

Factors and Trends Affecting the Michigan Dairy Industry

June 1, 2017

Christopher A. Wolf
Michigan State University

Always Interesting Times in the Dairy Industry

Canada milking US dairy products

by Michelle Macaluso, Sinclair Broadcast Group | Monday, May 1st 2017



America's Dairy Farmers Dump 43 Million Gallons of Excess Milk

Spilled milk hits highest in decades, as prices drop an in McMuffins and cheese in tacos



MICHIGAN DAIRY FARMER OUTLINES CHANGES NEEDED IN FARM BILL SAFETY NET AT SENATE HEARING

BY NMPF | May 8, 2017

[Home](#) > [News](#) > [Agricultural News](#)



Trump Sends Nafta Renegotiation Notice to Congress

[Leer en español](#)

By JULIE HIRSCHFELD DAVIS MAY 18, 2017



CAGR

USA— 1.34% to 1.92%

India—6.63%

China—26.38% to 0.93%

Brazil—3.92%

Russia— (0.36%)

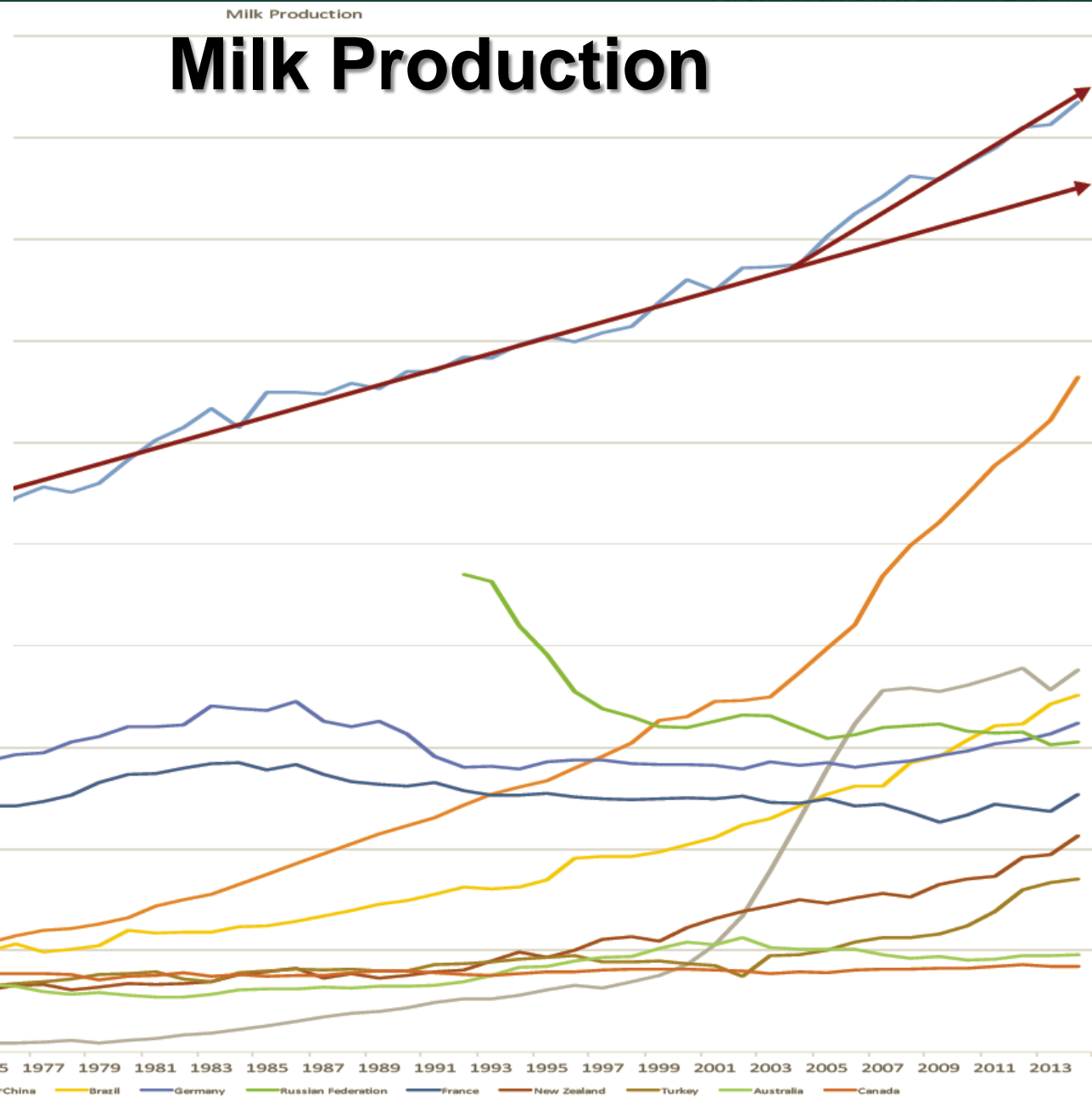
France— 0.10%

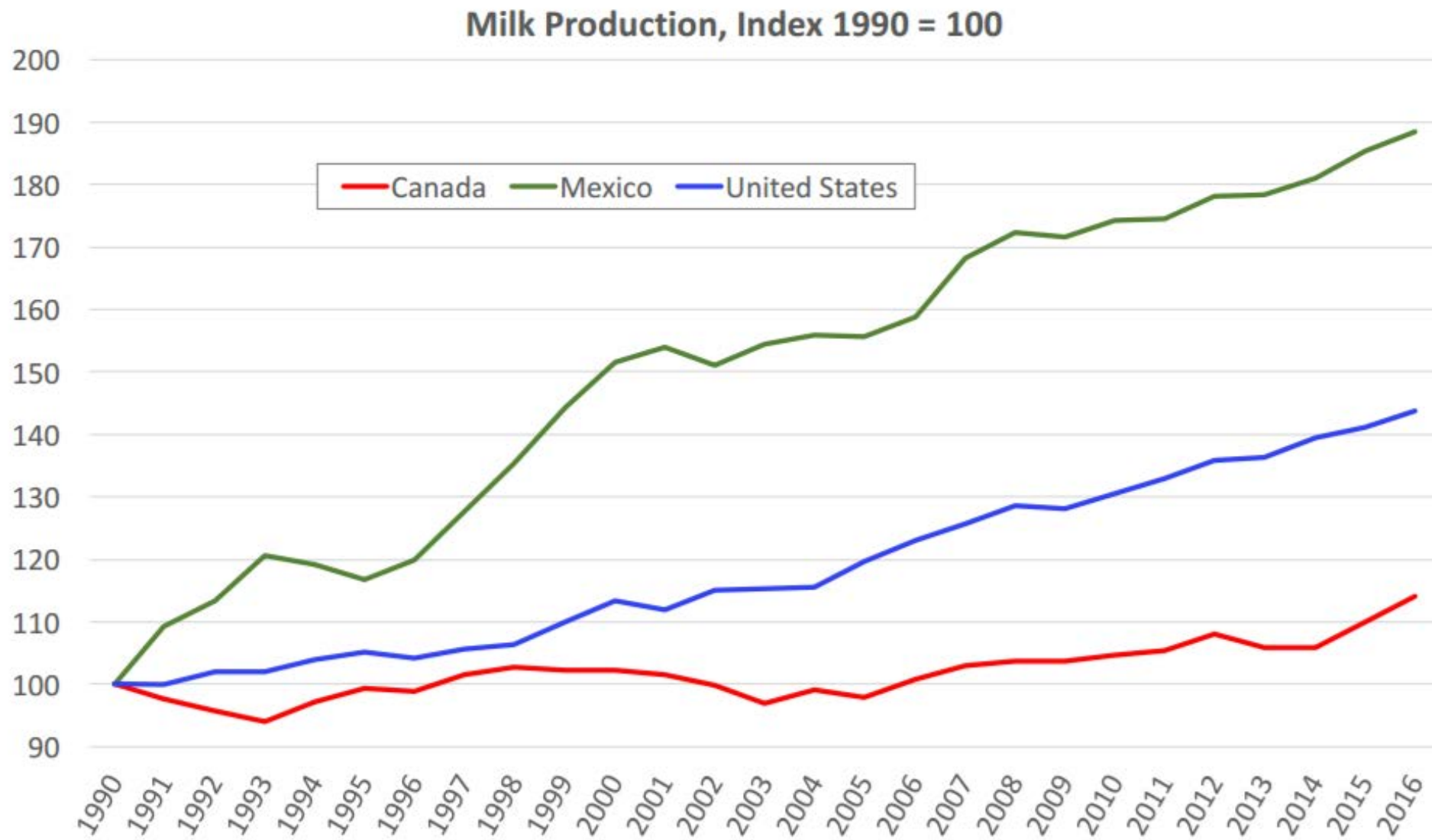
New Zealand—4.36%

Turkey—5.81%

Australia— (0.98%)

