



# Walking The Tightrope: Dairy Markets For 2022 & Beyond

Phil Plourd • Vita Plus • June 15, 2022



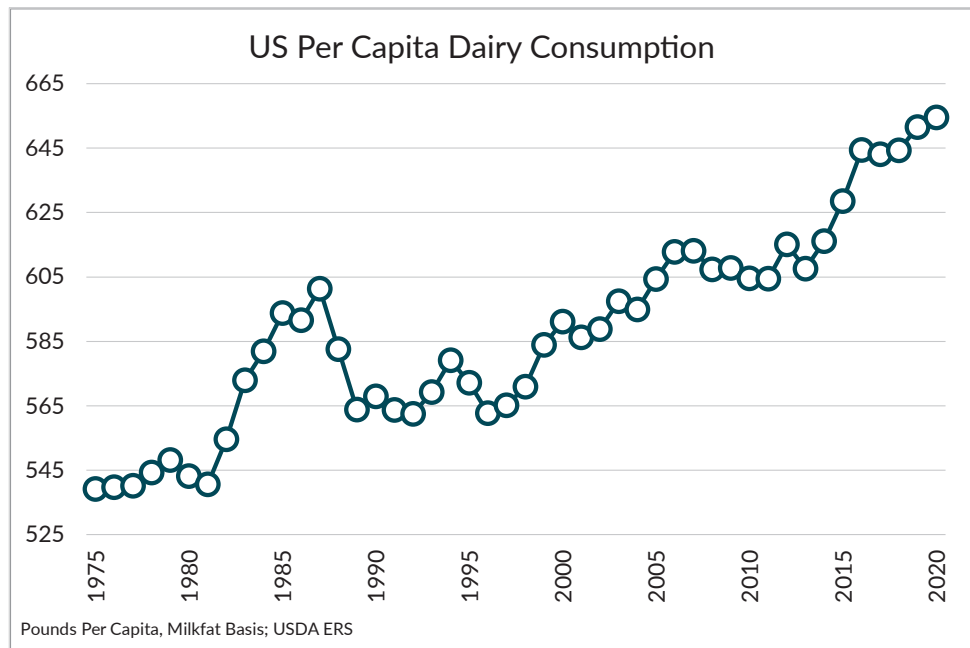
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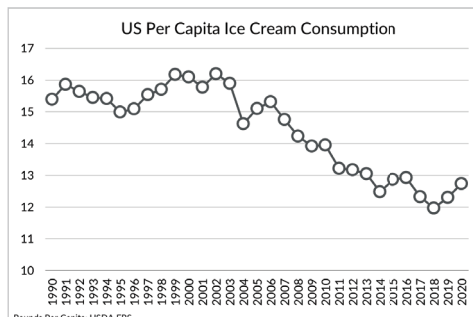
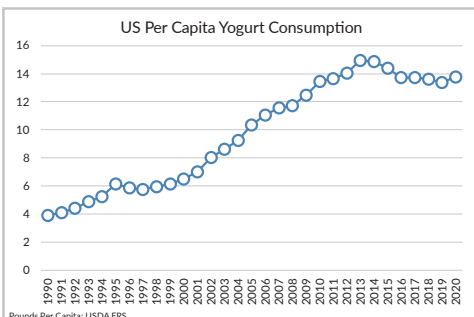
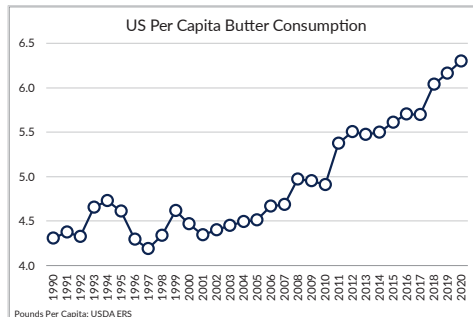
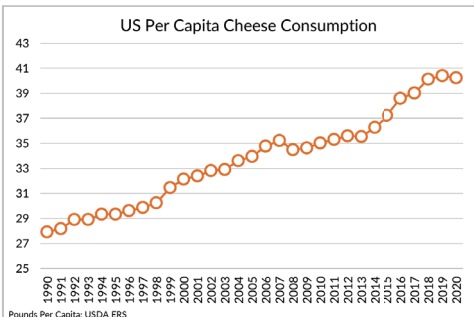
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# Consumption: A Great News Story Overall

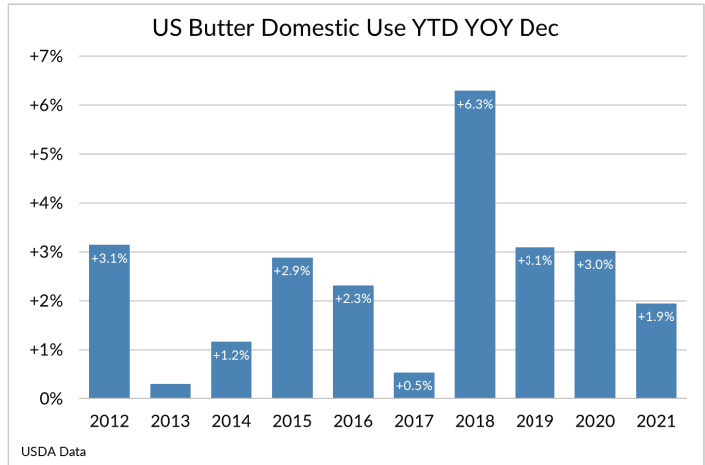
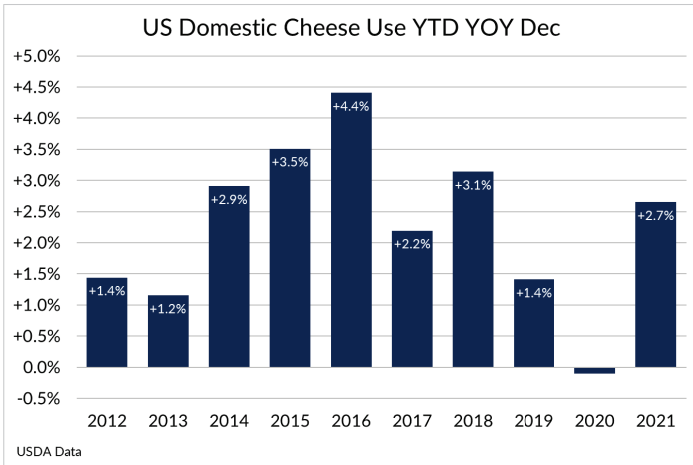


## Dairy Products Consumption



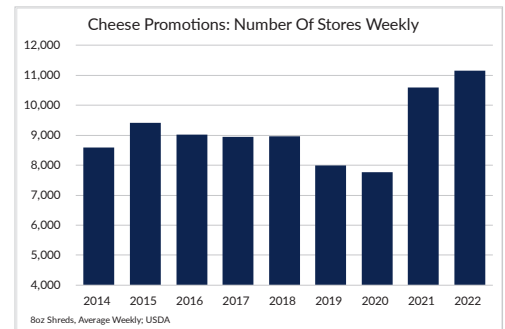
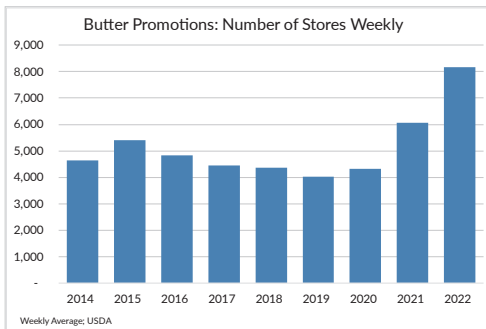
- Per capita cheese consumption actually slipped a little in 2020, likely a function of the pandemic's impact on eating patterns
  - +1.4% CAGR 2010-2020
- Ice cream enjoying a bit of a comeback
- Butter story still positive
  - +2.5% CAGR 2010-2020

# Cheese, Butter Demand Increased in 2021



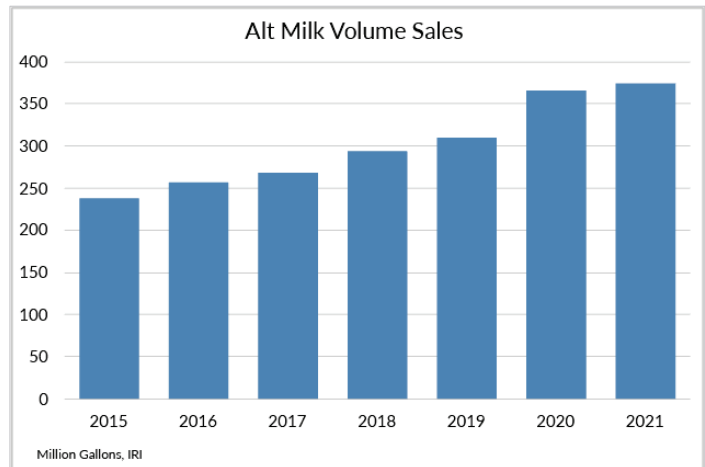
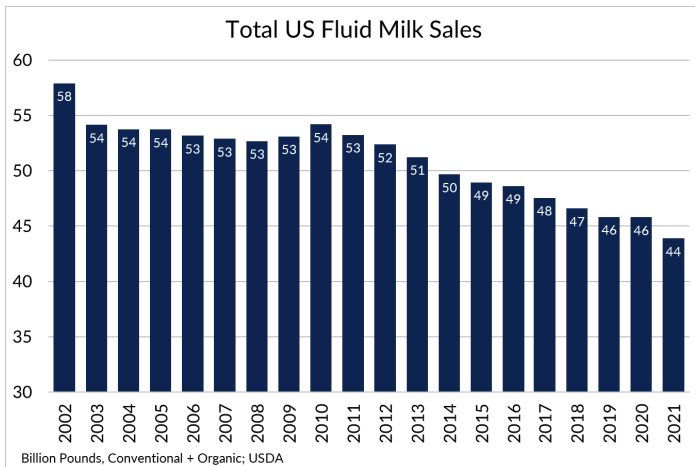
- Domestic cheese demand bounced back to +2.7% in 2021.
- Butter use was at +1.9%.
- Good showing in what was still a weird year!

