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Milk margins expected to drive herd expansion

By CAROL RYAN DUMAS
Capital Press

TWIN FALLS, Idaho — Dairy farmers are likely to respond to a long-awaited rebound in milk prices by adding cows to the national herd.

U.S. milk-supply models show that producers tend to expand cow numbers when income over feed costs is $11.50 per hundredweight or more, and margins topped that mark in June, James Carr, West Coast dairy director for INTL FCStone, said.

In Idaho, the mailbox milk price is in the $21 range and feed costs are probably just over $9, he said.

Margins were in a mediocre range earlier this year, and U.S. cow numbers dropped as producers tried to shore up cash flow, he said.

James Carr

While Idaho's cow count was up 19,000 head in November year over year, the milk cow herd nationwide was down 27,000 head, according to USDA National Agricultural Statistics Service.

But with higher milk prices, Carr expects cow numbers to grow over the next three or four months.

"We should have some strong production in the U.S.," he said.

Production will be constrained in the first quarter of next year but is expected to move higher in the second and third quarters, he said.

Income over feed costs is also improving in the EU, Australia and New Zealand, and he expects milk production to increase in the EU and New Zealand. Drought in Australia will probably keep a lid on production there, he said.

Carol Ryan Dumas/Capital Press File

Flat milk production should help prices stay relatively steady, an analyst says.

Currently, prices for manufacturing milk in the U.S. are significantly higher than in the rest of the world but they should start to align as they weaken in the U.S. and strengthen in other regions, he said.

Restrained production growth globally and good demand should support milk prices through the first quarter of 2020, but they're likely to weaken in the second and third quarter as production moves higher, he said.

On the product side, U.S. prices for fresh American-style cheese have been high the last three or four months due to strong sales of mozzarella cheese that left less milk for cheddar production, some other production issues and good demand, he said.

Stocks of all U.S. cheeses have been below year-earlier levels for most of the year, but they are expected to recover into 2020 before drawing down seasonally, he said.

Butter stocks are normal, and he doesn't see anything to pressure prices. But global milk powder stocks are in a critical area of stocks to use, and any hiccup will send prices higher, he said.

U.S. and global powder stocks are forecast at low levels in 2020, and prices are already expected to move a little higher, he said.

"In general, I think it's going to be a volatile year but a decent year" for U.S. producers, he said.

"There'll be opportunities to lock in good profits but also times where we drop below breakeven," he said.

Concern accompanies higher dairy prices

By CAROL RYAN DUMAS
Capital Press

The rising prices of milk and dairy products are causing concern over the ability to pass on those increases through the supply chain to consumers, Ben Laine, a dairy analyst with Rabobank, said.

Different sectors of the supply chain absorb changes in prices in different ways. But at the end of the day, it comes down to the consumer, he said.

With much of the world recovering from, in the midst of, or on the verge of some degree of recession, there's concern over consumers' willingness to accept or withstand higher prices, he said.

"We've seen that in other parts of the world, particularly South America," he said.

While Brazil's economy is coming back, Argentina is still suffering — and domestic consumption of dairy products there has continued to contract as the recession worsens, he said.

"It's not as dire in the U.S. or Europe, but it's still a concern," he said.

In the U.S., domestic dairy commercial disappearance slowed in the third quarter of 2019 to just 0.5% after a robust 3.5% increase in the first half of the year, Rabobank analysts reported in their latest Dairy Quarterly report.

"Softening domestic demand is attributed to rising retail and food service prices. Looking forward, U.S. dairy demand will continue to grow but at lower rates as higher prices and a weaker economy … impact consumer spending," they said.

A weaker economic outlook is based on a heightened probability of a recession in the second half of 2020, they said.

At the farm level, U.S. producers are hesitant to expand production despite higher milk prices, Laine said. He thinks most producers are leaning toward seeing if the higher prices are going to be sustainable, he said.

But U.S. milk production is showing signs of life after months of stagnation. Milk production was up 1.3% year over year in September and October, and producers added 5,000 cows to the national herd in each of those months, the analysts said.

"This is the beginning of a return to more normal year-on-year milk production growth of 1.3% to 1.5%," they said.

Additional growth in milk production will vary region to region, Laine said.

Expansion in some areas will depend on whether there's a buyer for more milk. Another factor is feed quality due to late plantings and early snow. Even if feed is available, poor quality feed will affect production per cow, he said.

Capital Press File

Cows feed at a dairy near Kuna, Idaho. Higher milk prices may impact consumer demand, analysts say.

It will also depend on producers' financial situation. After several years of low prices, they might need to get things back in order and take care of deferred maintenance, he said.

"The outlook for milk production growth depends on whether those additional dollars go toward expanding production or repairing balance sheets. Our industry sources suggest the latter," the analysts said.

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