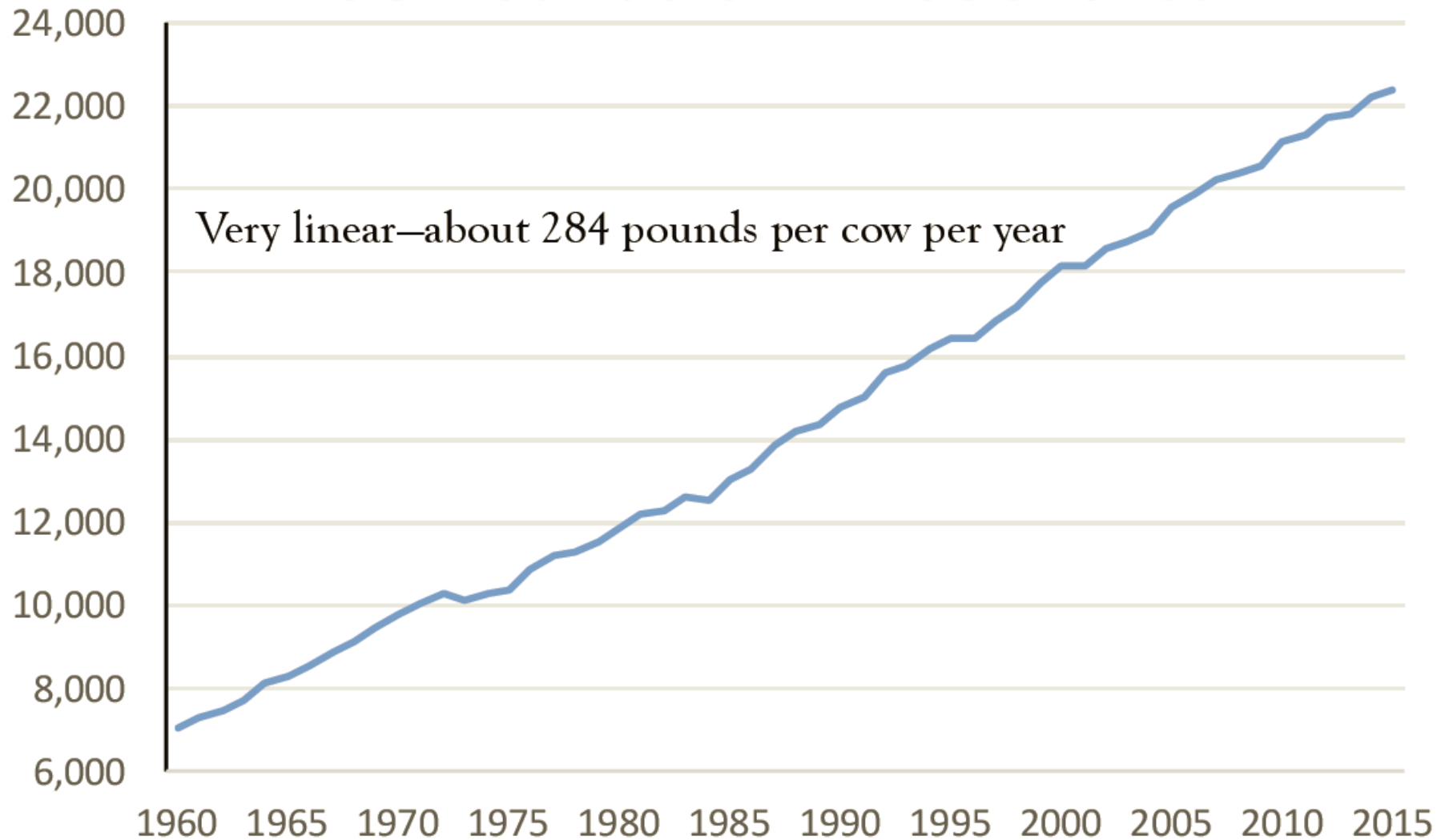
Canada— 0.22%



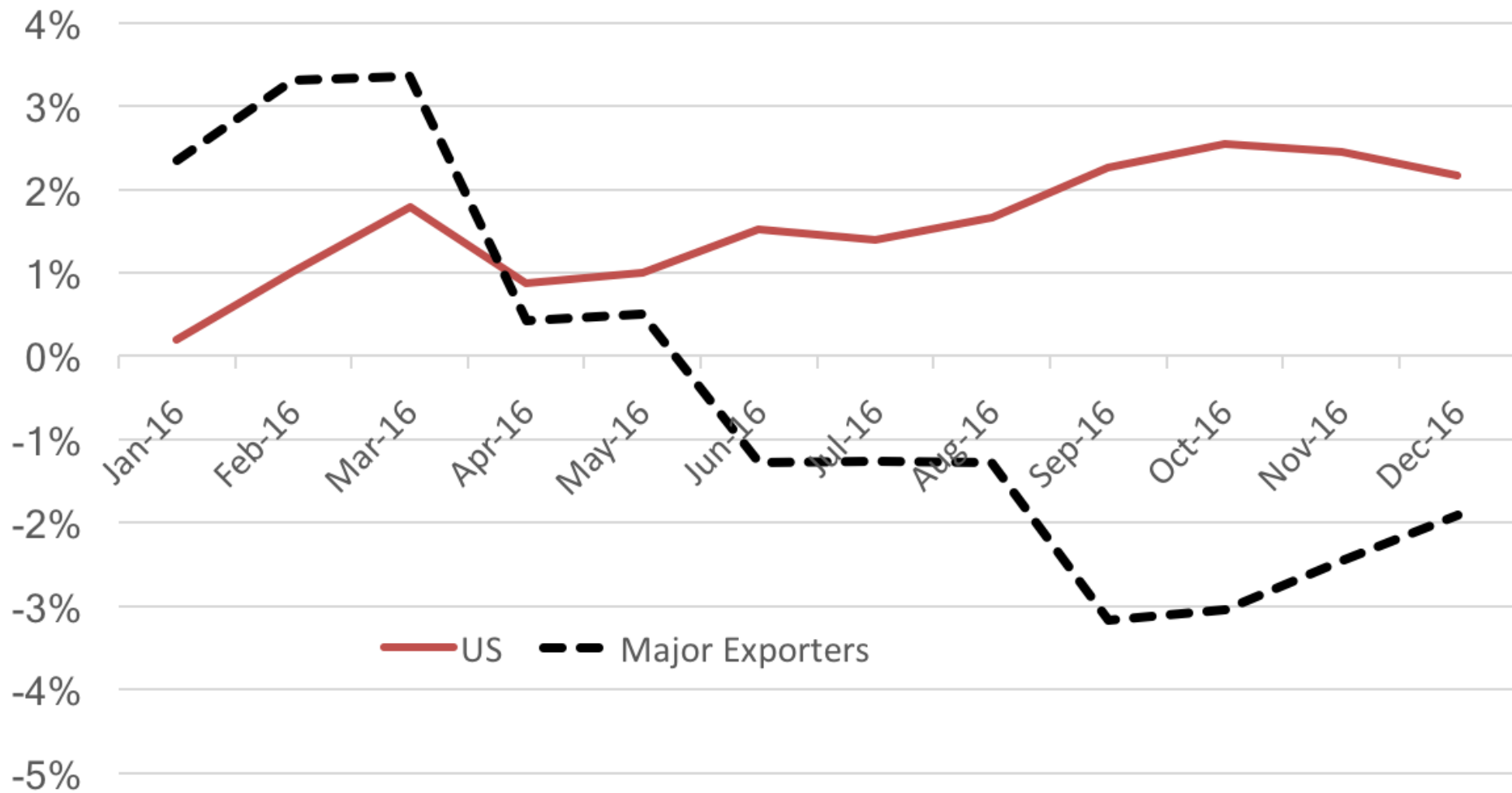


Source: Mark Stephenson

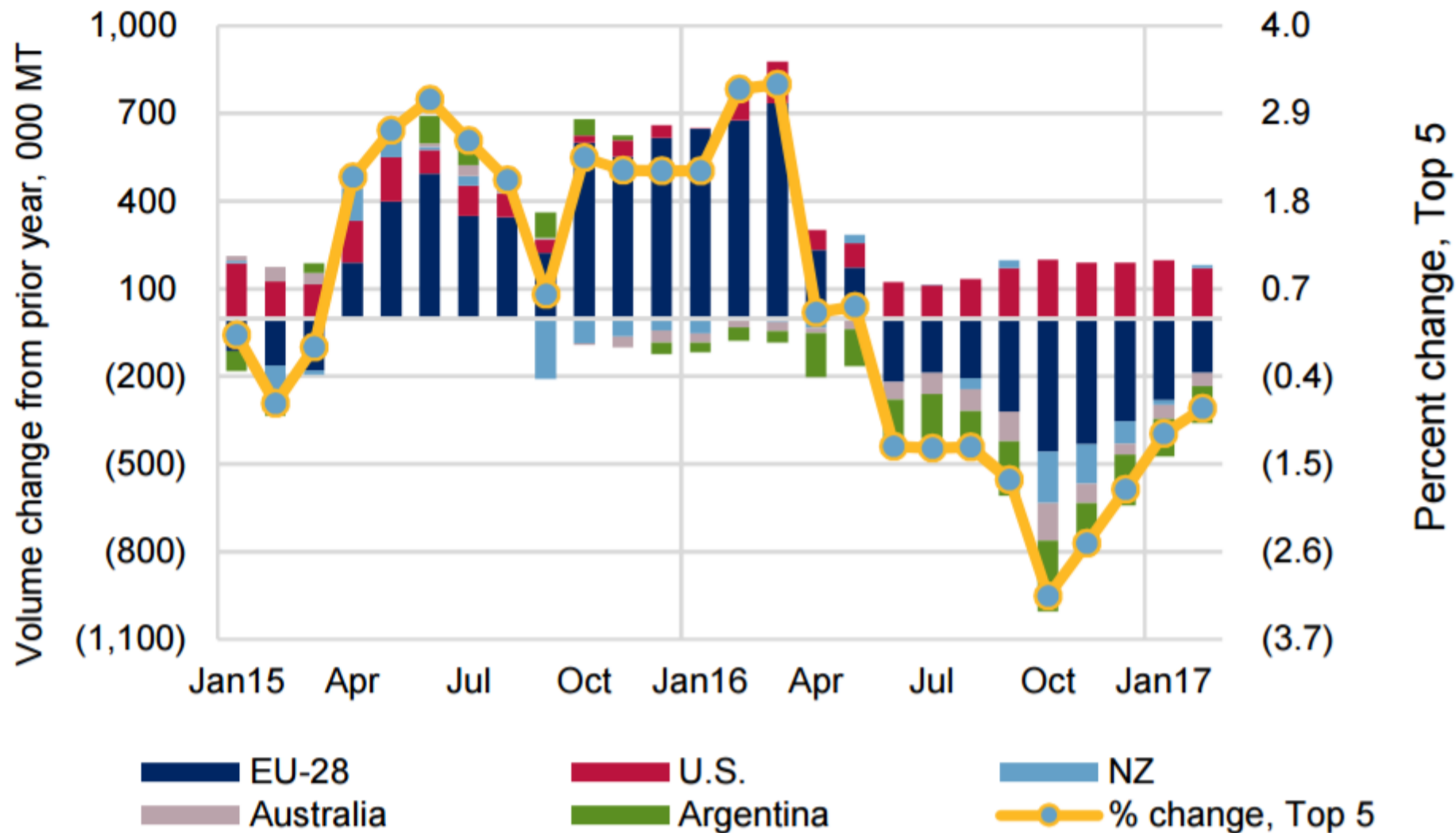
US Pounds of Milk/Cow/Year



Percent Change in Milk Production from Year Earlier



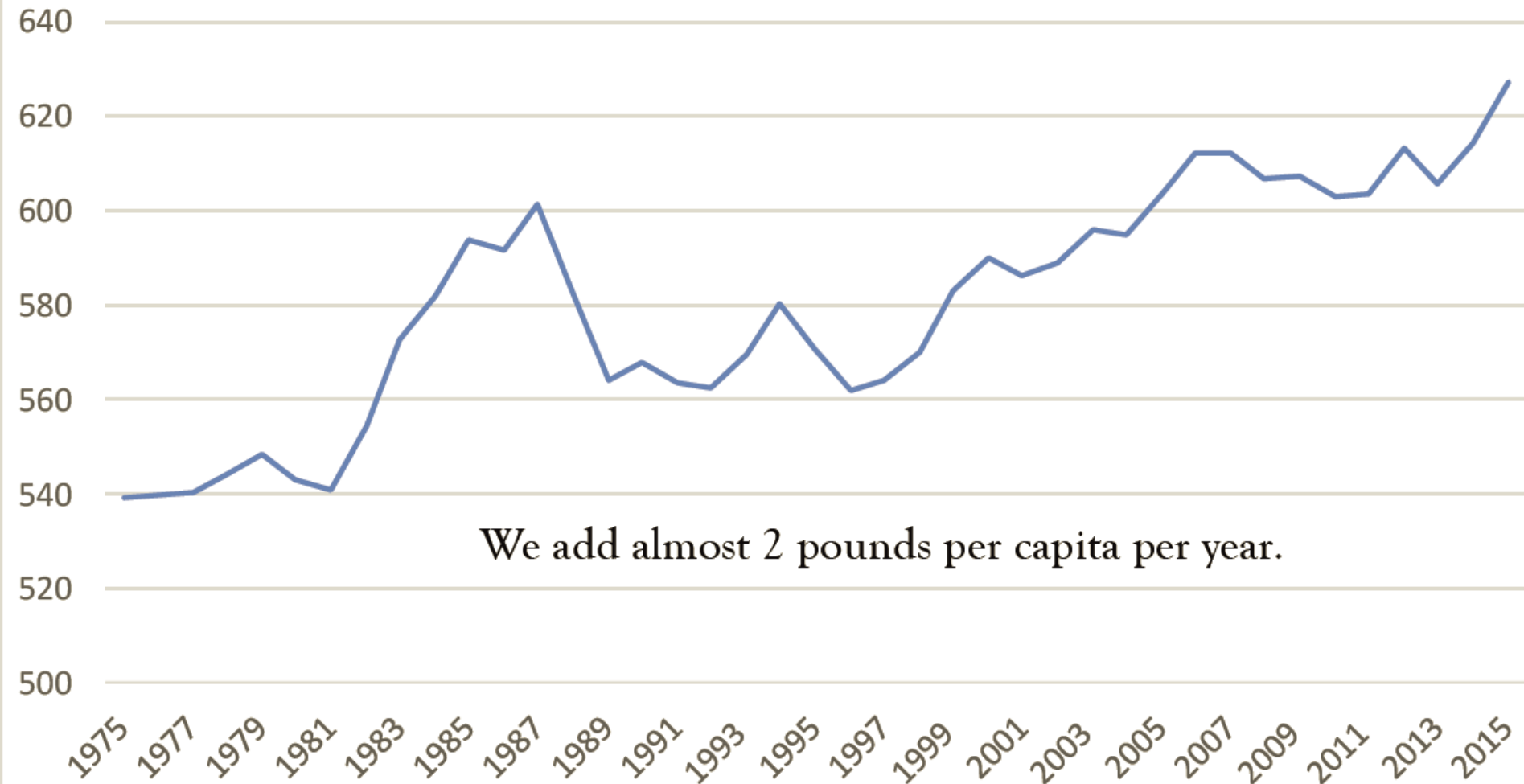
Milk Production Change from Prior Year, Top 5 Global Suppliers



Feb. 16 adjusted for leap day. Latest month may include USDEC estimate.