# Grocery Stores Seem to Love Dairy Promotions



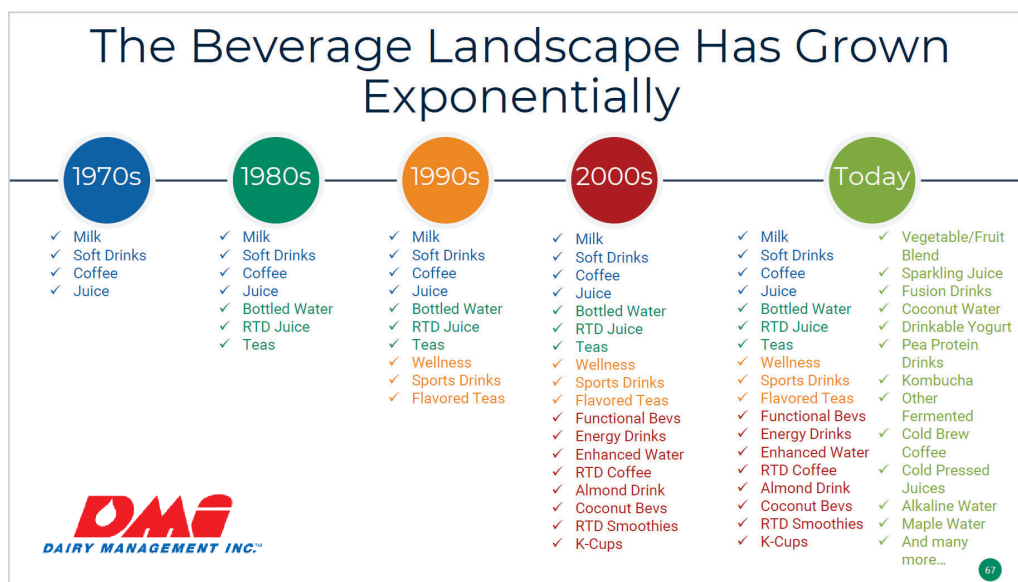
- Promotional activity has been strong -- aimed at attracting store traffic.
- Average promotional price for butter has been rising, but we still see aggressive deals.

# Fluid Milk Saga Continues

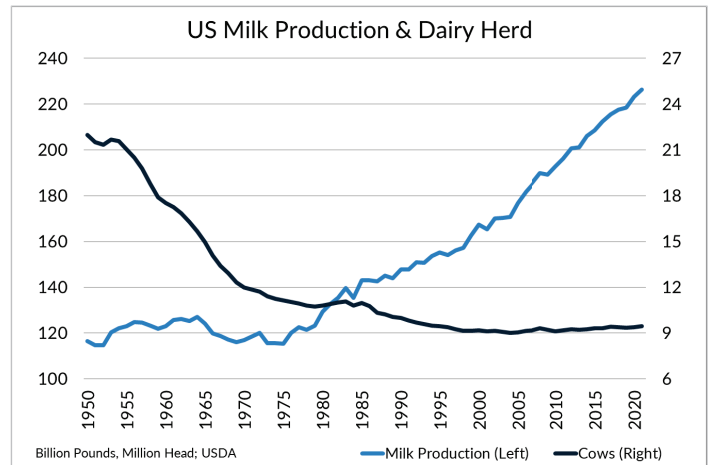
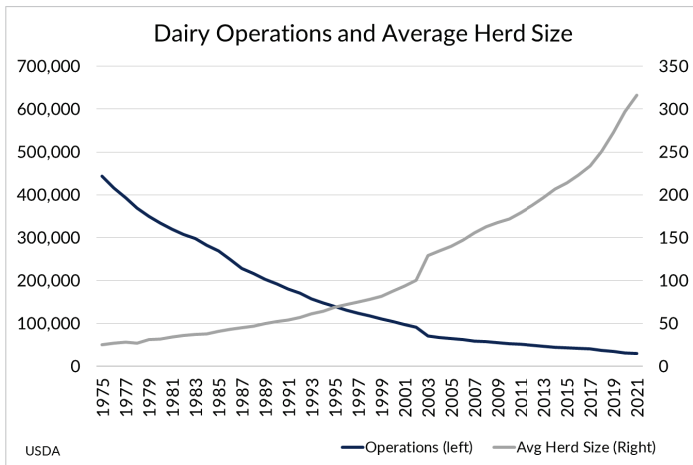


- Fluid milk sales declined 4.2% in 2021.
- Volume was at 19.4% of milk production compared to 34.0% for 2002.
- “Alt Milk” had 10% share of beverage milk sales in 2021.

## More and More Choices!

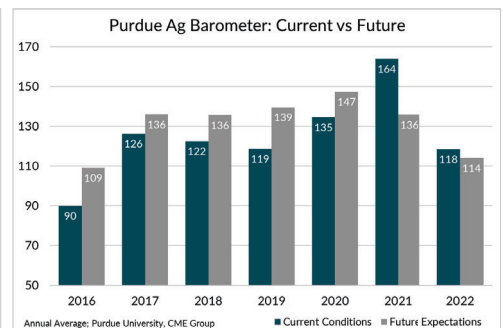
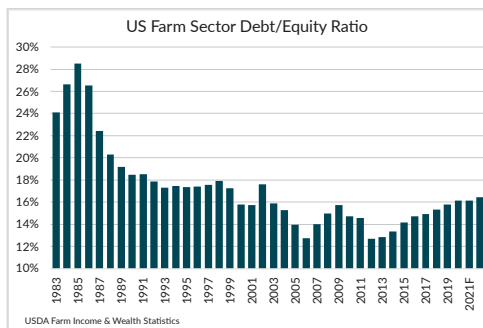
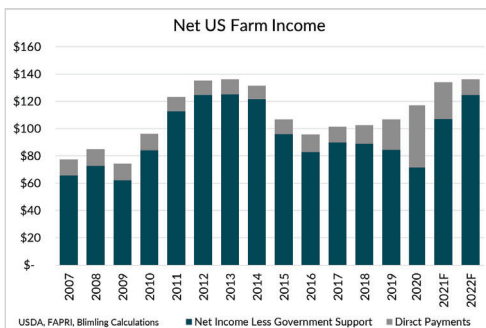


# Consolidation & “Sustainability”



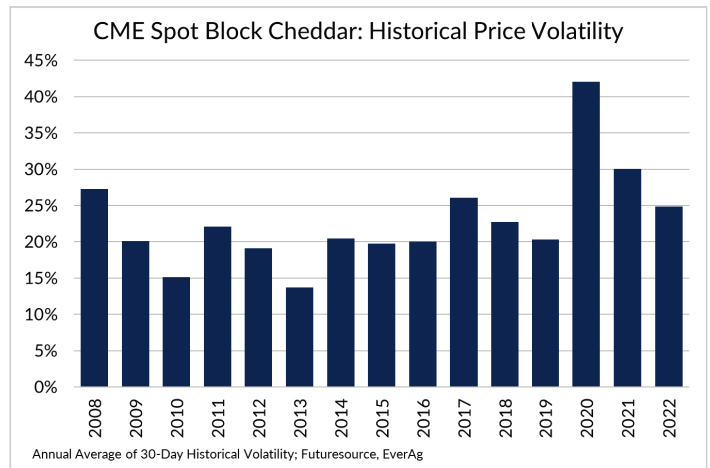
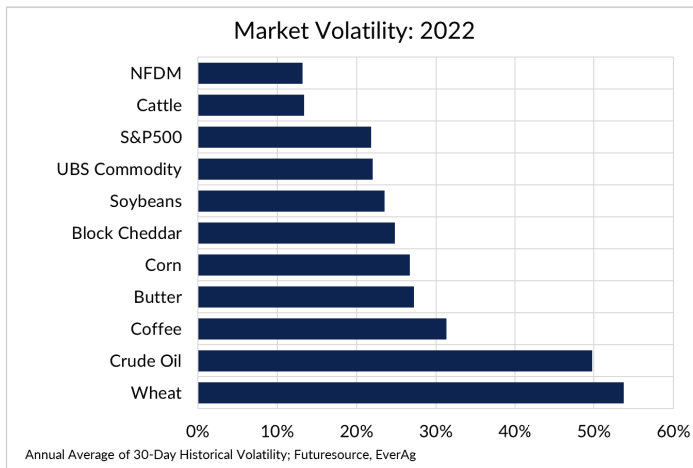
- US down to less than 30,000 operations in 2021.
- Average operation size up to 316 head, up from 179 in 2011.
- Consider: since 1950, milk production is up 94%, with cow numbers down 57%.

