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A report from CoBank expects declining margins to push producers to reduce dairy herds in 2022.

CoBank forecasts tight milk supplies, strong dairy demand

By CAROL RYAN DUMAS
Capital Press

Declining margins on dairy farms in the U.S. and around the world will push producers to reduce herds, tightening global milk supplies in 2022.

Milk production in Europe and New Zealand in particular will continue to face headwinds with stricter environmental regulations discouraging any growth in cow numbers, according to a new outlook report by CoBank.

But demand for dairy products will continue to grow due to the expected continuing recovery from COVID-19 and a higher demand for protein — particularly in high-growth regions such as Southeast Asia.

"However, the U.S. Phase One trade agreement with China is set to expire at year end, and China could steer its purchases toward our main export competitors — New Zealand and the EU," the report said.

Ongoing port congestion and a strengthening dollar would also hinder U.S. dairy exports.

"Port congestion and a shortage of available outbound containers will remain as headwinds for U.S. dairy exporters for much of 2022," the report said.

Ongoing logistical snarls, resulting in higher detention and demurrage costs and declining market share in Asian markets, will pressure U.S. dairy companies.

"International companies are already switching dairy purchases to Europe and New Zealand origin — a trend that is likely to accelerate in 2022," the report said.

U.S. domestic consumption for dairy products, however, will be more resilient as consumer demand increases due to a growing U.S. economy.

"The cross current of resilient domestic and global demand for dairy products with the slowing growth in milk supplies should give additional upward lift to milk prices in 2022," the report said.

Combined with softer feed costs following big corn and soybean harvests, producer margins will finally improve.

"However, high costs for labor, construction and freight will limit upside margin potential and dampen milk production growth," the report said.

CoBank expects U.S. dairy producers to increasingly evaluate robotics and automation on the farm due to the tightness in farm labor.

Producers in the West will also face tighter feed availability due to the potential for continuing drought, made more likely by La Nina conditions. That's an additional incentive for dairies in the region to move farther inland, particularly to the Midwest and Plains states, the report said.

"For dairy processors, increasing milk costs, inflation driving up operating costs and labor availability will mean some processors get squeezed — particularly those manufacturing commodity dairy products," the report said.

In addition, the significant expansion in capacity for cheese production coming online in 2022 will reduce milk supplies available for other products.

Tanner Ehmke, CoBank lead economist for dairy and specialty crops, authored the dairy portion of the broader outlook report on the U.S. rural economy.

Global milk supply tightens

By CAROL RYAN DUMAS
Capital Press

Carol Ryan Dumas/Capital Press File

A tighter milk supply offers the prospect of higher prices overseas.

Global milk production in the Big 7 exporting regions is expected to decline by 0.3% year over year in the fourth quarter of 2021, marking the first year-over-year decrease since 2019.

As a result, milk prices are at levels not seen since 2014, Rabobank analysts said in the latest "Dairy Quarterly" report.

Weather-related issues in Oceania and margin erosion in Europe and the U.S. stymied growth, resulting in a year-over-year deficit that was too deep for favorable production in South America to offset, they reported.

"Farmgate milk prices have followed commodity prices higher worldwide, with more potential upside in some regions," they said.

But rising input costs, lack of labor, unfavorable weather and questionable feed quality will limit the production response.

Year-over-year gains in milk production in the first half of 2022 are forecast at less than 0.4%. A modest recovery to a 1% gain in the second half of the year is expected but will require favorable weather and a tempering of feed costs.

"High feed prices and general input cost inflation are common themes across the major milk-producing regions. The ability to withstand the rising cost pressures is highly dependent on the milk price," the analysts said.

Milk prices in most regions are adequate to offset higher costs but not high enough to facilitate expansion, and dairy exports have slowed due to logistic disruptions, rising transportation costs and elevated commodity prices.

Global dairy exports on a volume basis increased 6% year over year in the first half of 2021 but slowed to a 2% gain in the third quarter.

Rabobank expects global exports to decline year over year in the fourth quarter and throughout 2022, a duration not previously experienced, the report said.

Report finds several factors in meat price inflation

By CAROL RYAN DUMAS
Capital Press

A new report outlines the factors that have contributed to the rapid increase of retail meat prices.