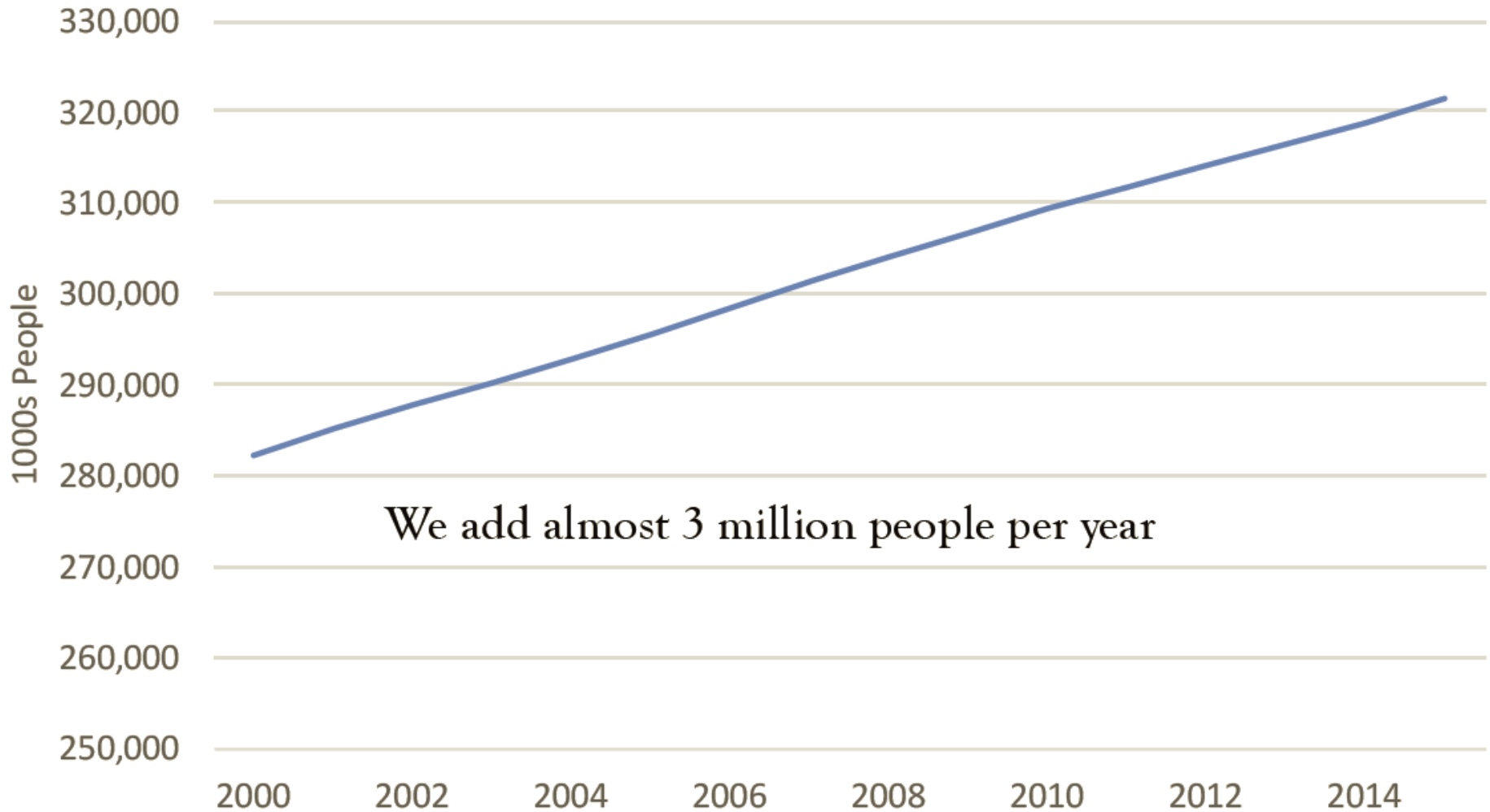
Dairy Consumption

Milk Equivalent—All Products

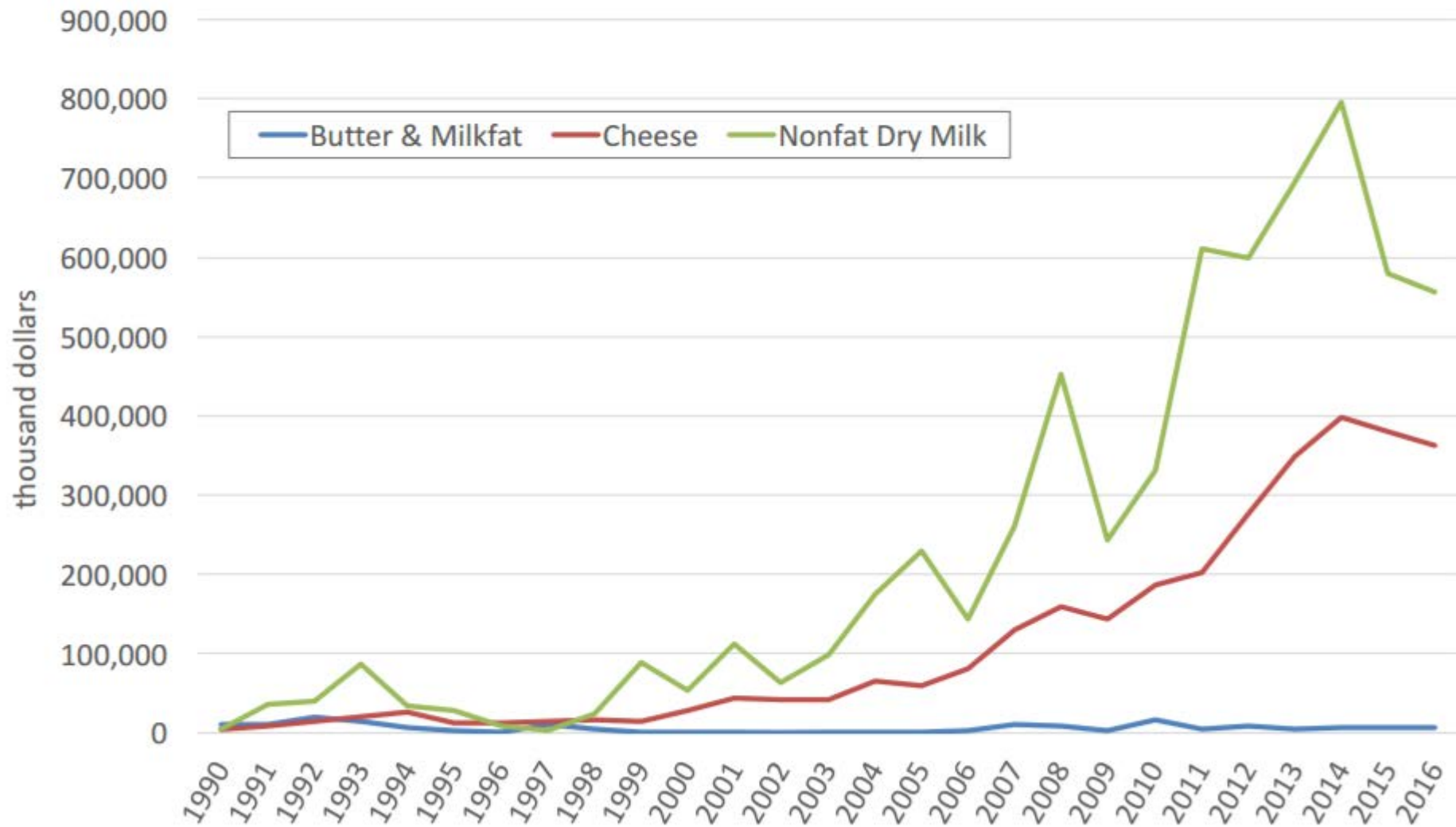


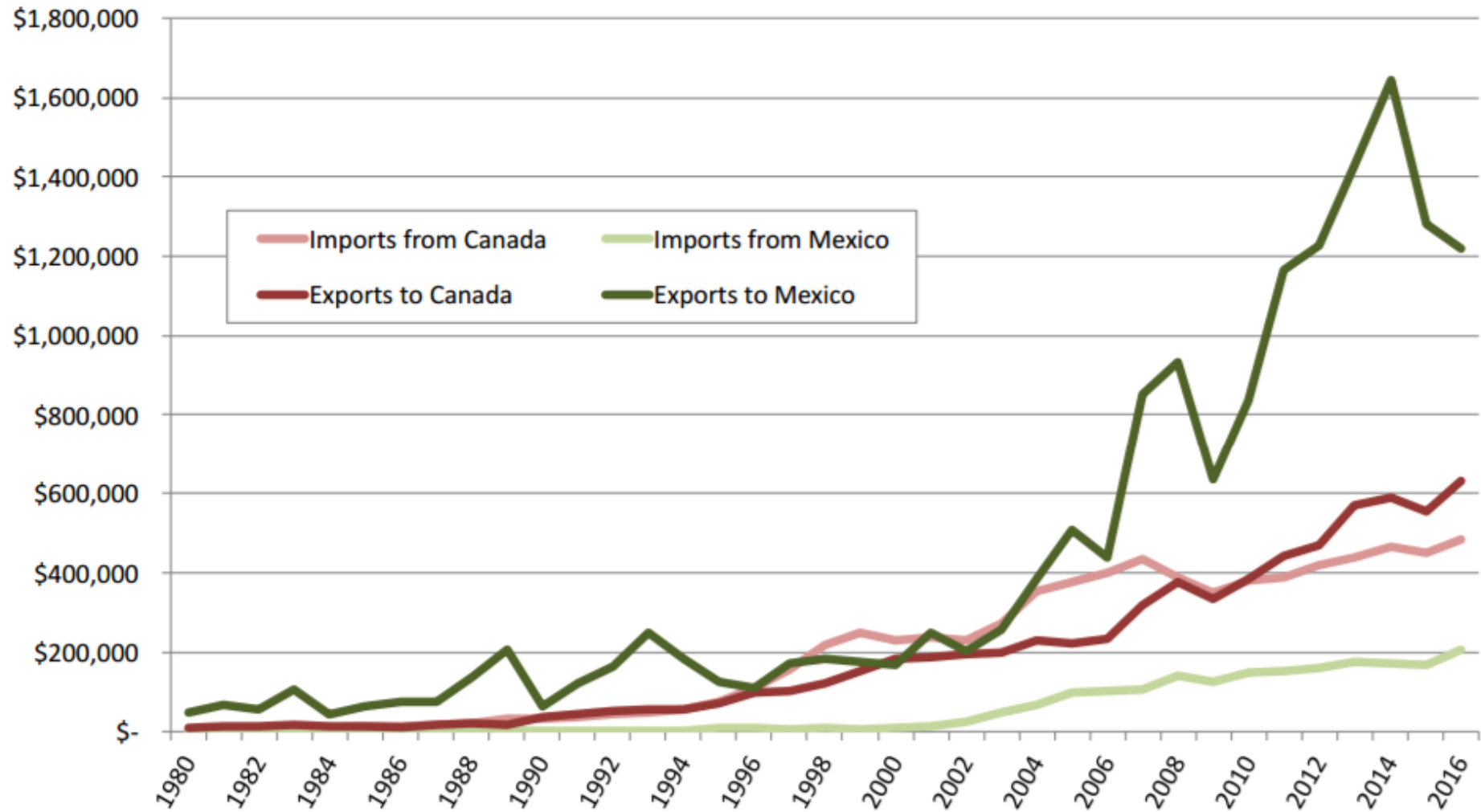
We add almost 2 pounds per capita per year.

U.S. Population



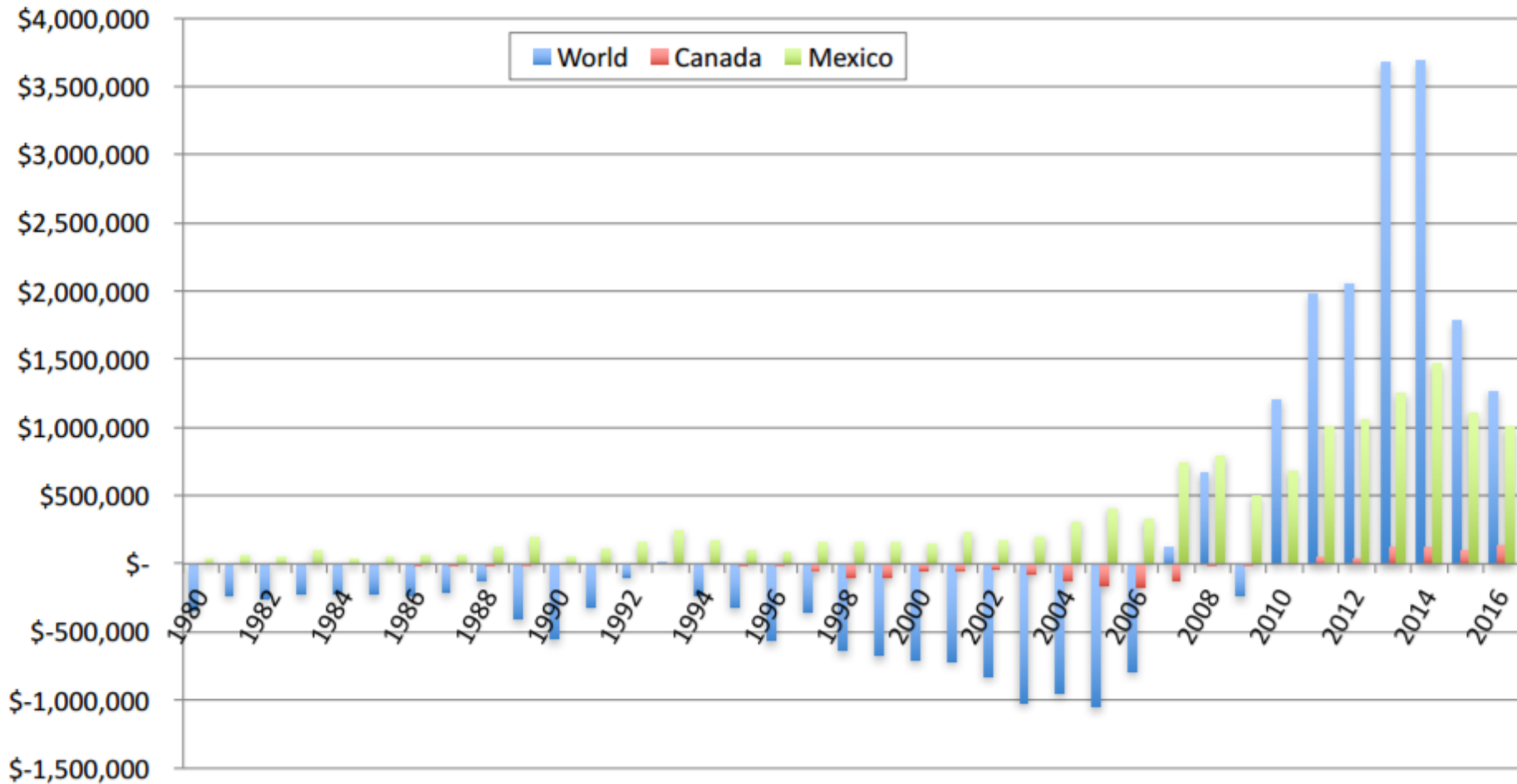
Value of US Dairy Exports to Mexico, 1990 to 2016, thousand dollars