## General Farm Finance Is In An Okay Place

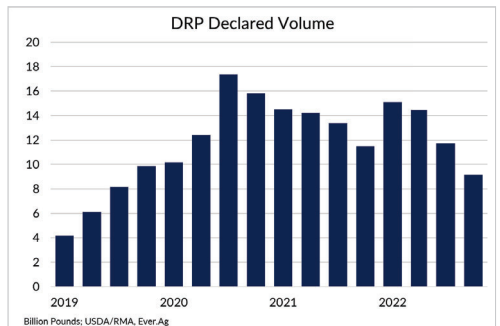
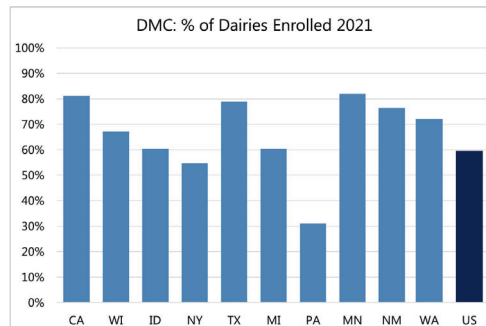
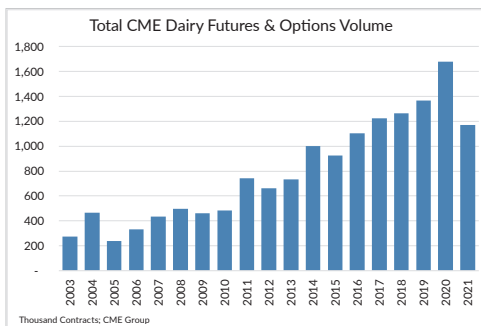


- Farm income from sales should be at record high levels in 2022.
- Less government support, but probably enough to push overall income to new records.
- Debt to equity ratios are rising, but USDA's call for 16% in 2022 is still below the long-run average (18% over the past 50 years).
- But mood is deteriorating, with Purdue Ag Barometer dropping to multiyear lows.

# We Do Volatility Very Well!



## Lots of Viable Risk Management Tools

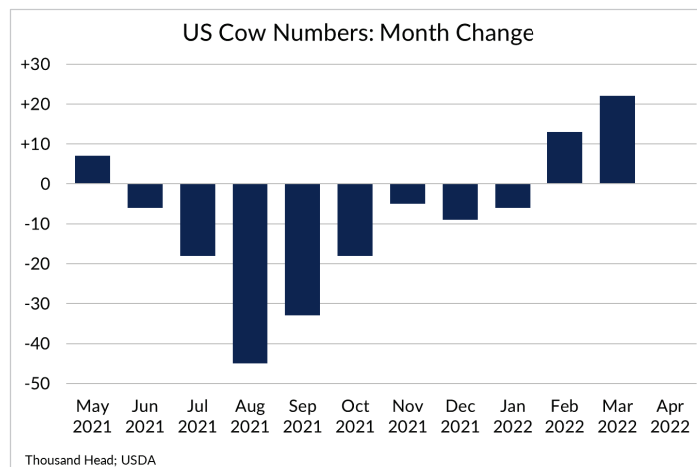
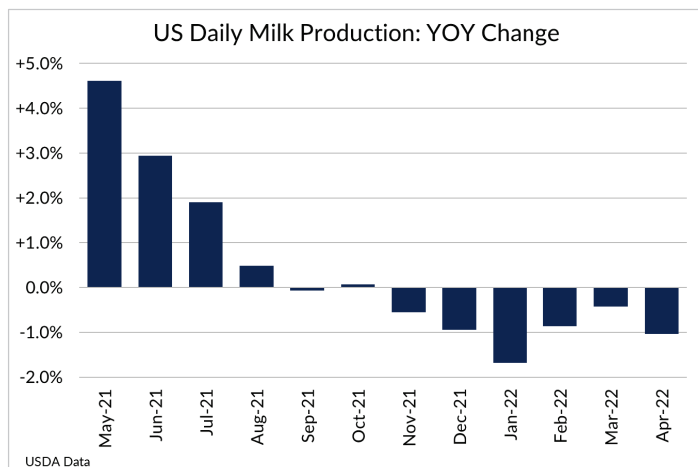


- Producers have access to a lot of different risk management tools
- Use of traditional futures and options has continued to grow
- Dairy Margin Coverage program offers real protection for smaller farms
- Dairy Revenue Protection crop insurance product immediately popular – covering more than 20% of milk production for 2022.



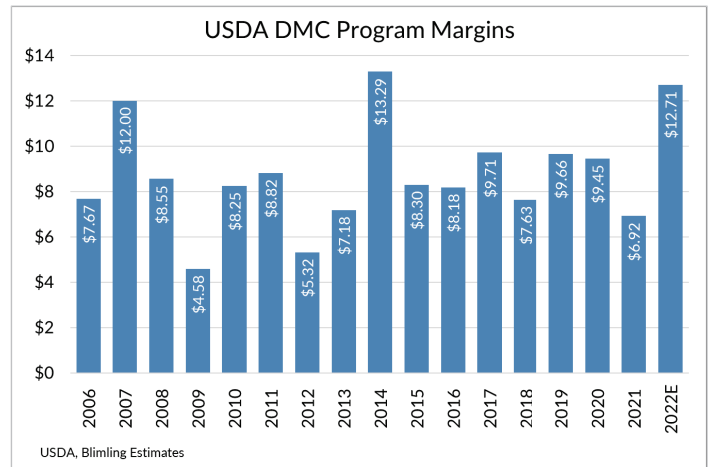
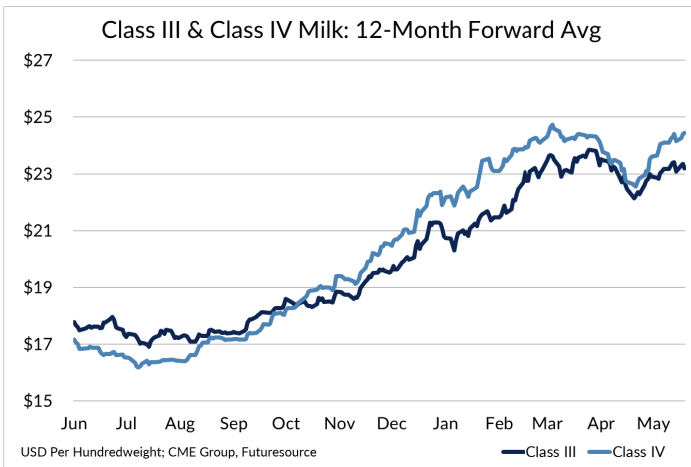
# Five Critical Factors

## #1 US Milk Production



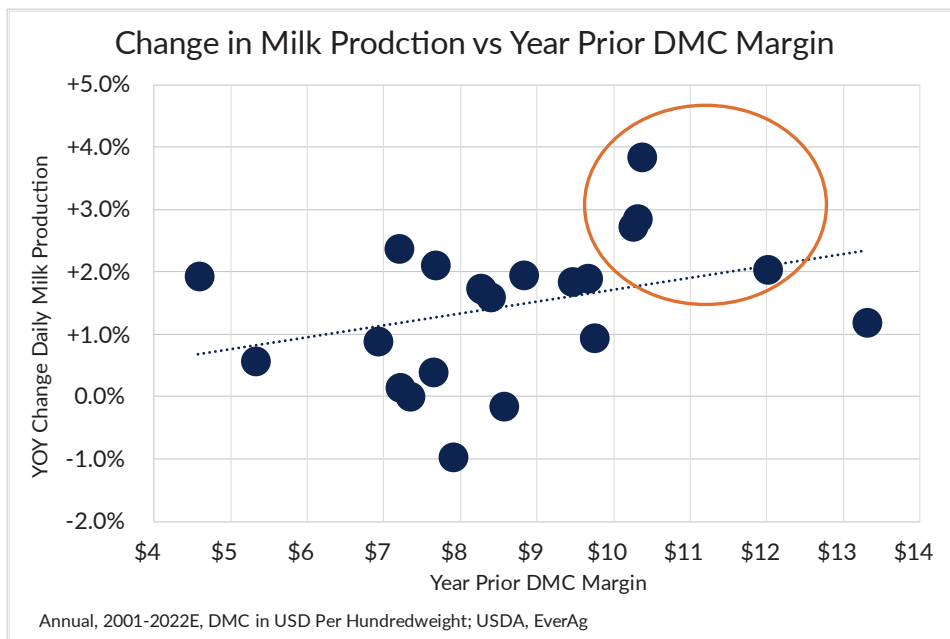
- April milk production below strong 2021 numbers by 1.0% - lowest in three months.
- Cow numbers flat ...

# Prospective Farm Margins Are Pretty Good



- Class III and Class IV milk futures average \$23-\$24 for next 12 months.
- DMC margin for 2022 projecting to second highest level ever.

