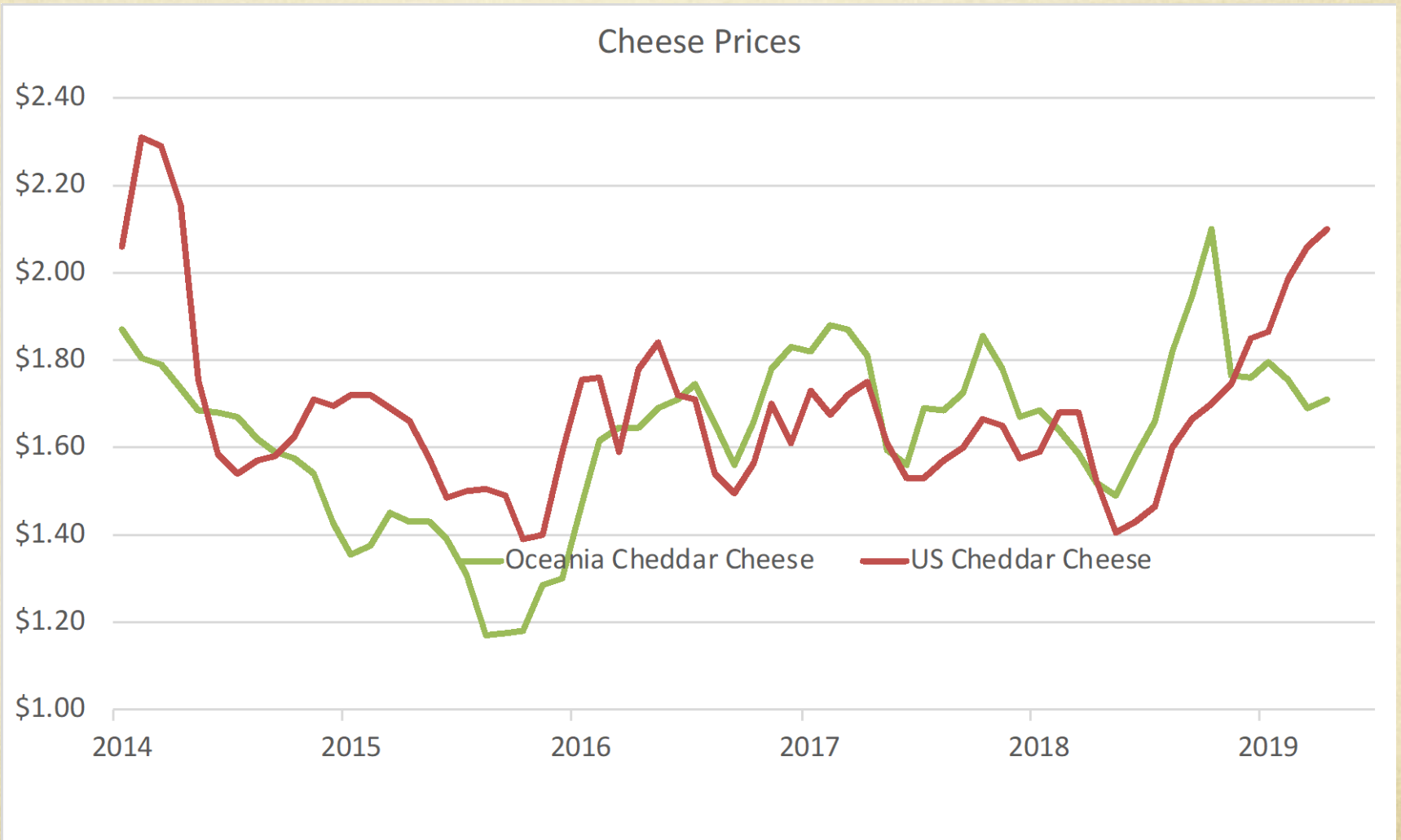
U.S. Butter Stocks



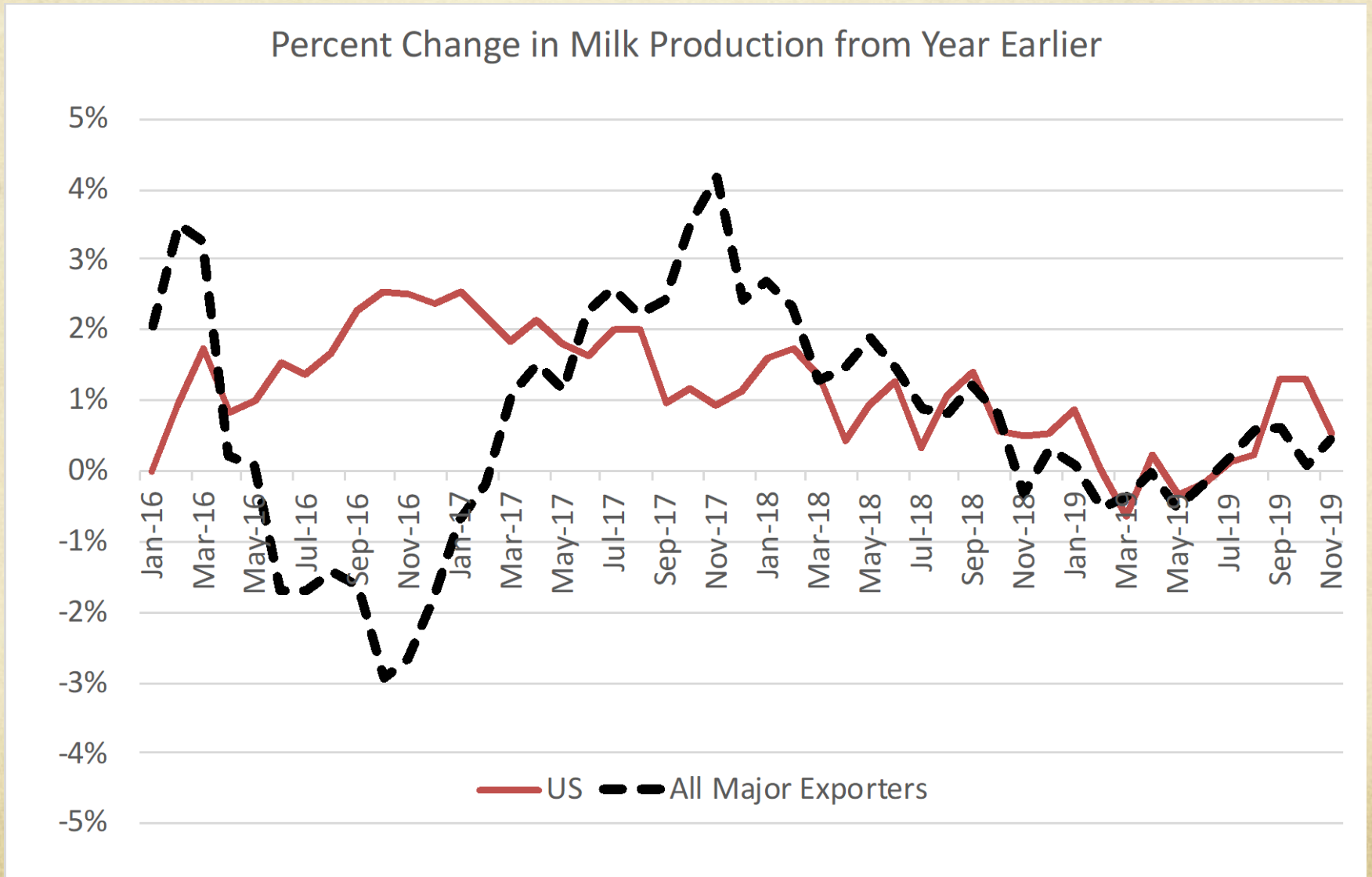