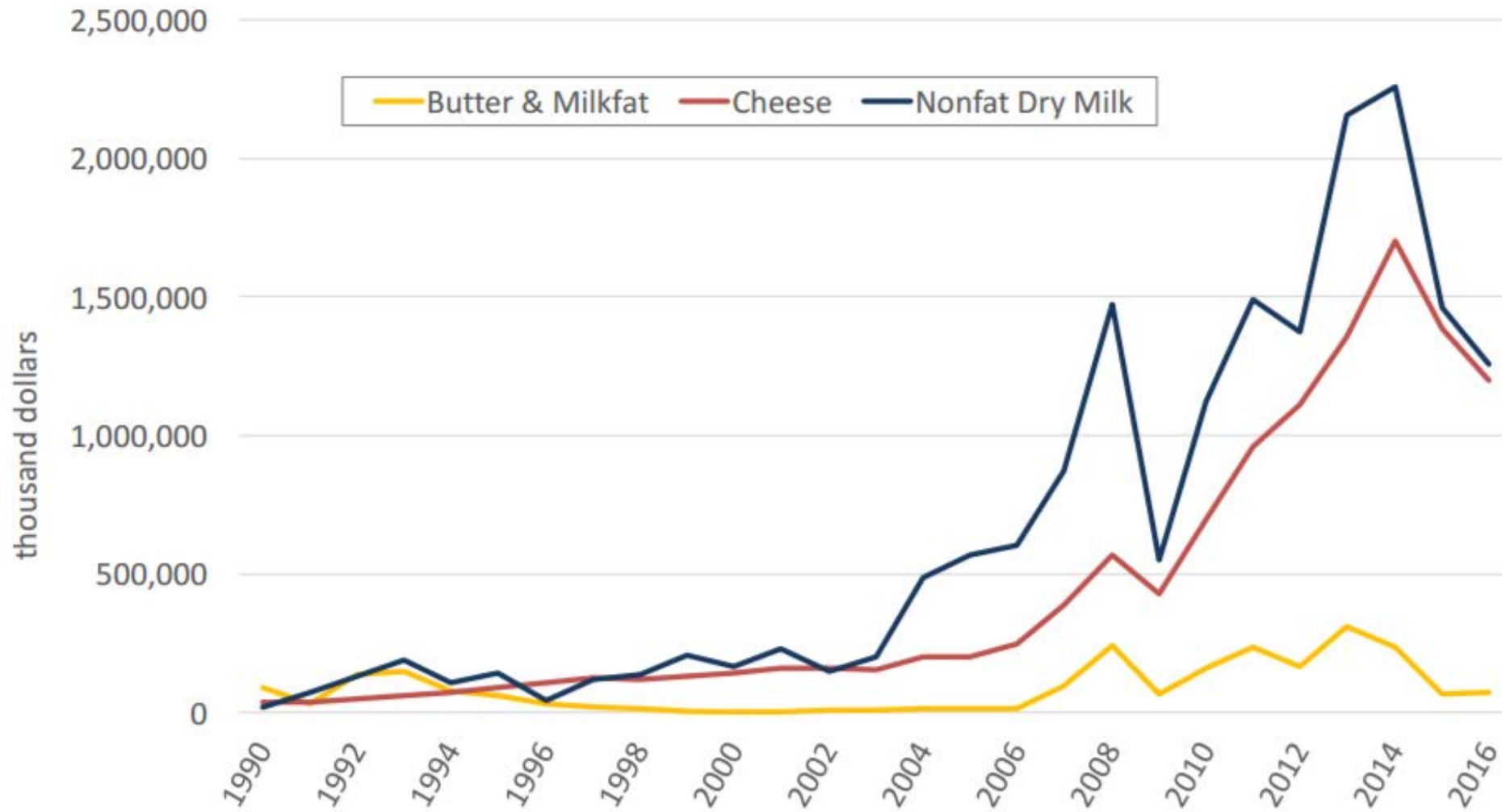
Value of US Dairy Trade with Canada and Mexico, 1980 to 2016

