Dairy Outlook 2024

Agricultural Outlook Forum
University of Wisconsin—Madison
Renk Agribusiness Institute
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2023 Storyline

Farm margins over feed costs reached a very low level
Drop in farm milk prices from 2022
Higher-than-average feed costs
2023 Storyline

Farm margins over feed costs reached a very low level.

Drop in milk prices from 2022.

Higher-than-average feed costs.

Volume of exports was down from 2022 overall.

Source: USDEC
2023 Storyline

• High butter prices in late 2023 helped price recovery
• Low stocks-to-use ratio
2024 Storyline

- US cow numbers trending down
2024 Storyline

• Milk per cow very similar to last year
2024 Storyline

- Butterfat marketings have increased
- Butterfat test up 11% since 2011
- 4.13% compared to 3.71%
2024 Storyline

• US prices for cheese and butter competitive with EU and NZ

Source: USDEC
2024 Storyline

- US prices for dry whey and NDM are competitive with EU and NZ

Source: USDEC
2024 Storyline

• Mixed evolution of USD exchange rates
• China and Mexico: recent depreciation of USD
• Appreciation of USD versus €
2024 Storyline

- Likely past the trough of the milk price cycle
2024 Storyline

• Global milk supplies realigning in late 2023

Source: CLAL
2024 Storyline

• Global milk prices realigning in late 2023

Source: CLAL
2024 Storyline

• Ration values projected by DMC higher than long-term average

Source: DMC Decision Tool Milk Price Payment Trigger Analysis
2024 Storyline

Margins closer to long-term averages
Higher milk prices than lows of 2023
Feed costs above long-term averages

Sources: USDA Economic Research Service Livestock Dairy and Poultry Outlook, own forecast models, CME Class III Futures, Dairy Margin Coverage Tool ration estimates
Wild Cards for 2024

Global Economy
(Demand, interest rates, inflation)
Wild Cards for 2024

Global Economy

El Niño

Climate Prediction Center: El Niño is expected to continue for the next several seasons, with ENSO-neutral favored during April-June 2024 (73% chance).
Wild Cards for 2024

Global Economy
El Niño
US Dairy Policy
Federal Milk Marketing Orders—Make Allowances

Perspective on Make Allowances
- Consensus: Make allowance adjustments are needed
- Impacts will play out over time—don’t just look at one month. Will premiums return?

Class III Price Calculation based on Dec 2023

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<th>Current</th>
<th>Combined Alternatives</th>
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Wild Cards for 2024

Global Economy

El Niño

US Dairy Policy

Federal Milk Marketing Orders—Class I Differentials

Estimated Difference Between Spatial Milk Values and Current Class I Differentials

October 2021 Data

WI Difference: $1.70/cwt
Largest Difference $3.10/cwt

Perspective on Differentials

• Consensus: Adjustments probably needed
• Is the low value $1.60? $2.20? Or $0.00?
• How much producer value from higher make allowance can be returned through higher Class I?
Wild Cards for 2024

Global Economy
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Farm Bill

Extension of many 2018 Farm Bill provisions through September 2024
Enough time? (Shutdown?)
Nutrition programs derail bipartisanship?
No major changes to DMC or DRP?

“Some GOP lawmakers are starting to privately expect that a farm bill won’t move until after the November elections, if it does at all this Congress”
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Farm Bill

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Dairy Margin Coverage Helped Wisconsin Farms in 2023
- 4,300 farms enrolled (75% of farms)
- Enrolled production 20.9 billion lbs
- $272 million in estimated payments
- $1.30/cwt
Questions or Comments?

• Thank you for your attention!
• Email: cf nicholson@wisc.edu
Additional Slides
Butter Prices and Stocks

• Stock to Use Ratio for Butter drove higher butter prices in 2023
Butter Stocks and Prices

• Butter prices hit record highs on low stocks compared to other years
Global Milk Production

- Global production trending down for now

Source: USDEC
CME Butter and Block Futures

- Increasing block futures through 2024
- Steady butter futures through 2024