Global Butter Prices



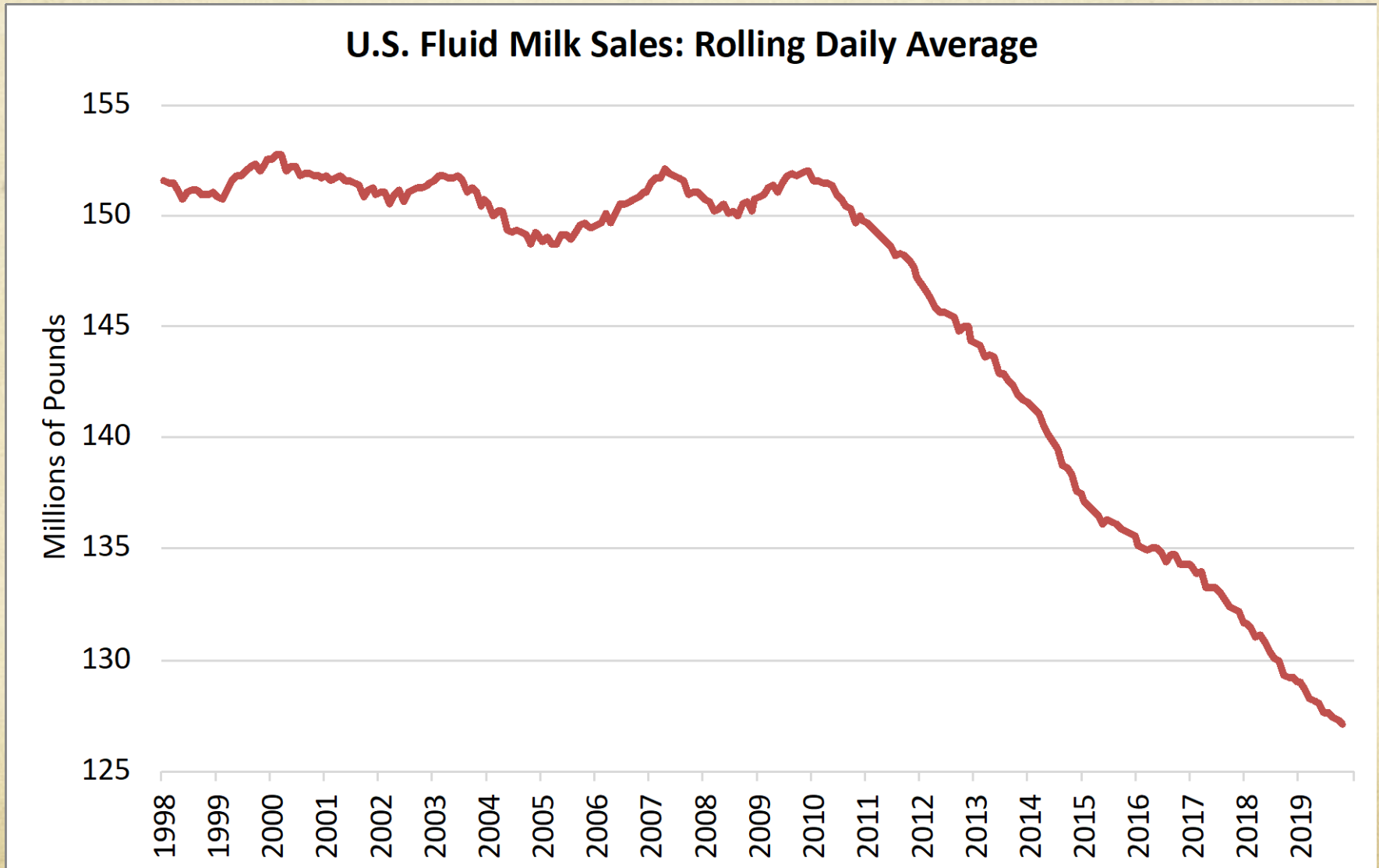