Value of US Net Exports, World, Canada, and Mexico, 1980 to 2016

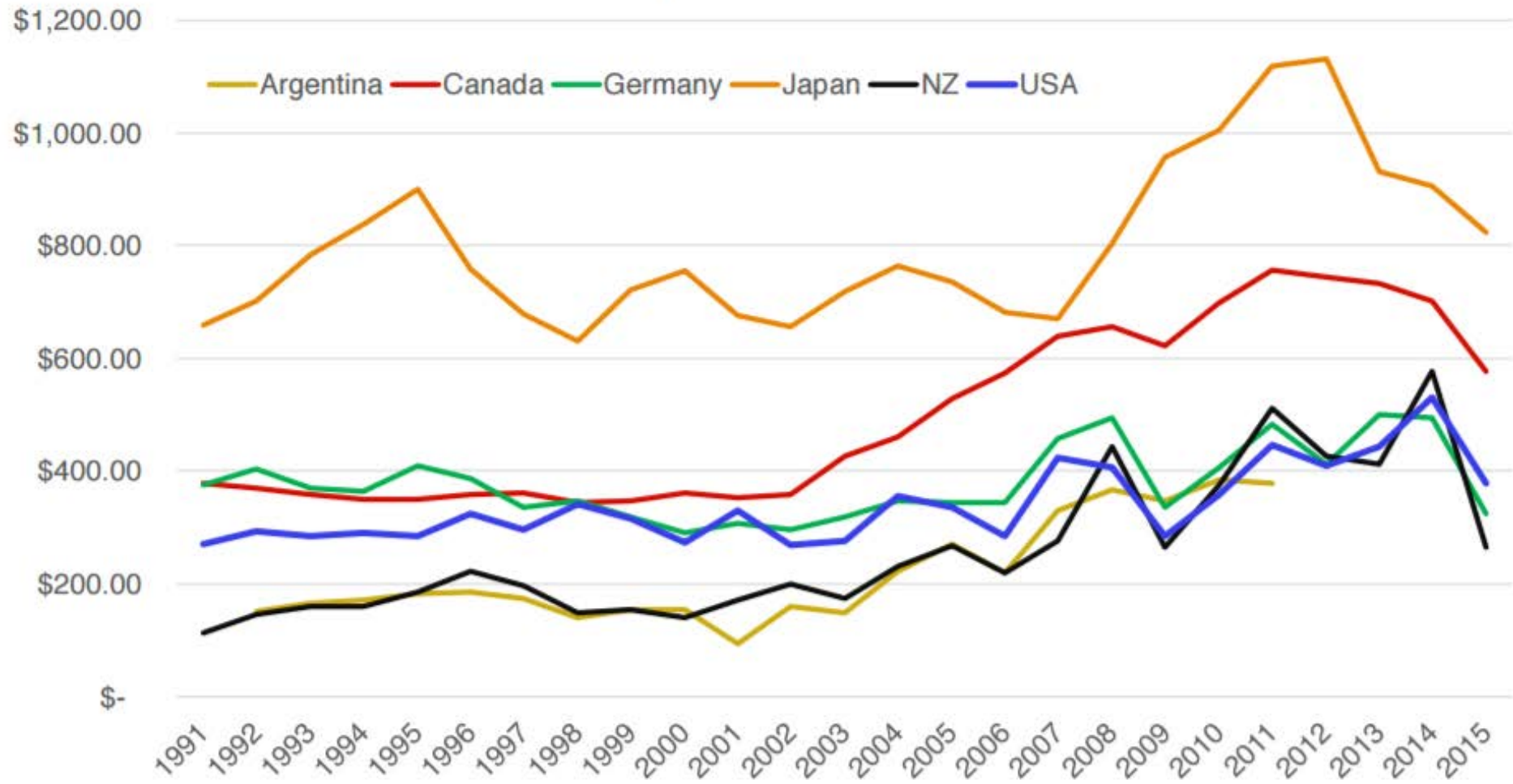
Thousand \$



Value of US Dairy Exports to All Countries, 1990 to 2016, thousand dollars

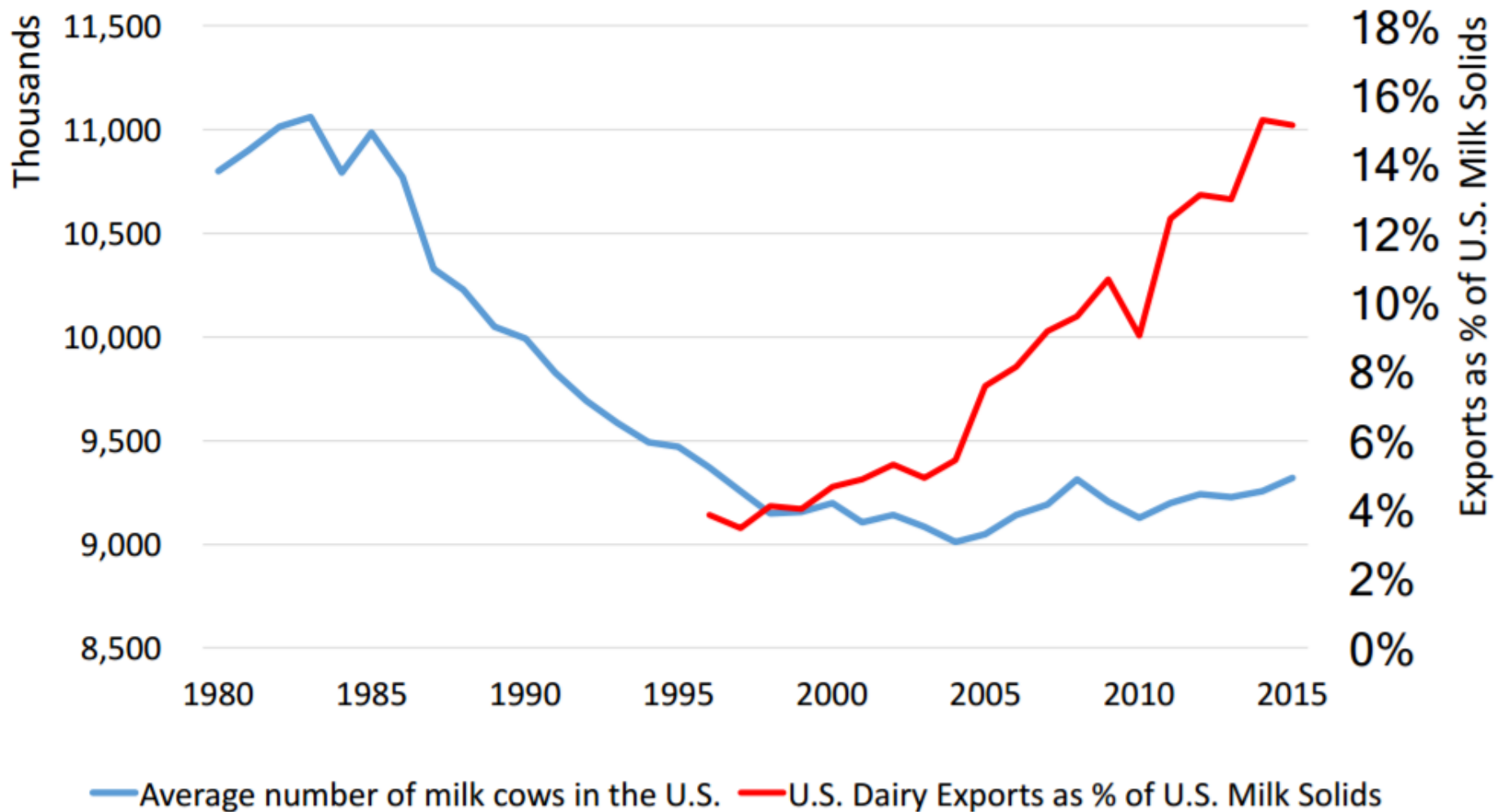


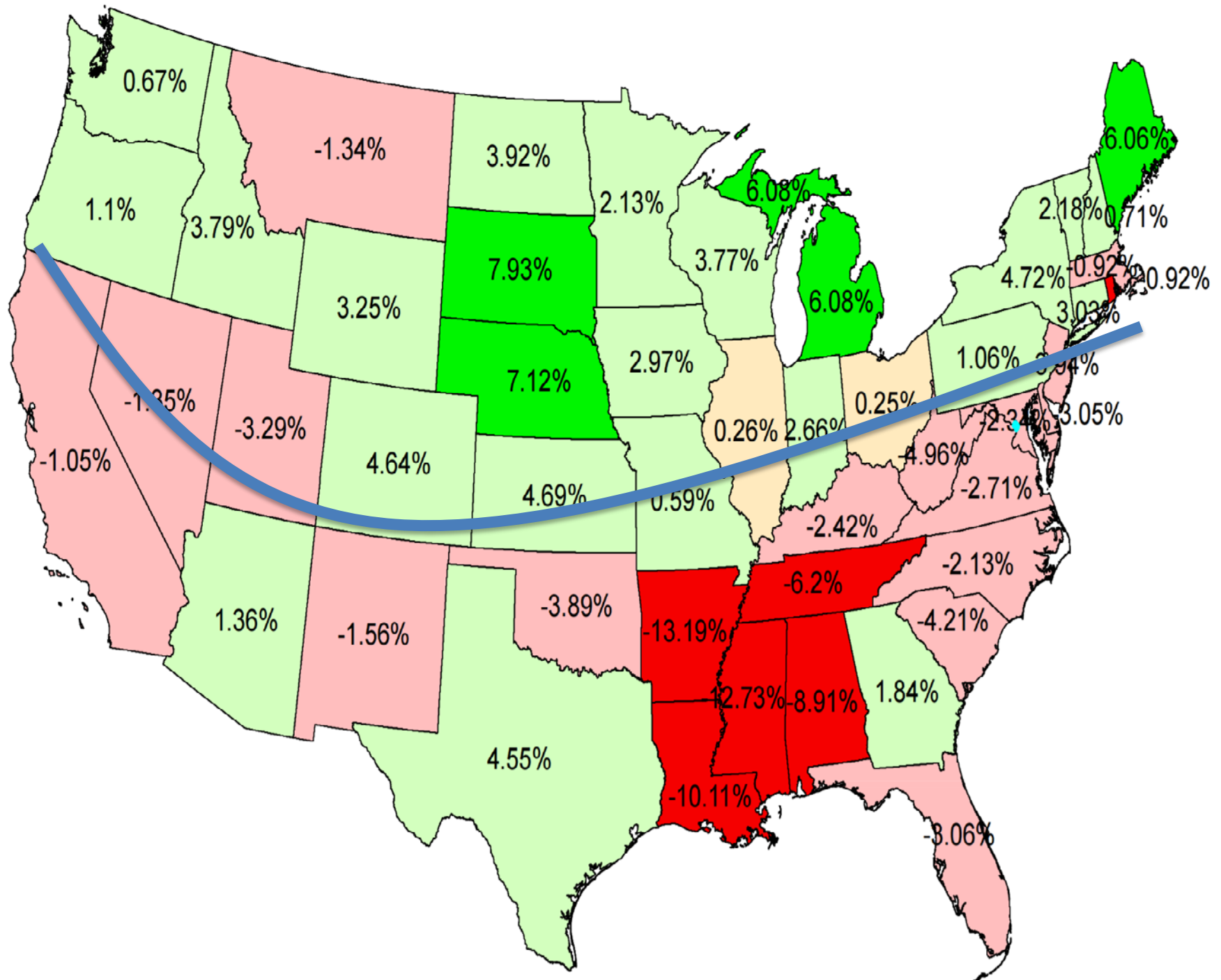
Producer Prices for Milk, Selected Countries, 1990 to 2015, US\$ per metric tonne



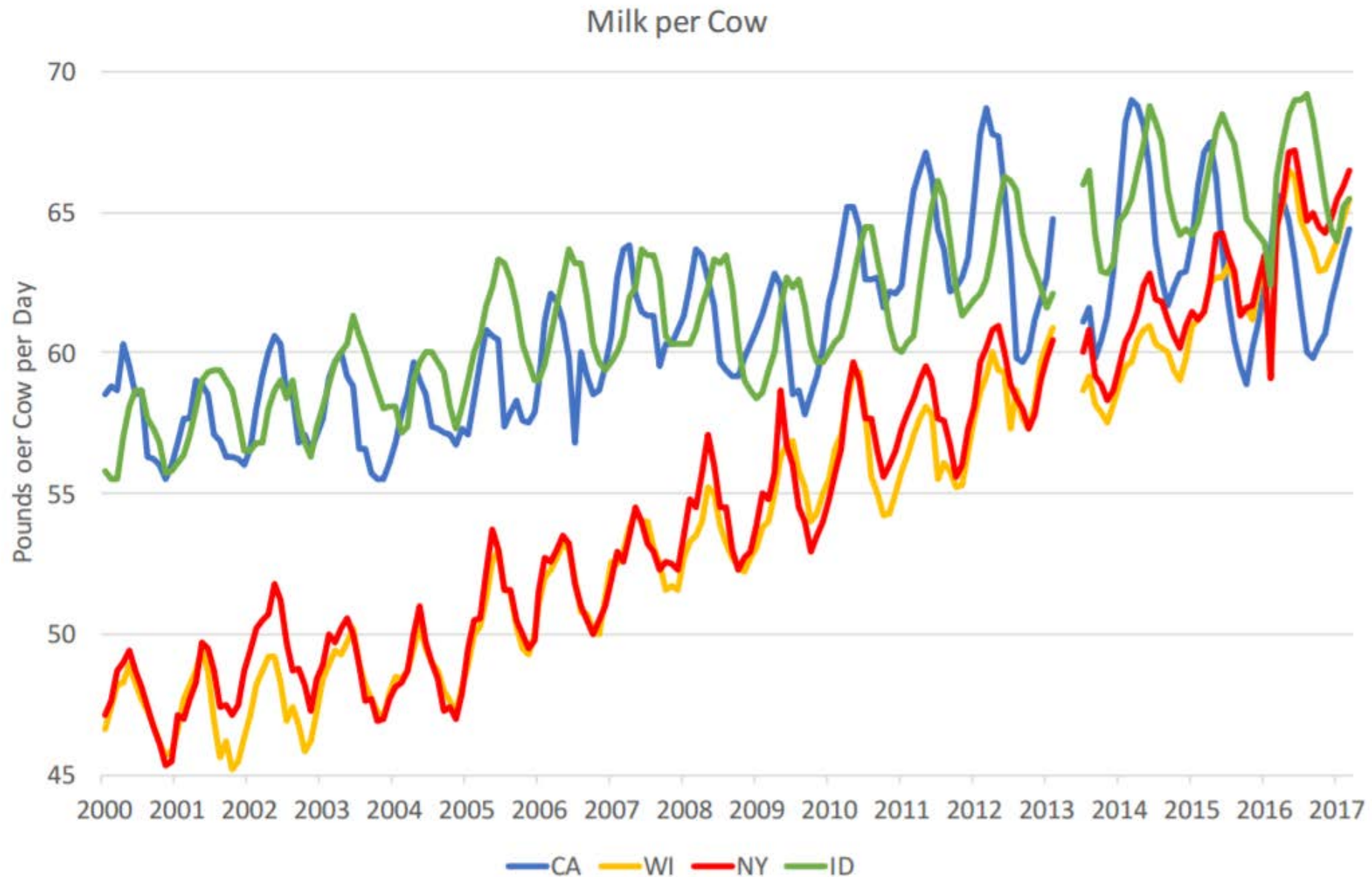
Has dairy trade liberalization been a success?

- By what measure?
 - Expansion of economic pie
 - Growth in low income countries
 - Food security in LDC's
 - Inspired innovation and entrepreneurship
 - Reduced international tensions
- What needs improving?
 - Alternatives for displaced workers



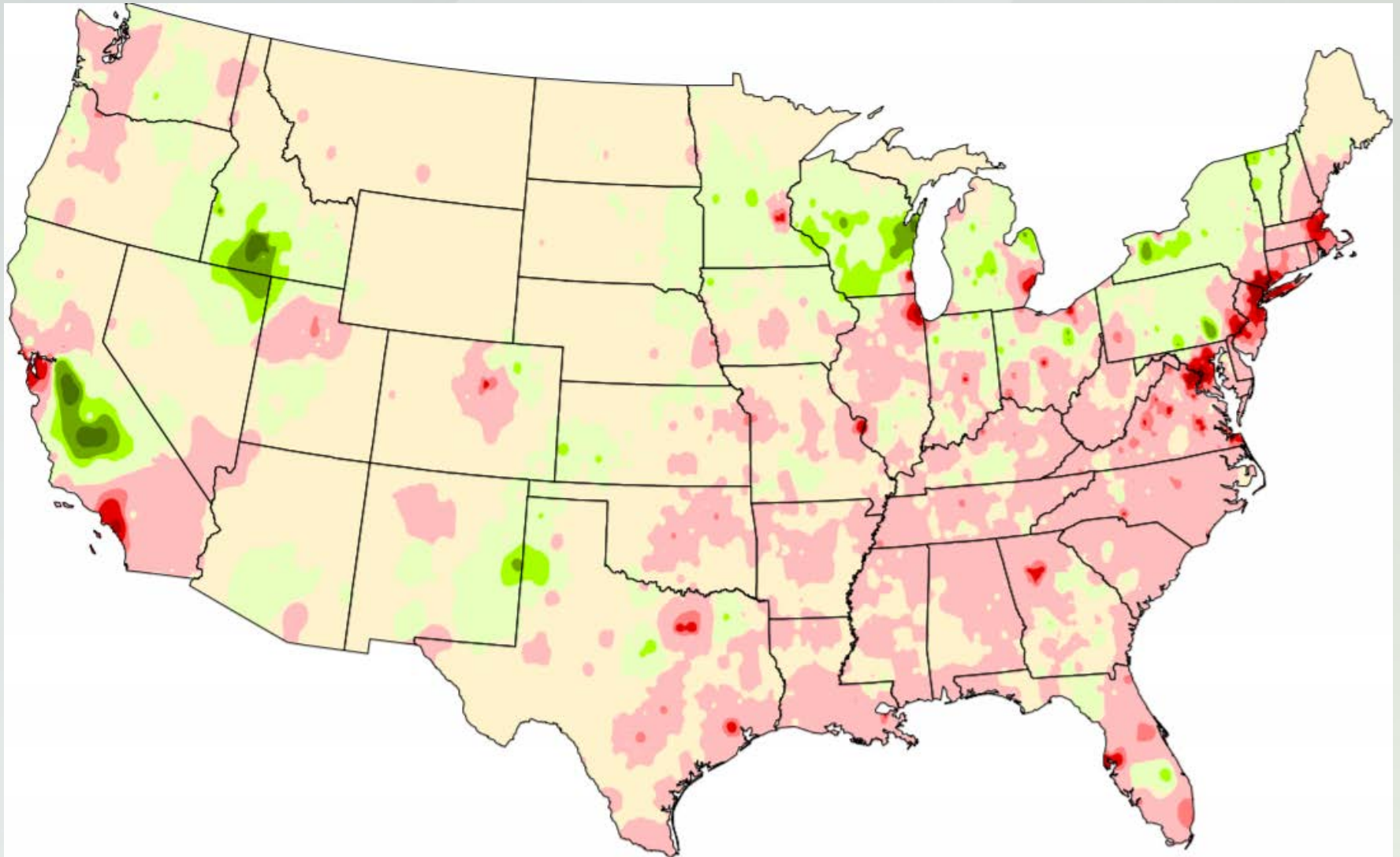


State	Cows (000's)	Milk/cow (lbs)	Production (mil lbs)	Change from 2015
1. California	1,762	22,968	40,469	-1.0
2. Wisconsin	1,279	23,552	30,123	3.8
3. New York	620	23,815	14,765	4.8
4. Idaho	595	24,647	14,665	3.9
5. Michigan	419	25,597	10,876	6.0
6. Pennsylvania	529	20,454	10,820	0.2
7. Texas	475	22,680	10,773	4.6
8. Minnesota	461	20,967	9,666	2.2
9. New Mexico	315	24,479	7,711	-1.5
10.	276	24,094	6,650	0.7