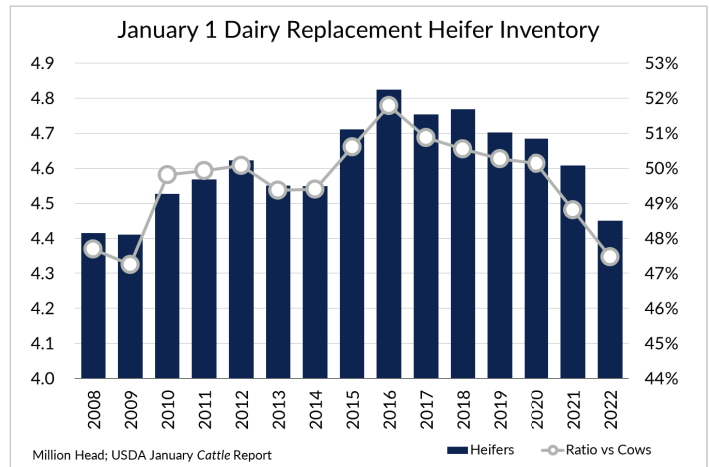
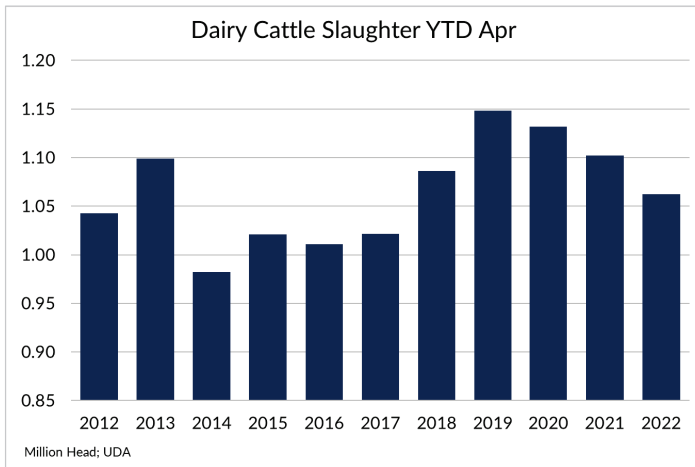
## More Money Usually Means More Milk



- Historically, we've seen strong margins eventually drive strong milk production growth

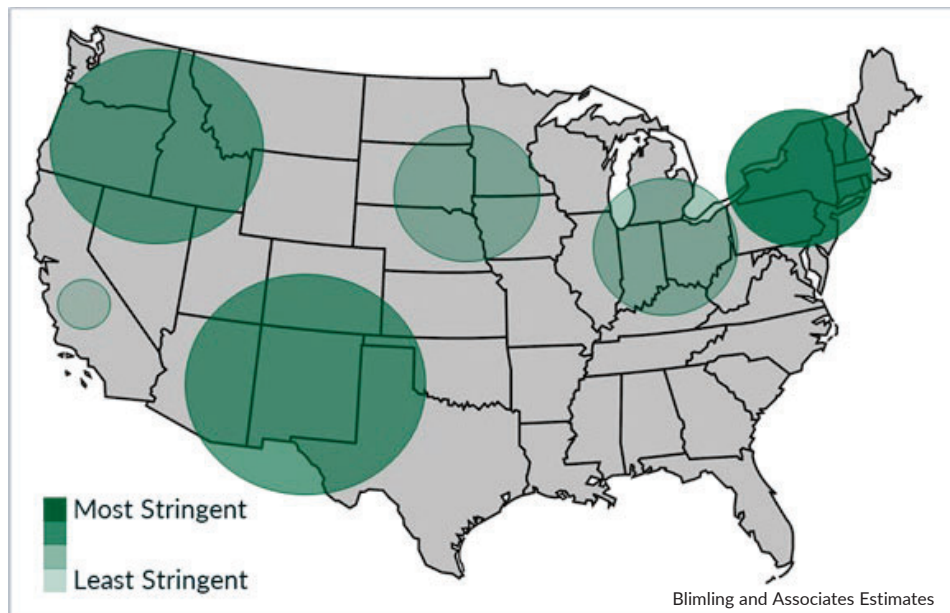


# Growth Prospects Constrained

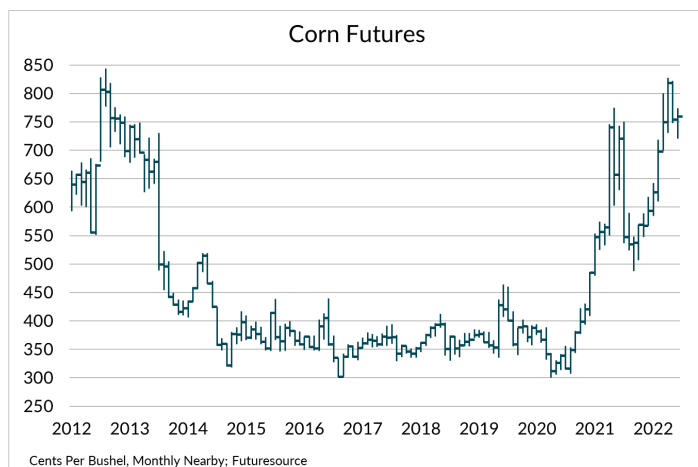


- Dairy cow slaughter is down, but so are replacement numbers. Throw in base/excess programs and prospects for milk production growth remain less robust.
- Cost of a 6,000 to 7,000 cow dairy up 60% since 2018 (~\$50 million).

## “Base/Excess” Limiting Trajectory

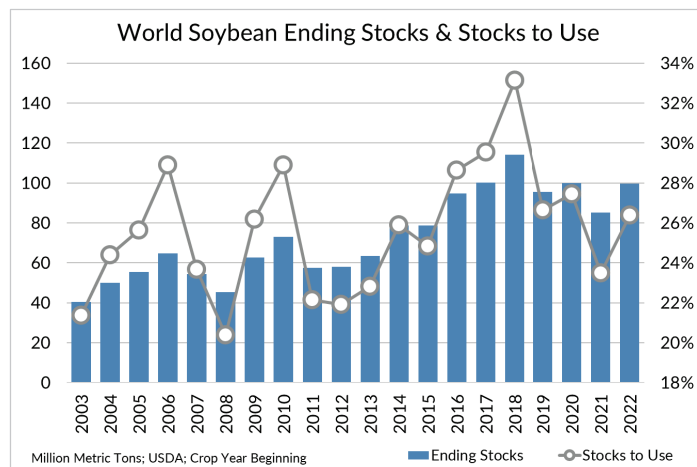
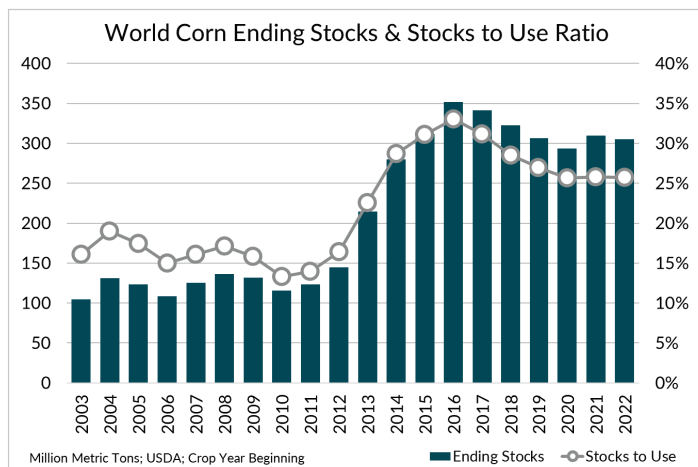


## #2 Cost of Production



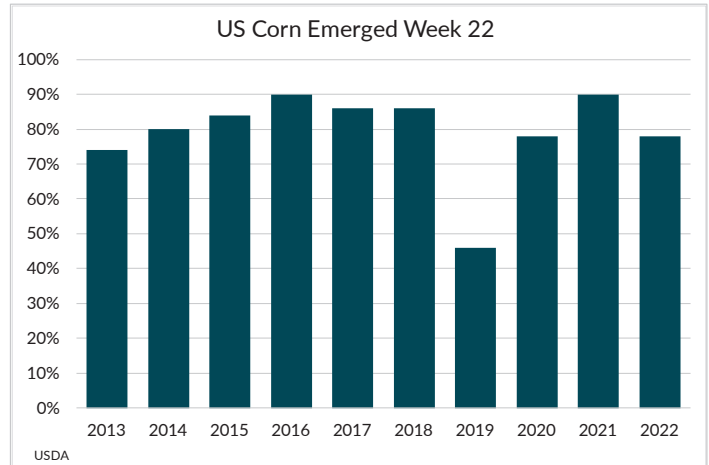
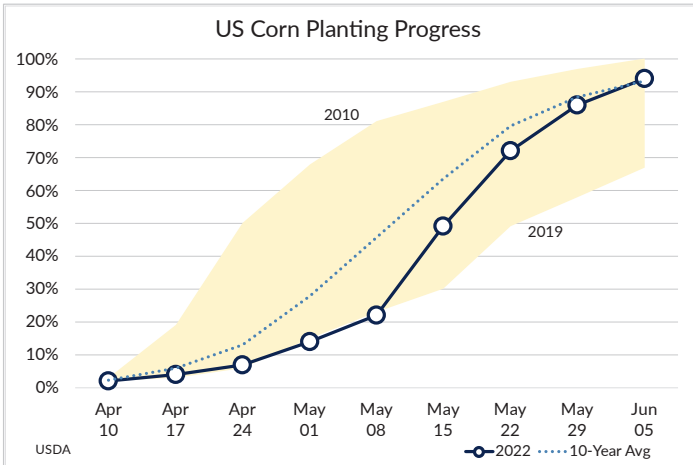
- Corn prices are at their highest level since 2013.
- Russia's invasion of Ukraine creating massive problems.