Global Cheese Prices



Prices and Weather are Having a Global Impact



Fluid Milk Sales Continue Slide

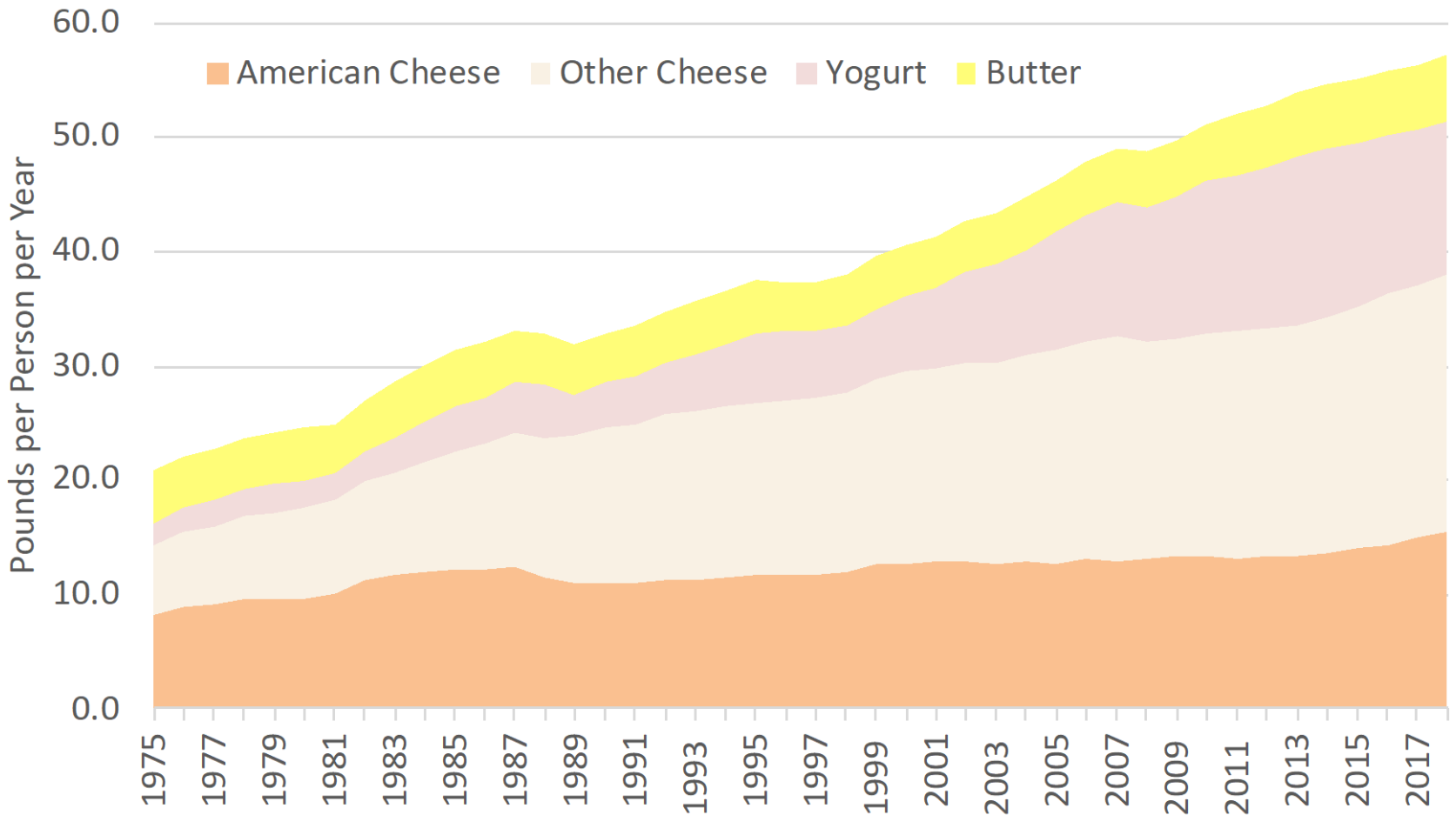


Fluid Thoughts...