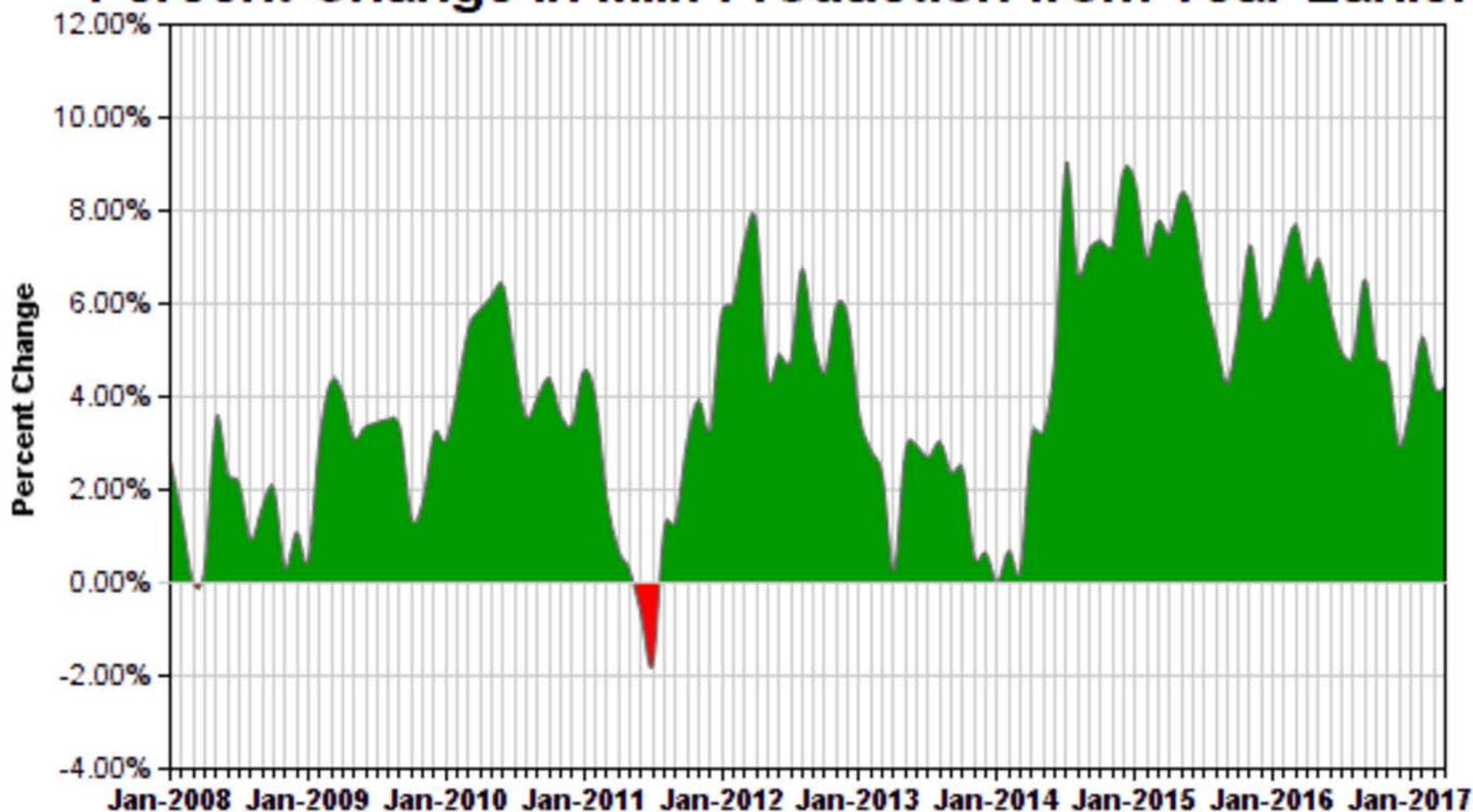
Source: Mark Stephenson

2016 Surplus/Deficit Milk Production

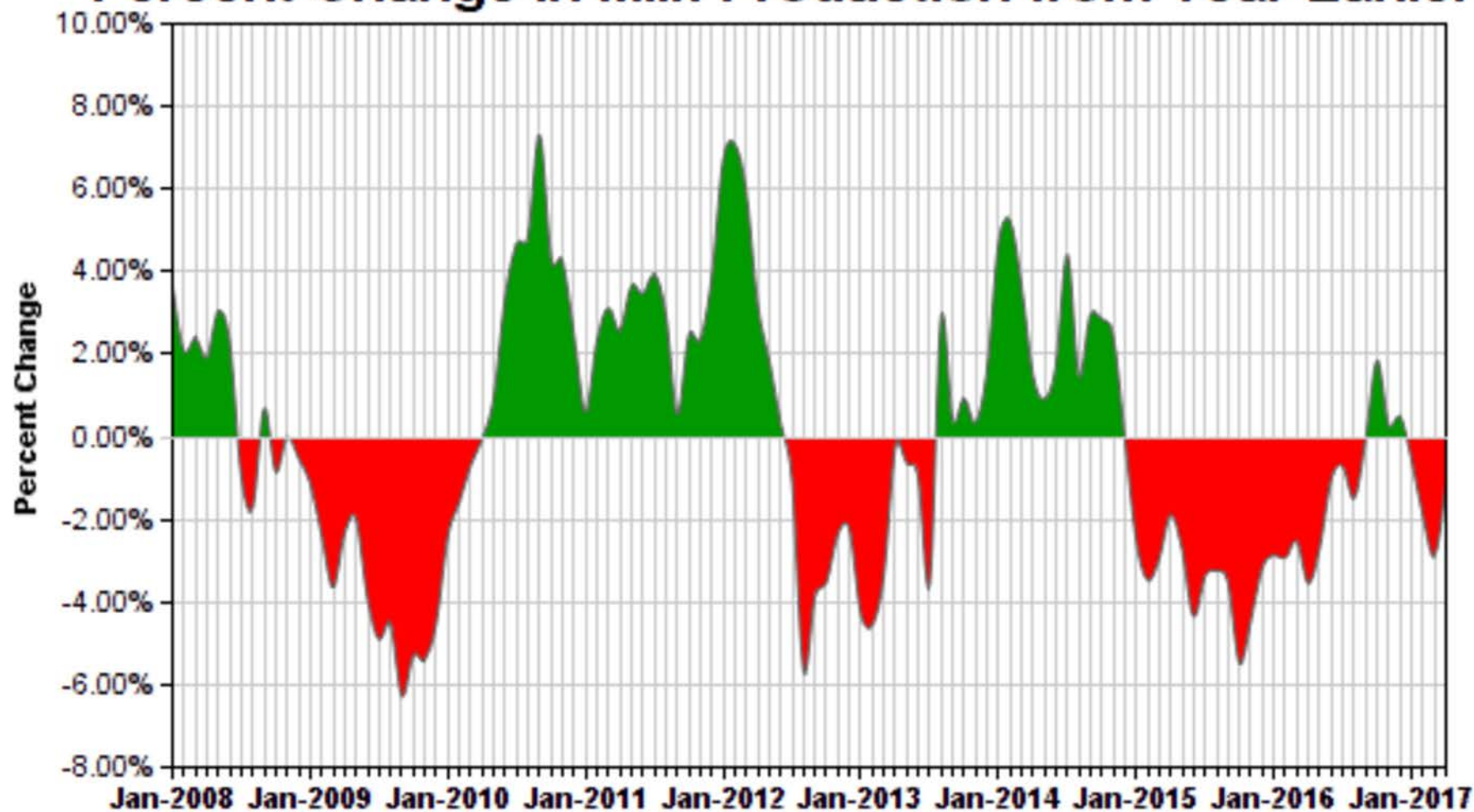


Source: Mark Stephenson

Percent Change in Milk Production from Year Earlier



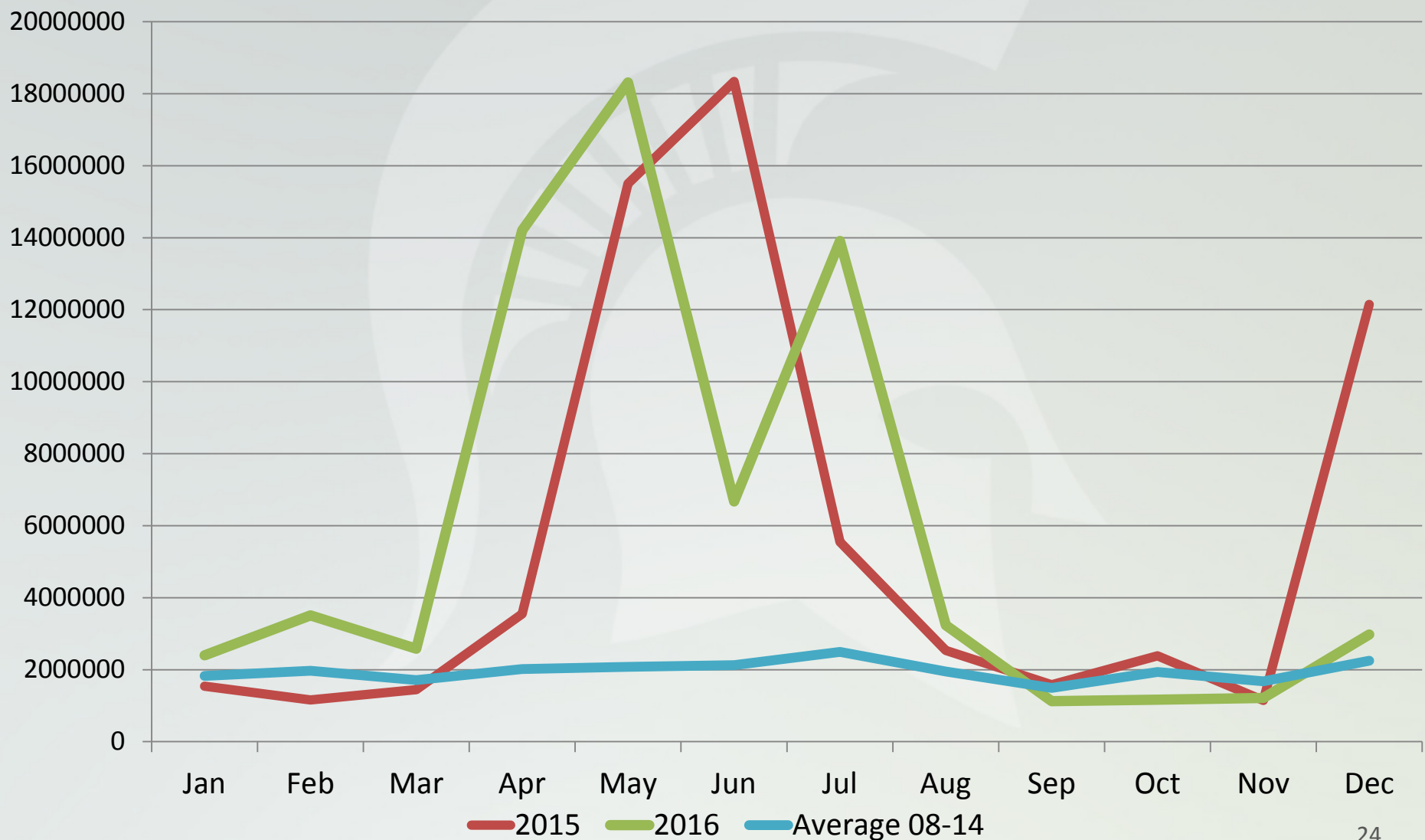
Percent Change in Milk Production from Year Earlier



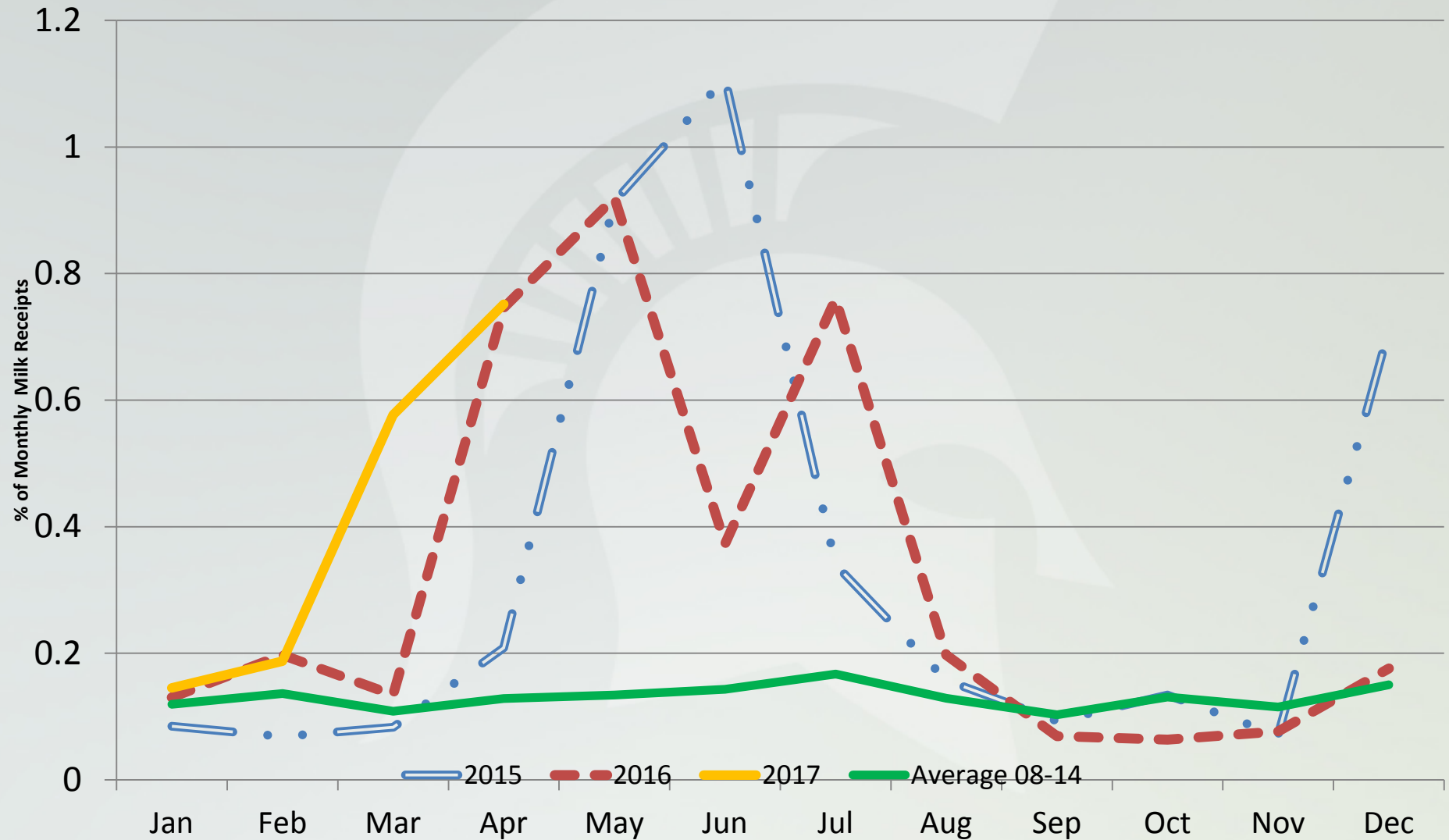
Market Balancing and Coordination

- When milk supply is long or does not make it to a plant two possibilities:
 - Distressed milk: sold at a deep discount
 - Dumped milk: 0.1 to 0.2% is dumped because rejected or spoiled; 0 to 2% is sometimes dumped for lack of a market