## Tight Balance Sheets

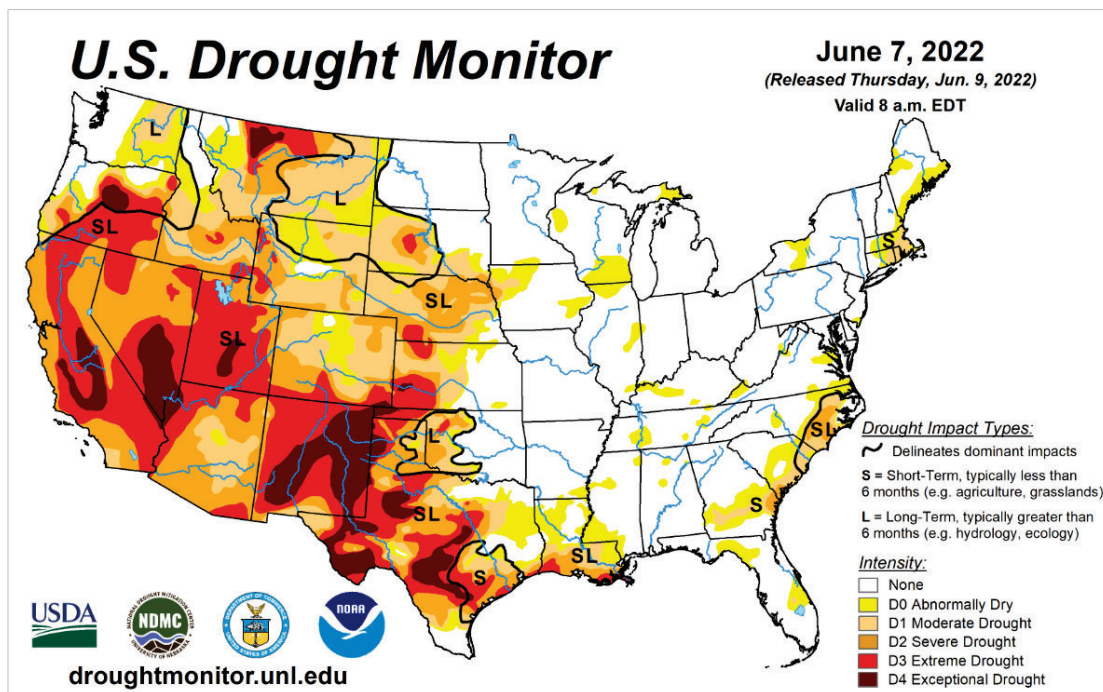


- USDA expects things to remain on the tight side, with world corn ending stocks to use stuck at 25% and bean supplies still well below the five-year average.
- Little to no room for error!

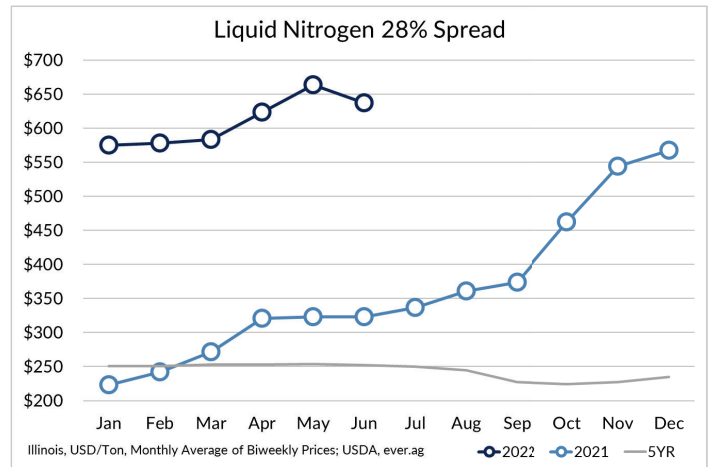
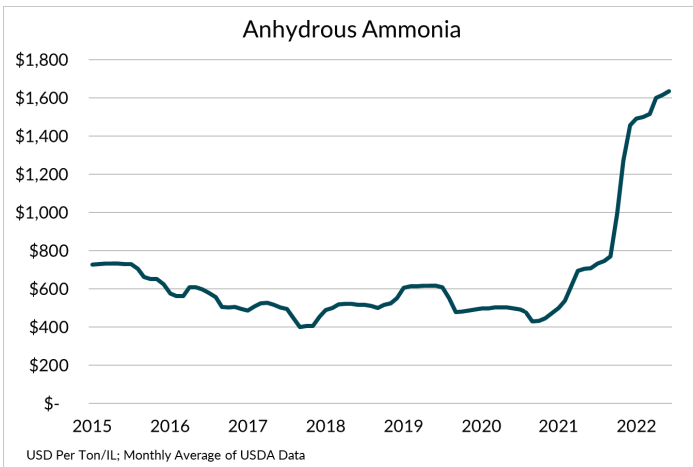
# Corn Growers Caught Up Fast



- After starting way behind, US farmers planted more than 60% of the corn crop in just three weeks.
- Emergence is now also a bit ahead of average.

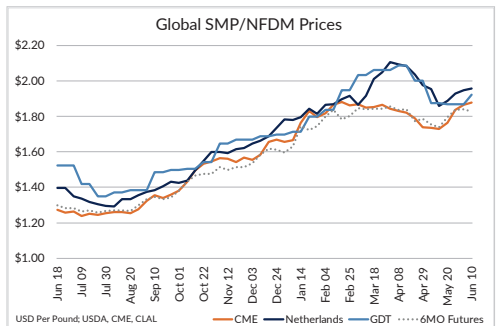
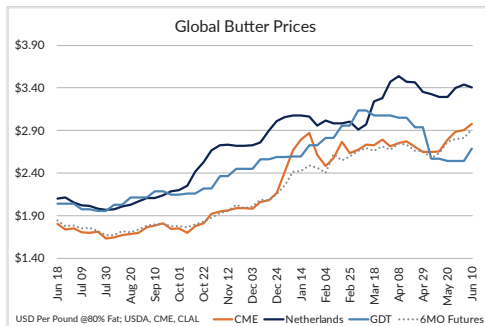
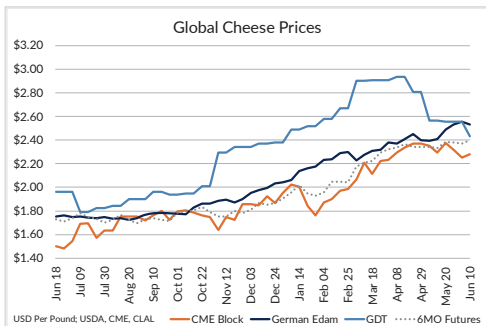


# Fertilizer Prices Still High



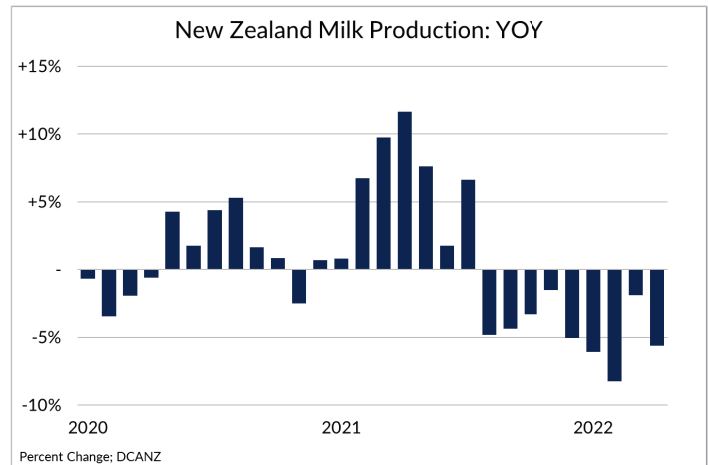
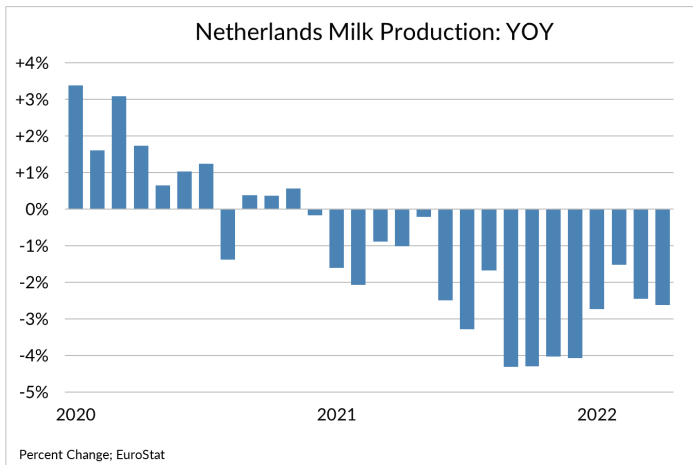
- Anhydrous ammonia up 130% versus year-prior levels and 4x the 2020 lows.
- Impact potentially bigger for 2023 than in 2023.