- 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

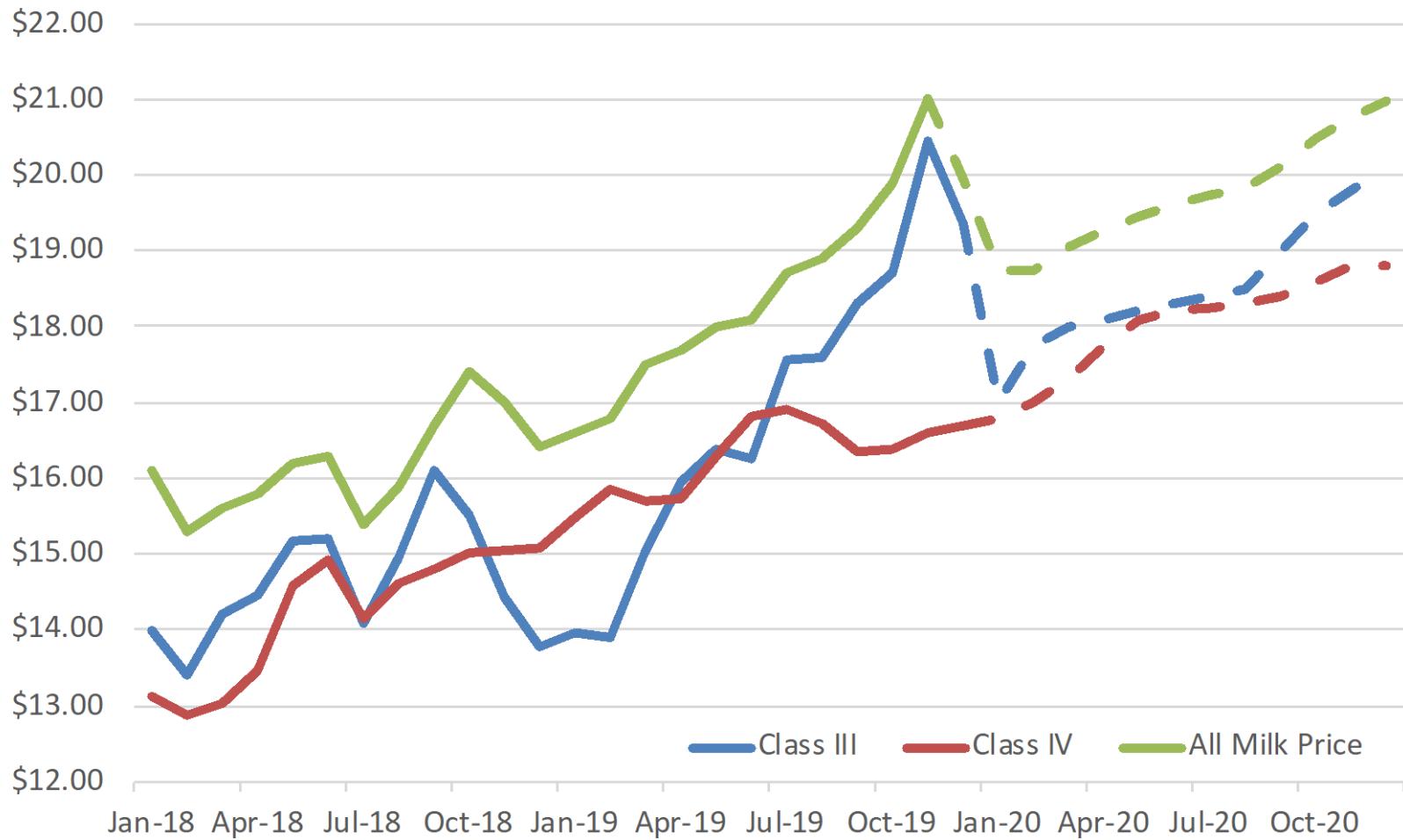
It's Not All Bad News

U.S. Per Capita Consumption



Price Forecasts

Actual and Forecast Milk Prices



Outlook Contributing Factors

Positive Factors

- Slowing U.S. and World milk production
- Declining U.S. and world dairy stocks
- Relatively strong domestic economy
- Trade improvements ??