Milk Dumped Mideast Order (pounds)



Milk Dumped Mideast Order (%)



Glanbia to open major new production plant in Michigan

Kilkenny-based food group enters joint venture with three US dairy co-operatives

🕒 Fri, Jan 27, 2017, 07:56

Updated: Fri, Jan 27, 2017, 17:29

Eoin Burke-Kennedy



MI Basis

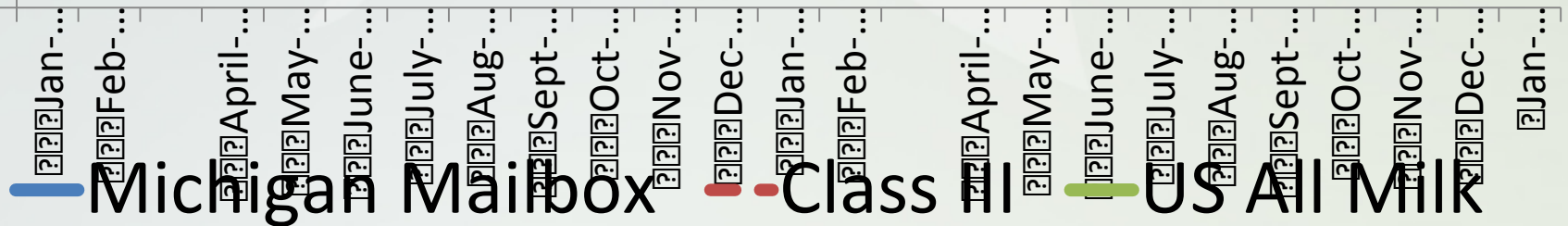
Avg since 01 0.93

Avg since 10 1.04

Since 2015 -0.04

20
19
18
17
16
15
14
13
12
11
10

\$/cwt





Michigan Dairy Farm Profitability

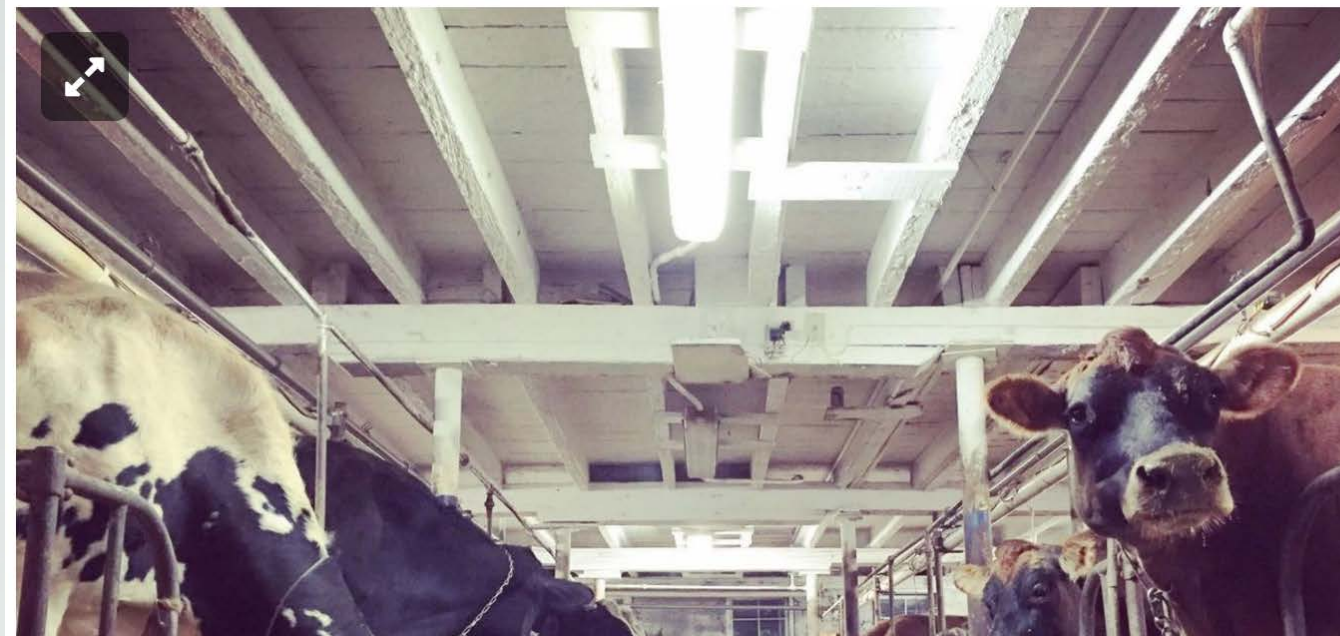
Year		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
ROA	%	5.5	11.3	7.0	-0.4	7.0	11.2	9.3	6.6	15.0	2.6	-0.1
Milk Price	\$/cwt	13.44	20.21	19.41	13.31	16.88	20.65	18.67	20.63	24.28	17.06	15.07
Purchased Feed	\$/cwt	3.74	5.32	5.56	4.56	5.06	6.01	6.14	6.81	6.97	5.89	6.15
Total Feed Cost	\$/cwt	8.29	9.55	12.54	11.35	10.14	12.56	13.02	14.00	12.95	12.20	11.10
IOFC	\$/cwt	5.15	10.66	6.87	1.96	6.74	8.09	5.65	6.13	11.33	4.86	3.97

Dairy Policy Issues

- Trade and NAFTA issues
- Next Farm Bill
- Potential California Federal Order

'Delicate' dairy dispute with Canada threatens Wisconsin farmers

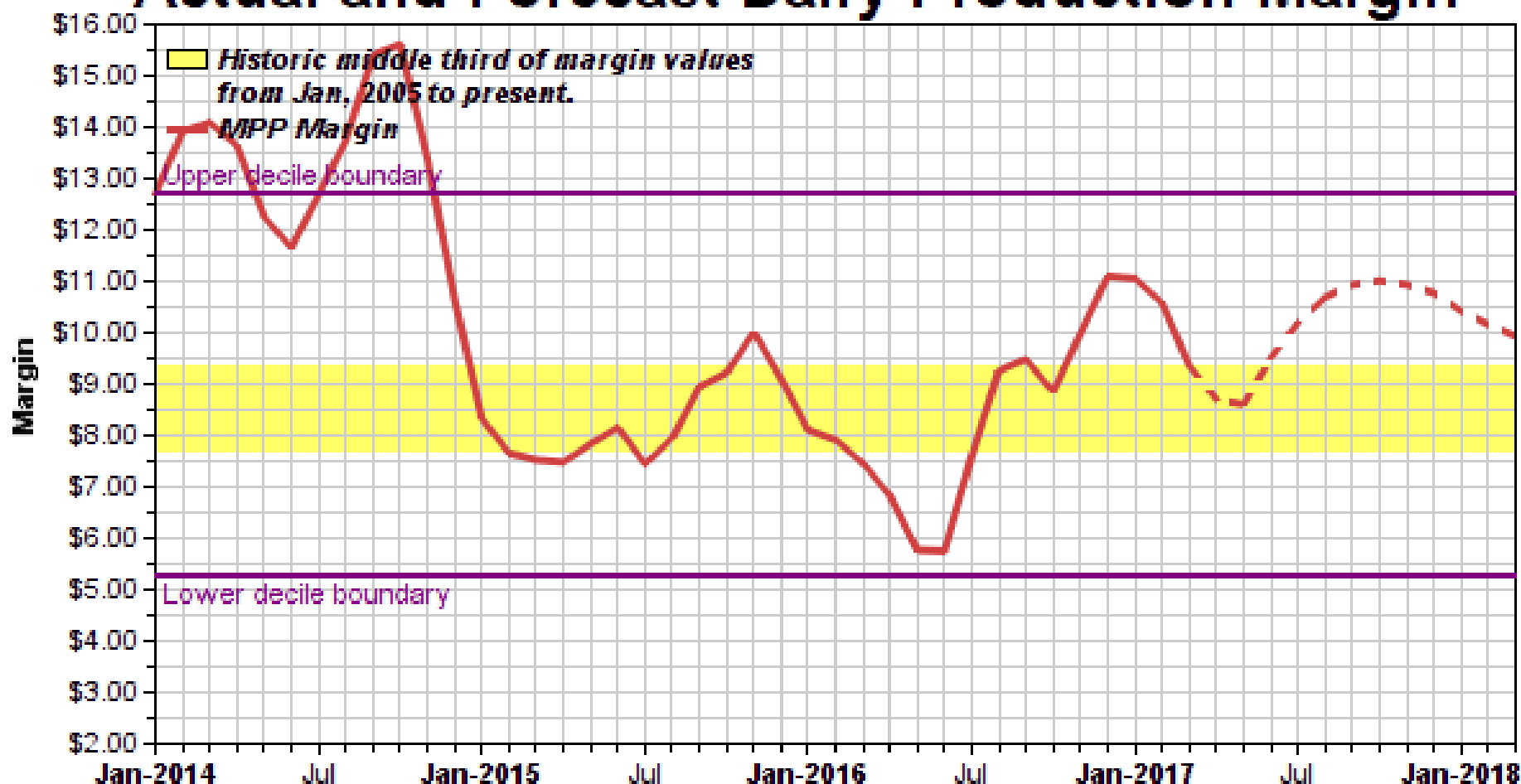
LISA SPECKHARD | The Capital Times | lspeckhard@madison.com | [@lisaspeckhard](https://twitter.com/lisaspeckhard) 4 hrs ago