## #3 Global Price Landscape



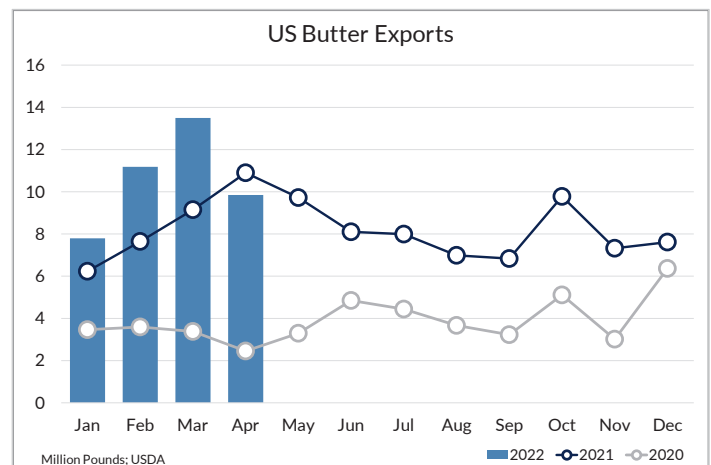
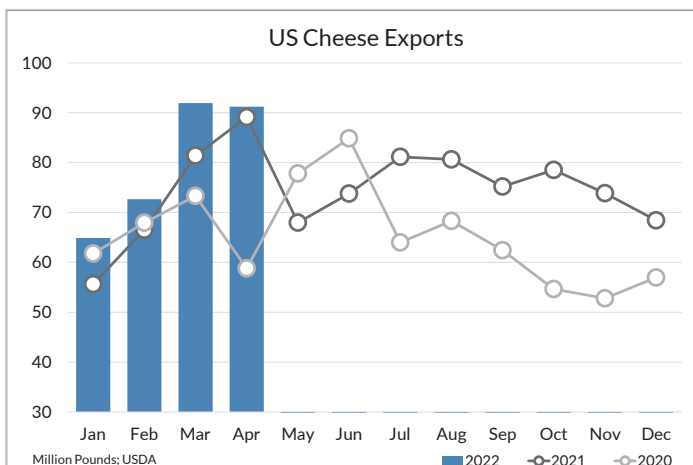
- GDT cheddar at \$2.43 per pound. EU market rising again -- \$2.55 per pound. Markets are within 20 cents of each other, potentially limiting interest in US product.
- GDT butter is now less expensive than CME spot and the six-month futures curve. EU prices picking back up, with Dutch quotation now at back to \$3.40 at 80% fat.
- Global SMP markets bouncing back.

# EU, NZ Milk Production Slump



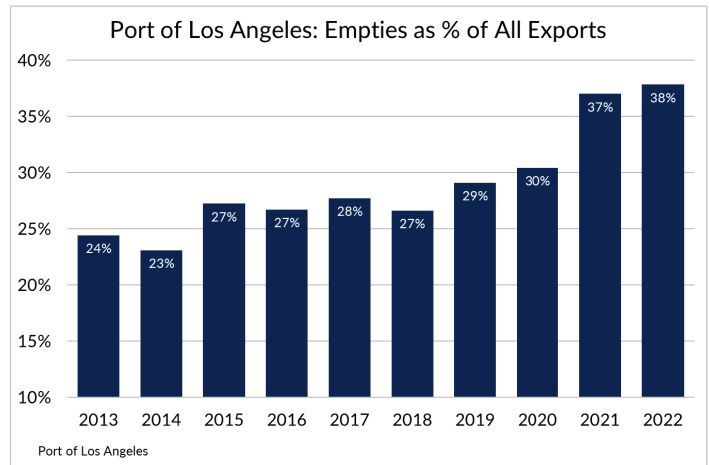
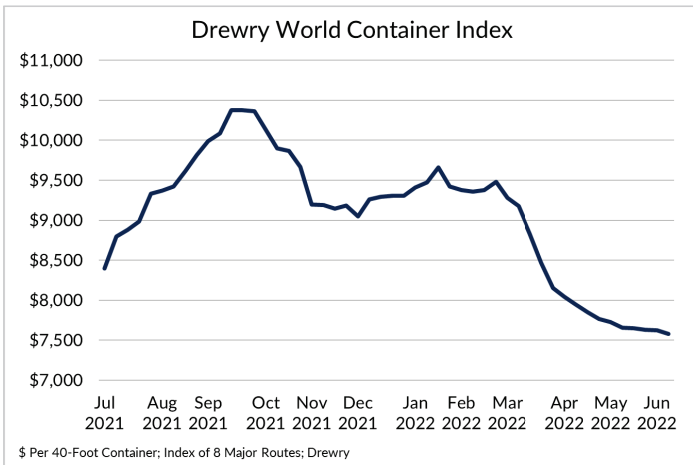
- Production has been down in major EU production centers – Netherlands, Germany, France. Analysts are not expecting a fast turnaround.
- New Zealand milk production down by more than 5% in April.

# Cheese and Butter Exports



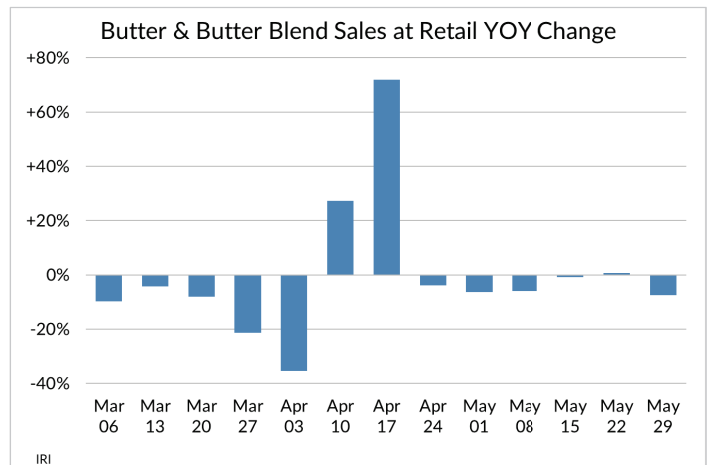
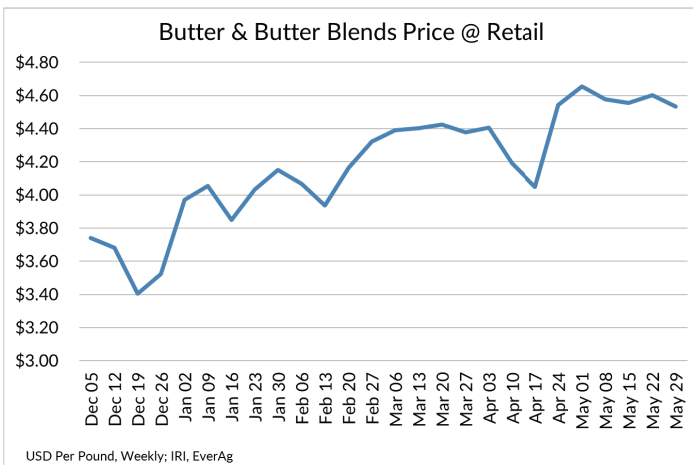
- US cheese continues to leave the country at record pace – up 10% year-to-date vs 2021.
- Higher US prices appear to have slowed April exports by 10% versus last year's pace, but year-to-date exports are still up 25%.

# Can We Get Stuff Out of the US?



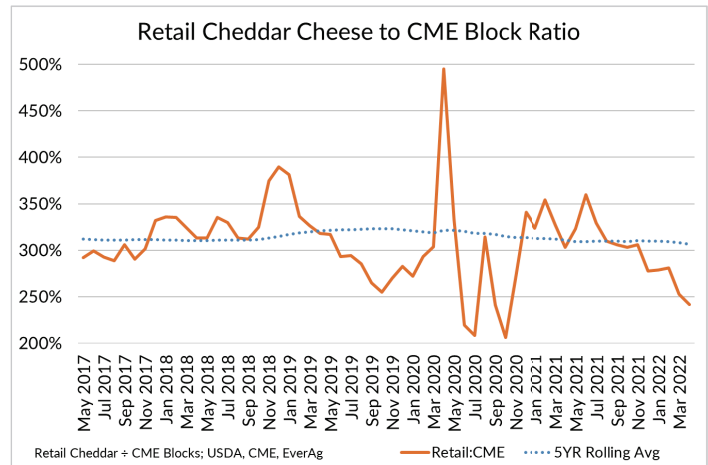
- Ocean-going freight rates are down from their peak but are still nearly 3x higher than in 2020.
- Ports seem to be getting better – but things are still not normal.