From January 2020 through November 2021, retail prices have increased 27.3% for beef, 16.8% for pork and 16.4% for chicken, according to the U.S. Bureau of Labor Statistics.

"Given the low food inflation rates in recent memory, it is no wonder that current meat prices have been causing sticker shock across the country," economists at the National Pork Producers Council, Iowa State University and North Carolina State University said in their report.

Retail pork prices only increased an average of 2% a year from 2000 to 2019.

The report found both pork producer and pork packer margins are near the five-year average, but the retail price spread for pork has recently widened.

"The increase in retail prices this fall at a time when wholesale and farm-level prices were falling was likely driven by a lagged response time to high wholesale prices during the summer, increased transportation costs, supply bottlenecks and delays and increased labor costs in retail outlets and distribution centers," the report said.

Retailers are typically slow to adjust prices to reflect changes in their input costs, but it appears likely they are passing those extra costs on to consumers, the report said.

"Perhaps the greatest challenge to all food supply chains is a lack of available labor. Despite rising wages, all industries are struggling to fill open positions," the report said.

As of October, there were more than 11 million job openings in the U.S., and the civilian labor force is about 2.4 million less than in January 2020.

"A lack of available workers throughout the pork industry has been (a) longstanding issue that was made worse by the pandemic, and is one of the reasons packing plants have had capacity issues," the report said.

The tight and competitive labor market is impacting every aspect of the pork supply chain, including the transportation of hogs and pork.

Another issue is the 2.5% loss in pork processing capacity resulting from a federal court order eliminating a USDA provision that allowed faster line speeds at six major packing plants. That order went into effect July 1.

"In addition to widespread labor shortages and reduced packing capacity, the pork industry is also dealing with transportation bottlenecks and higher prices for fuel, energy and packing materials," the report said.

"This report shows there are numerous issues affecting pork prices, but increased profits — whether at the retail, wholesale or farm level — are likely not a significant contributor to the rising prices," Jen Sorenson, president of National Pork Producers Council, said in a press release.

Associated Press File

A butcher prepares to package boneless pork loins at a Des Moines, Iowa, grocery store. Several factors have contributed to higher meat prices in 2021, a new report finds.

U.S. dairy farmers slow production

By CAROL RYAN DUMAS
Capital Press

U.S. dairy producers have reduced cow numbers and milk production in response to ongoing margin pressures and an uncertain feed situation.

The dairy cow herd has declined 118,000 head since its peak of 9.5 million in June, and milk production fell into negative year-over-year territory in November, according to USDA.

Milk production fell amid lackluster gains in production per cow and declining cow numbers, Rabobank analysts said in the latest "Dairy Quarterly" report.

Rabobank is forecasting milk production in the fourth quarter to be down 0.5% and down 0.2% in the first half of 2022.

"Higher milk prices are good news for dairy farmers but are insufficient to drive a significant expansion in the U.S. dairy herd. … Higher construction costs and labor challenges will limit the incentive for any expansion requiring new barns and milking parlors," the analysts said.

The rapid contraction in milk production has tightened markets and strengthened milk prices. Less milk heading into butter and milk powder has lifted Class IV milk prices. American cheese production remains elevated, but the market for fresh cheddar has buoyed both block and barrel prices.

Rabobank expects Class IV prices to move above Class III prices in the fourth quarter and remain there for most of 2022.

"While this could trigger some repooling and depooling within federal orders, the price spread between Class III and IV should be within a comfortable range and minimally disruptive to markets," the analysts said.

Domestic demand for dairy continues to increase with a return to in-person conferences, events and sit-down dining, which benefits butter and fat demand.

"U.S. foodservice demand is unlikely to backslide dramatically in response to further pandemic outbreaks, though response to the omicron variant over the next few weeks will be an important test," the analysts said.

Retail sales of fluid milk and cheese are down 7% and 2.5%, respectively, year over year from mid-October to mid-November.

"Slower retail volumes at this point are a function of the ongoing return to food-service channels as well as difficult-to-match comparables in 2020," the analysts said.

That pattern should continue as retail sales normalize, but pressure on budgets or further restrictions in response to the omicron variant could shift some demand back to retail, they said.

Exports remain strong, up nearly 11% in volume year to date through October, according to the U.S. Dairy Export Council.

While China's need for milk powder is uncertain, its whey demand should remain robust, Rabobank analysts said.