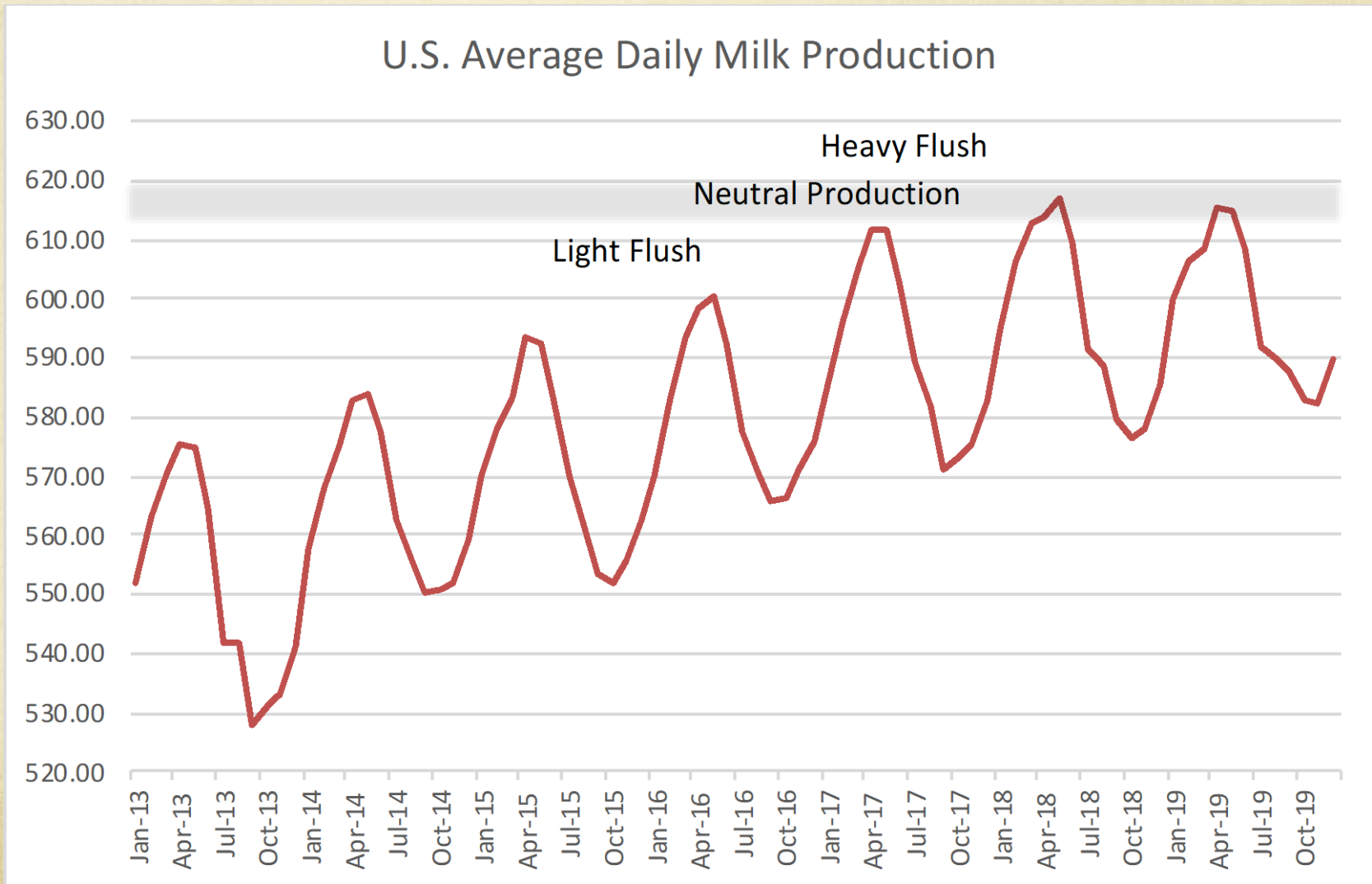
Negative Factors

- Prolonged trade negotiations
- Slowing GDP growth in some countries like China
- Weak economies in Europe
 - Germany, France, UK
- Possibility of U.S. recession
- Coronavirus??