## #4 Price Impact on Domestic Demand



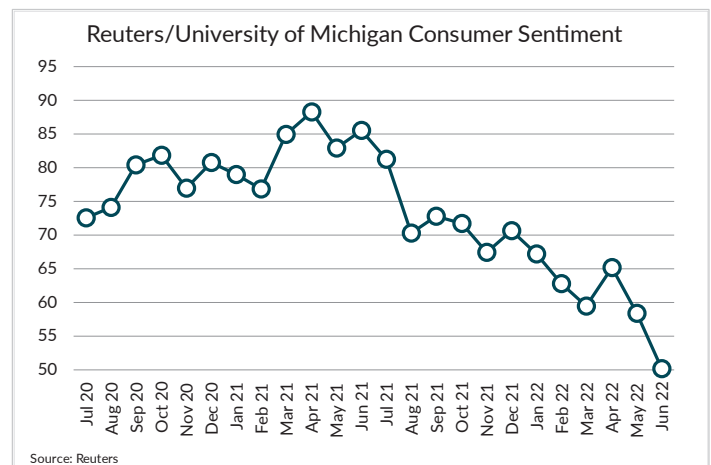
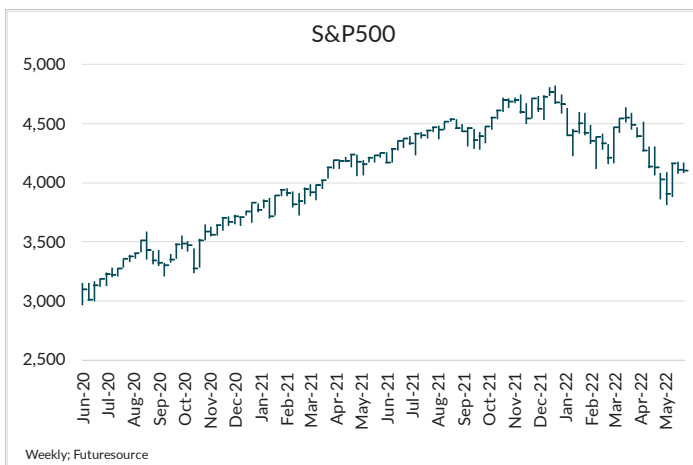
- Retail butter prices are by more than \$1 per pound compared to Thanksgiving/Christmas.
- Retail demand down by more than 3% year-to-date.
- Will stores continue to promote aggressively?

# Cheese Prices Higher, But Not As Dramatic



- Retail cheese prices have been trending higher, but at a slower pace.
- We expect to see prices move up, though, given comparatively lower retail/wholesale price spread.

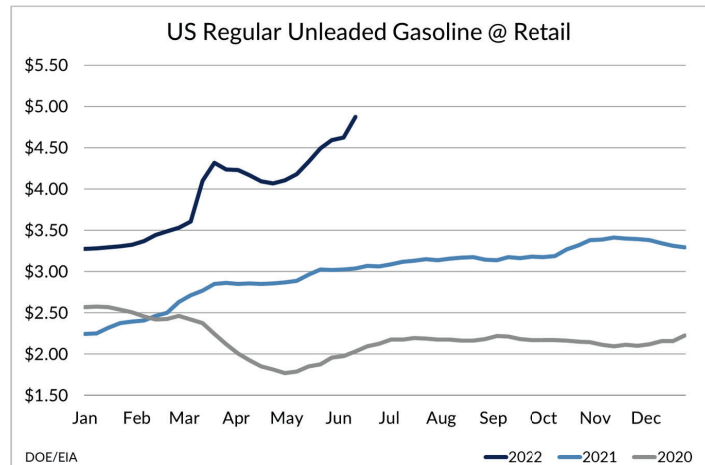
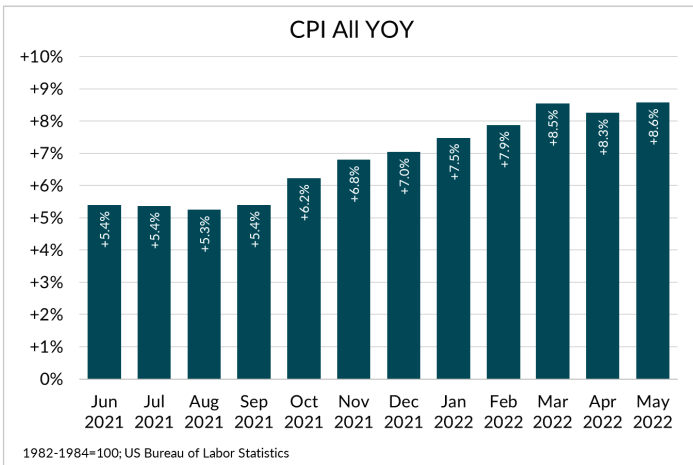
## #5 Fragile Economy & Consumer Environment



- S&P500 is down 18% year-to-date and 8% versus-year prior levels.
- University of Michigan Consumer Sentiment at lowest level since survey began in 1978.
- Will this impact restaurant spending? If so, how much does that matter for dairy demand?

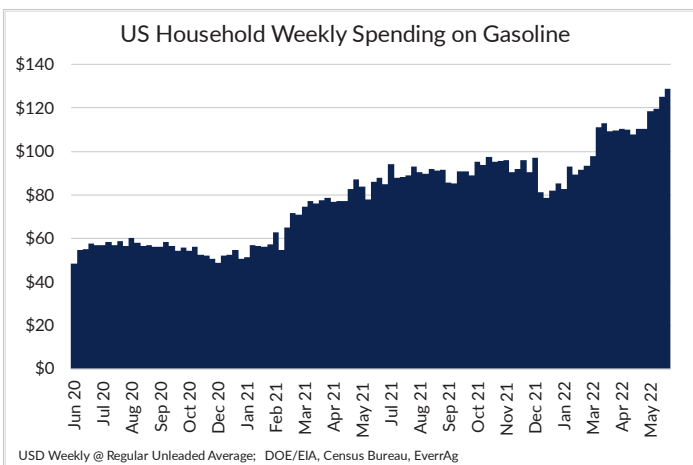


# Inflation A Major Concern!



- Consumer prices rising at the fastest year-over-year pace since the 1980s.
- Energy a big factor in pushing inflation higher – both directly and indirectly.
- Unleaded gasoline running more than \$1.80 above year-prior levels (+61%).

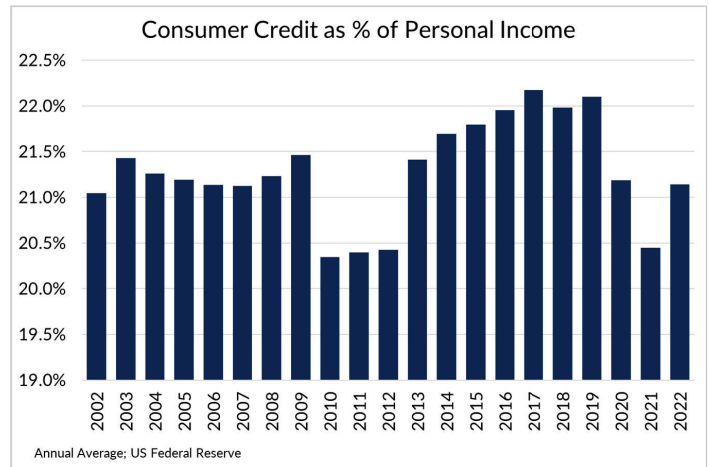
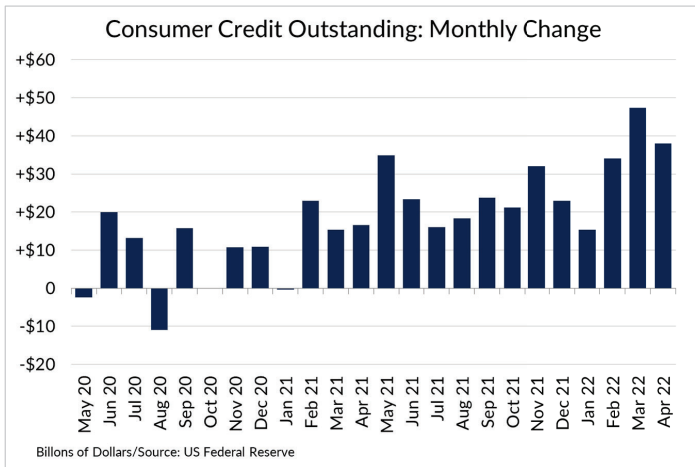
# Consumers Feeling the Pinch



- We estimate that the average US household is spending about \$129 per week on gasoline, up \$51 versus the same period in 2021 and up \$82 compared to 2020.
- That money has to come from somewhere... and, indeed, personal savings are down.

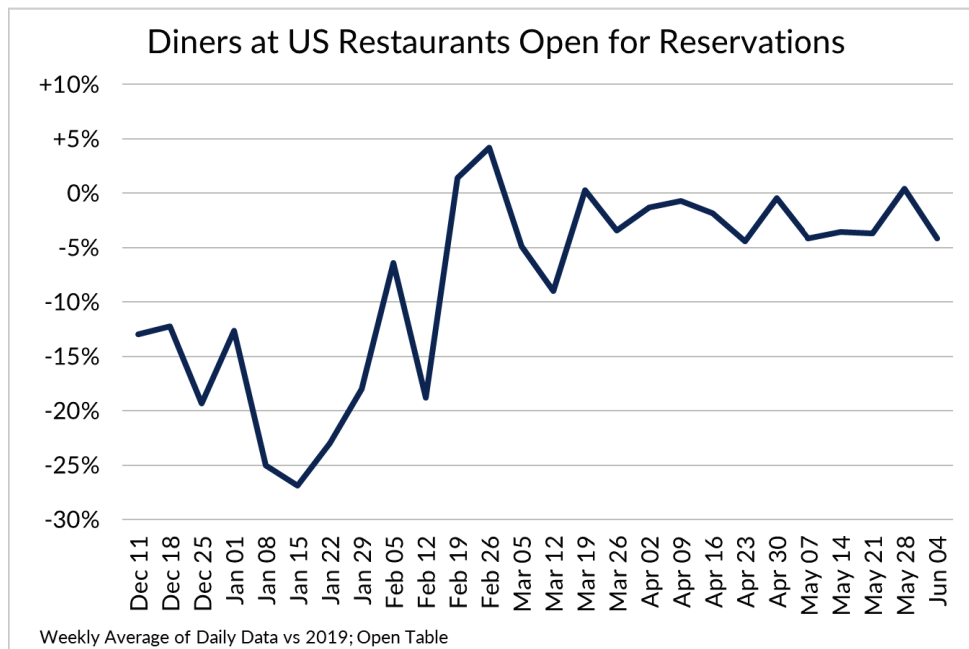


# Tapping Credit Lines

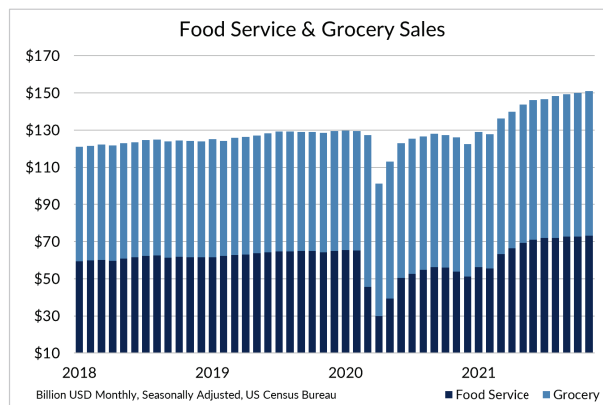


- Consumer credit outstanding increasing at a pace not seen in years.
- Revolving debt making up a large portion of the increase.
- But... Consumers are still in a better debt position than before than pandemic.

# Restaurant Activity Plateaus

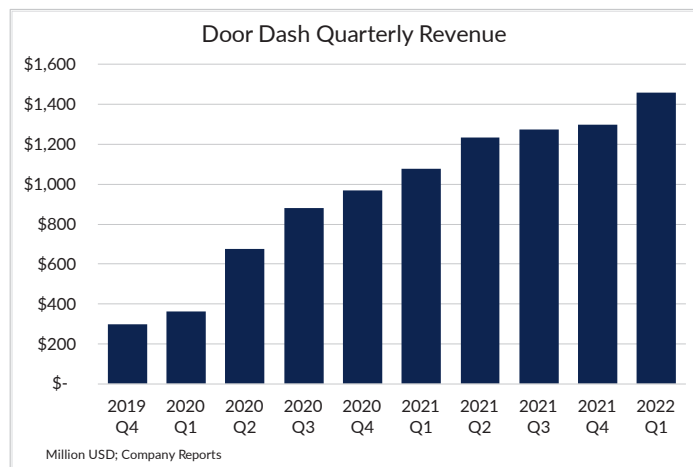
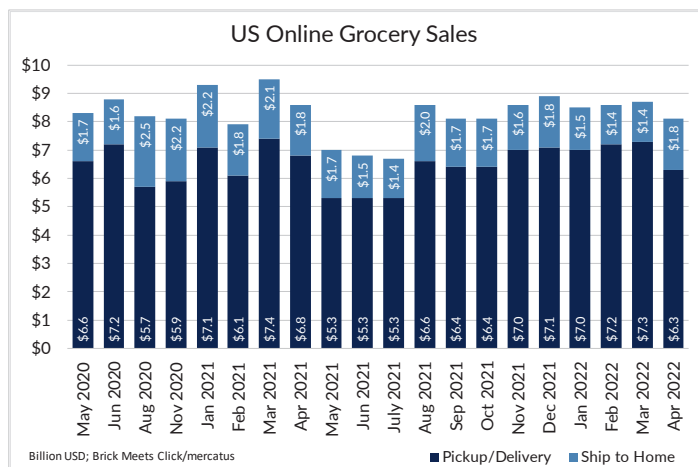


# Hoarding?



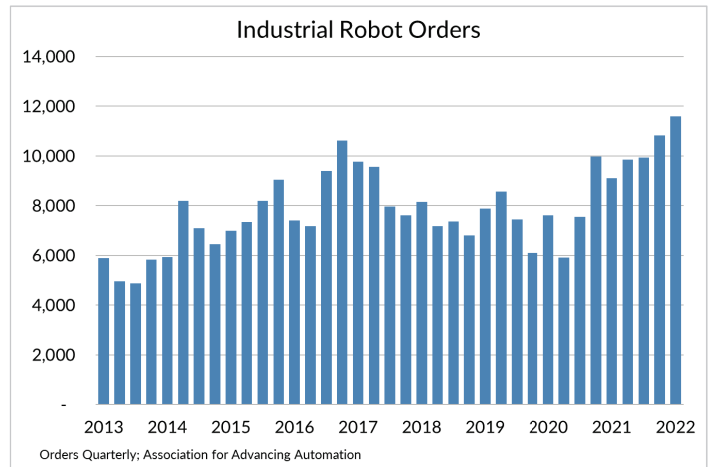
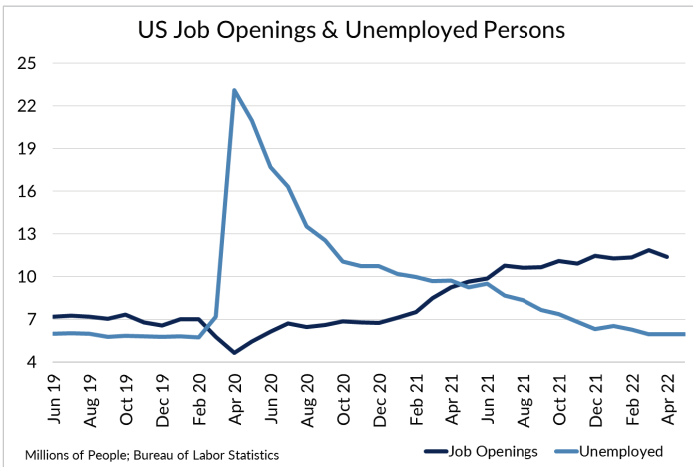
Alexis Abell recently walked out of a BJ's Wholesale Club outside Buffalo, N.Y., with 24 boxes of Kraft Macaroni & Cheese, a box of 50 frozen mozzarella sticks, a 40-pound bag of basmati rice and a 12-can pack of garbanzo beans. "I don't want to be in a position again where I can't get something," says Ms. Abell, a 41-year-old mother of five...

## Direct Ship, Delivery & Pickup Still Strong



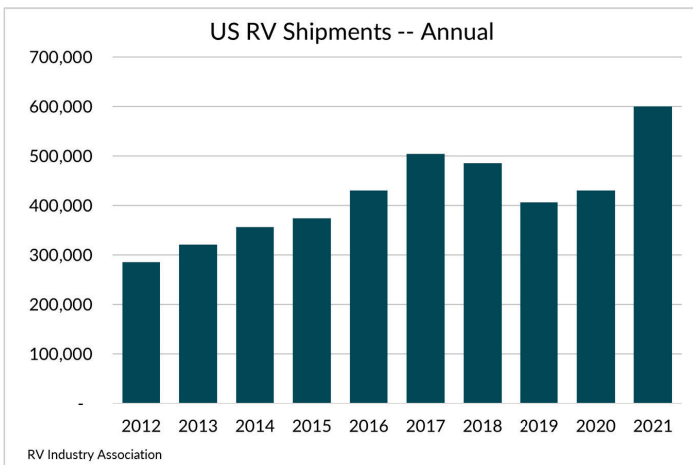
- Though growth has slowed, direct ship and delivery/pickup grocery business continues to hold at levels well above the pre-pandemic norm.
- Door Dash Q1 2022 revenue was more than 4x Q1 2020 sales.

# Labor Markets Remain Tight



- Number of job openings leveling off, but in April, the number of vacancies (11.4 million) still exceeded the number of unemployed persons (5.9 million) by a wide margin.
- Robot orders gaining ground as employers look to replace labor needs.

# “Work From Anywhere”



- RV sales up 39% in 2021 vs 2020
- Airstream and other manufacturers now offer “home office” options for RV buyers.

# Listen to The Dairy Download! (Please)



**PHIL PLOURD, HOST**

Phil Plourd is president of Blimling and Associates, Inc., a research and consulting firm focused on the dairy markets. Phil has been involved in dairy market analysis, research, forecasting and risk management activities for 20 years. He is based in Madison, Wisc.



**KATHLEEN NOBLE WOLFLEY, HOST**

Kathleen Noble Wolfley is senior economist and research specialist for Blimling and Associates. Previously, she worked as a dairy economist for Leprino Foods, the world's largest mozzarella cheese maker. She grew up on a dairy farm and today is based outside of Buffalo, NY.

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