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!

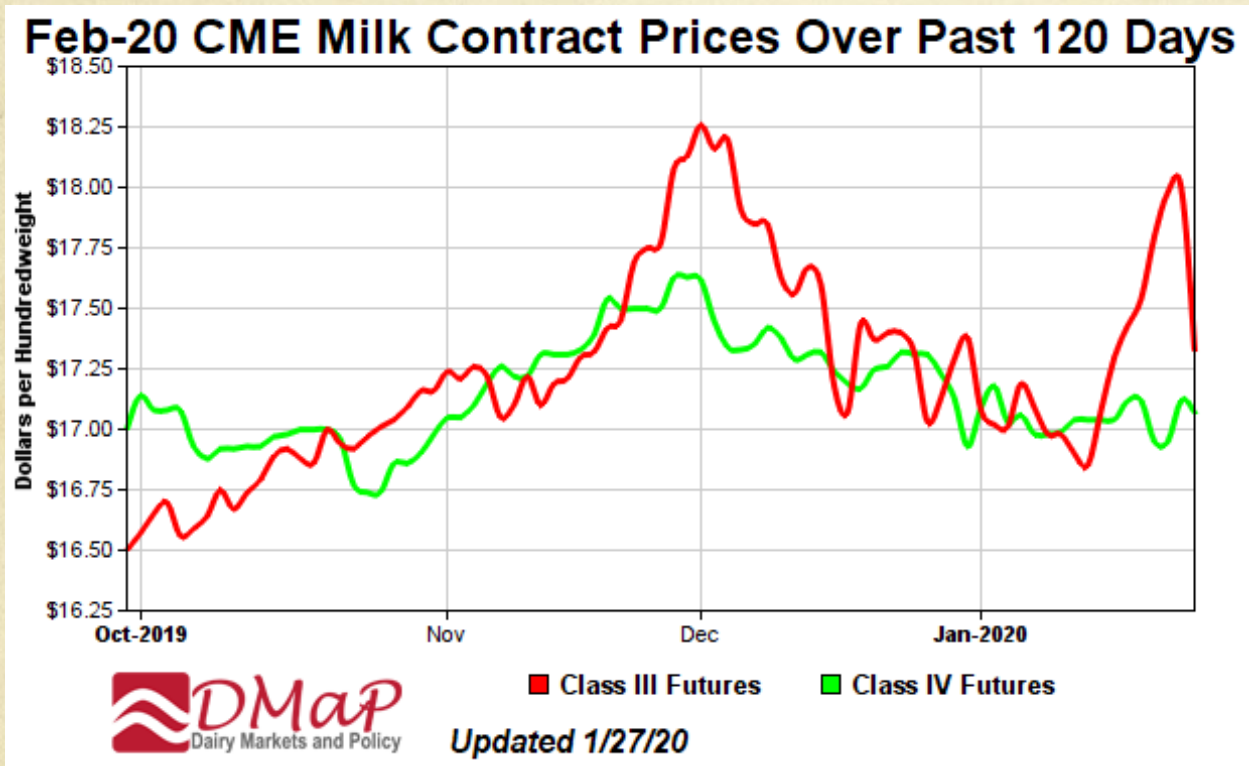


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- I am projecting that the 2019 All Milk Price will be up by about \$2.36 and that it will continue to climb (absent recession) another \$1.20 in 2020. We could hit \$20 milk again next year.
- We’ve had a fundamental structural change in the dairy 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!