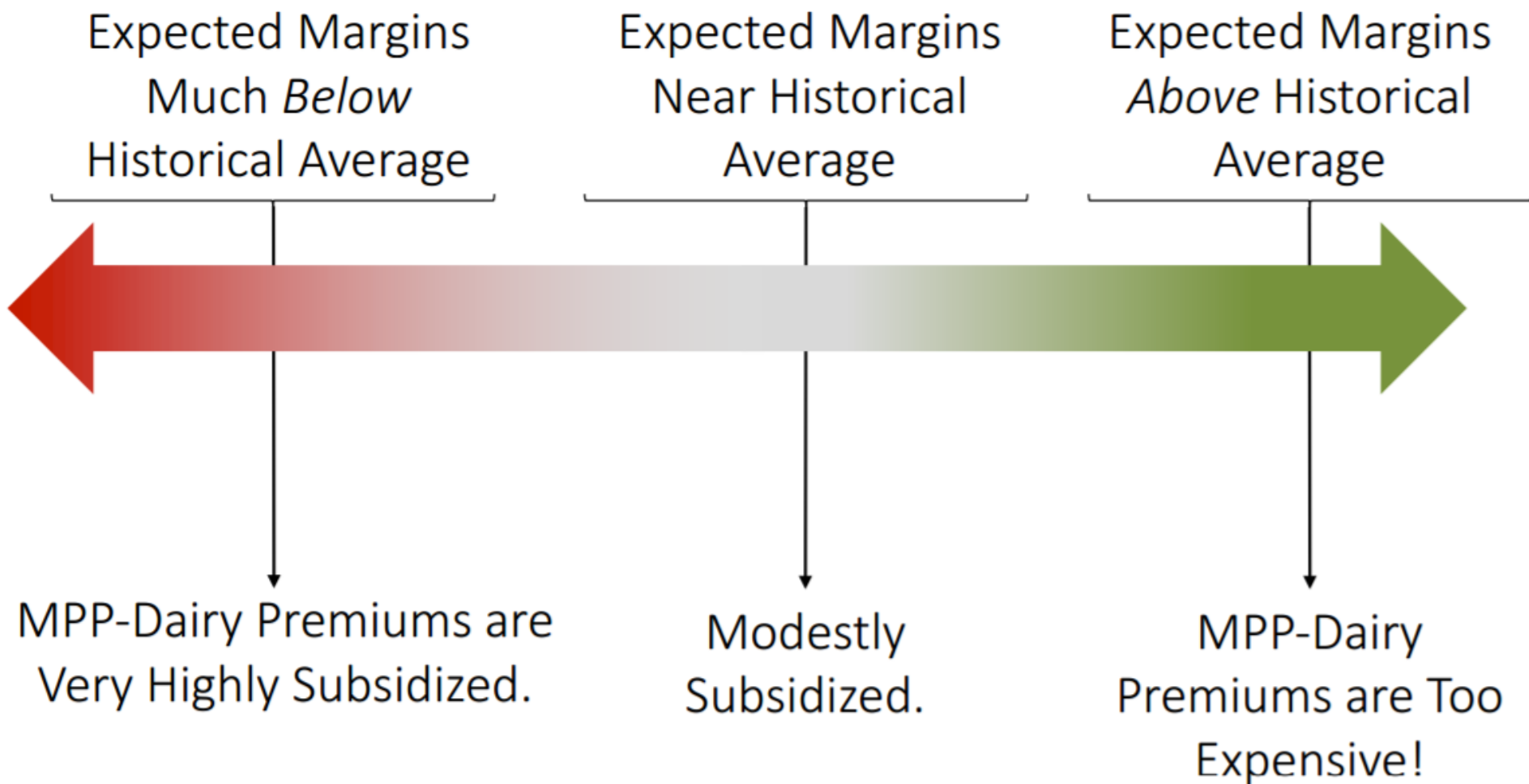


Canada and Grassland issue

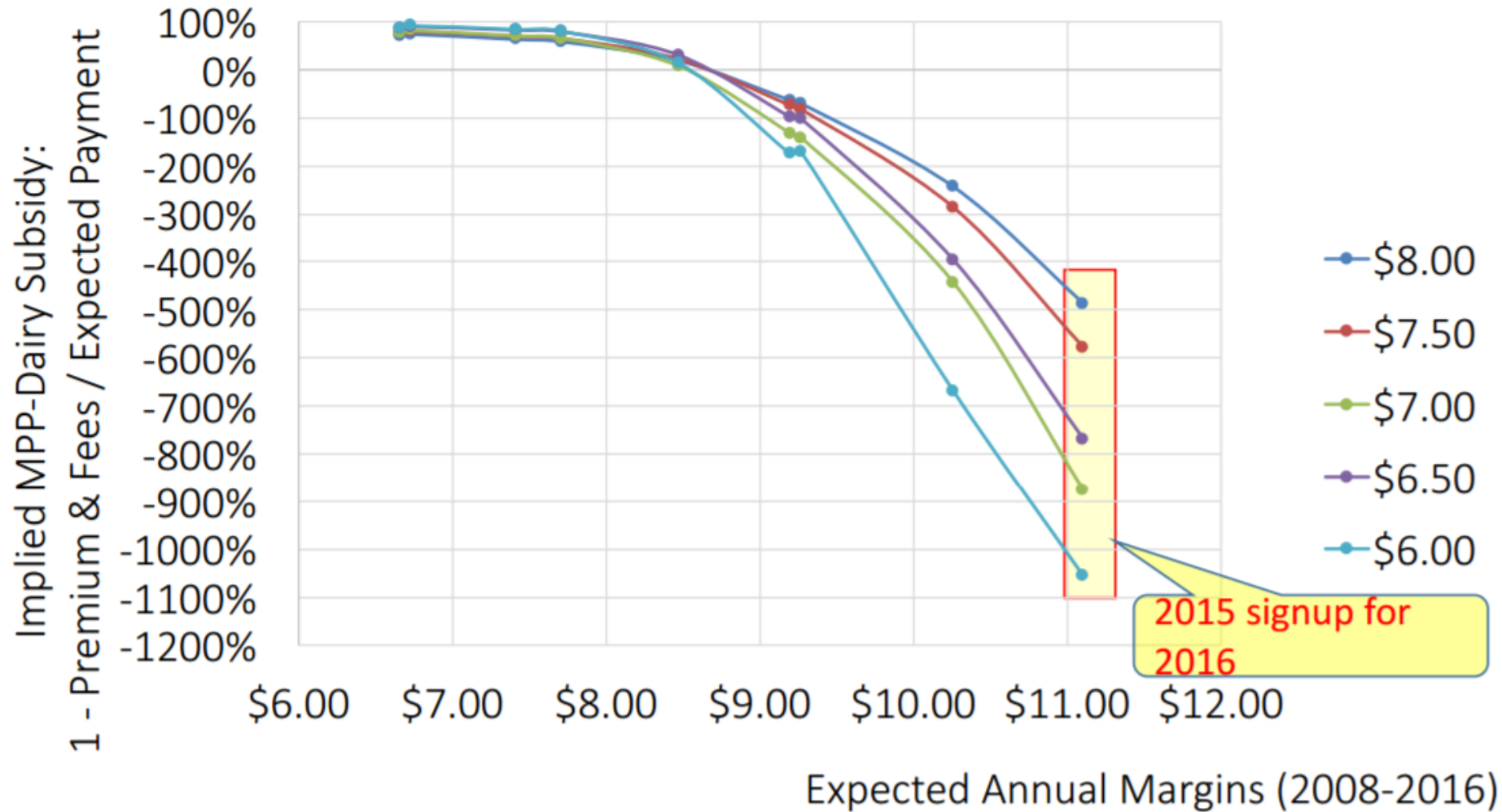
- UF milk did not exist when NAFTA negotiated so not part of tariff rate quotas
- With all the US milk looking for a home, some UF milk was exported to Canada
- Canada closed this “loophole” by creating a new class that could sell at world prices so manufacturers purchased Canadian rather than US milk
- This may violate WTO agreements
- Some WI farmers were told they would have no market for their milk as of May 1; all(?) found a market

Actual and Forecast Dairy Production Margin



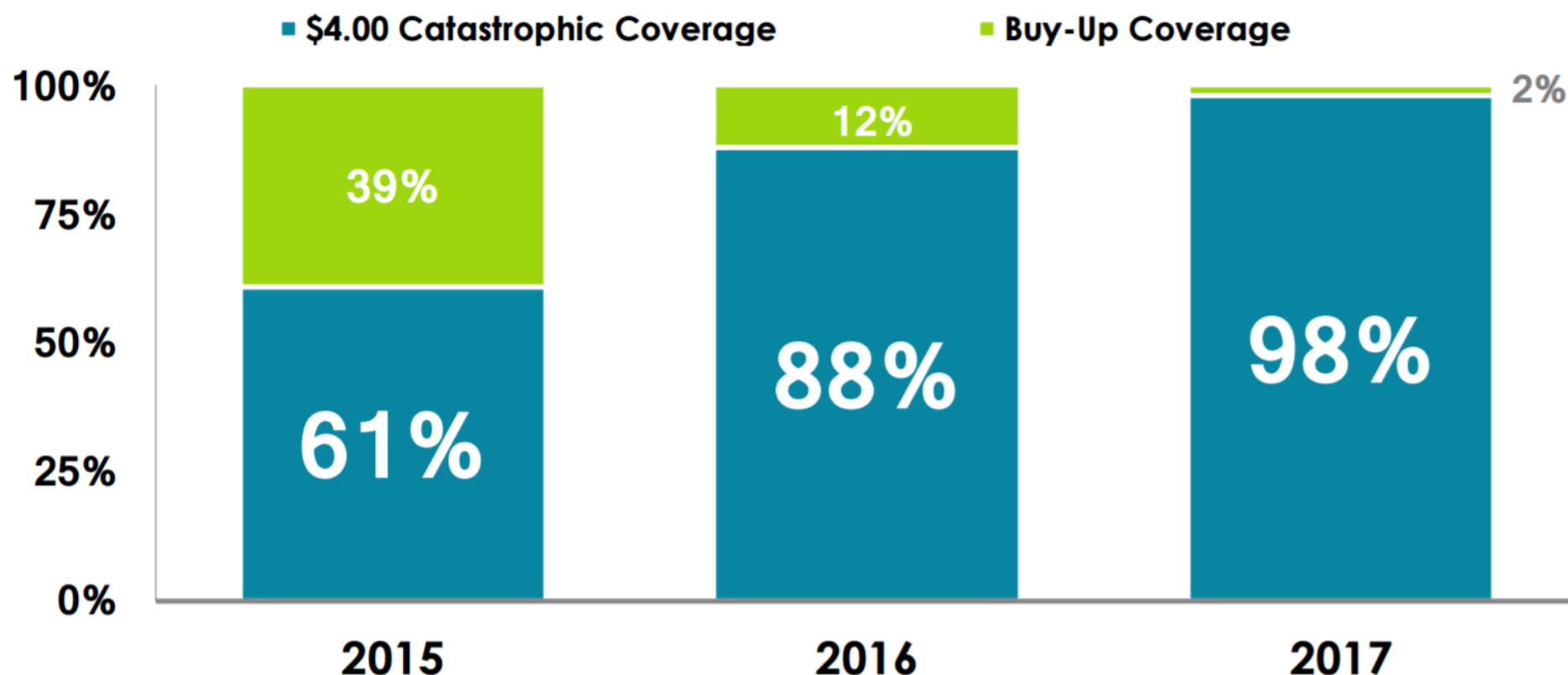


Implied MPP-Dairy Subsidies



Active Participation in MPP Has Declined

Percent of Milk Enrolled in MPP by Coverage Election



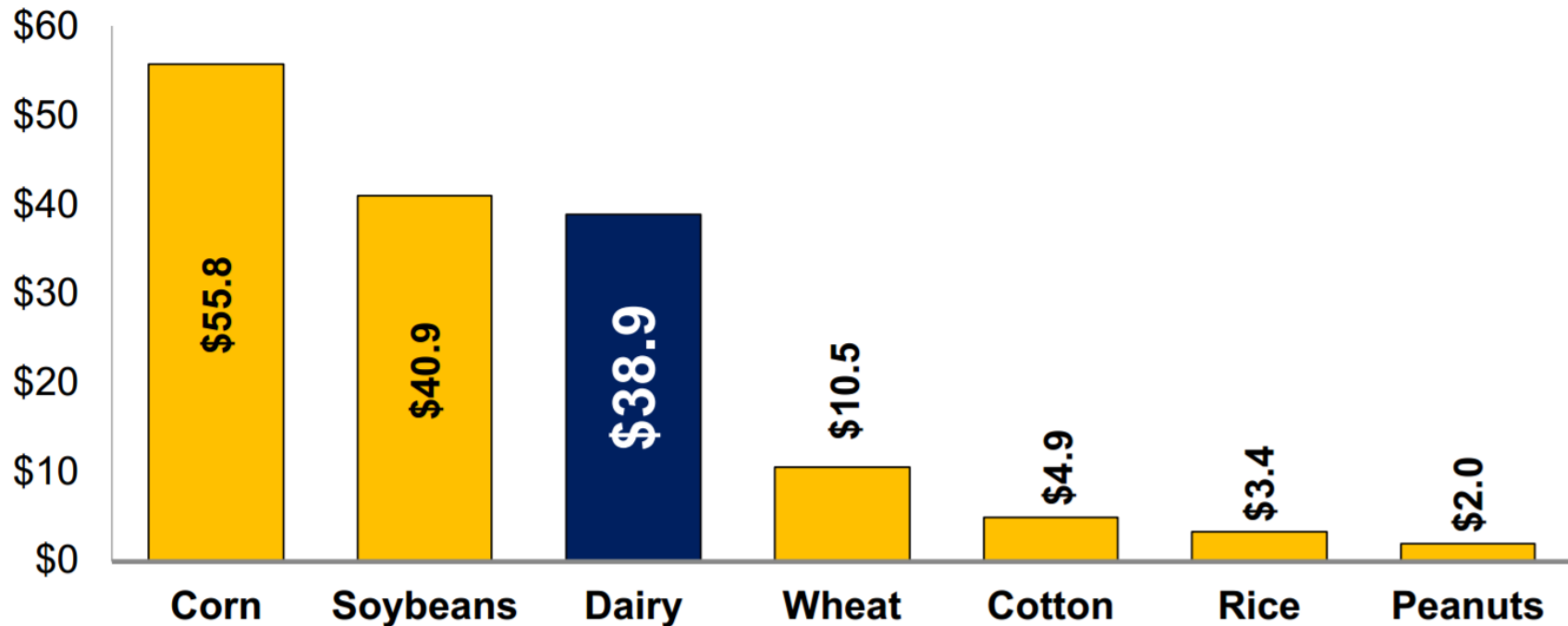
NMPF MPP Proposals

- Increase feed cost calculation
 - Add back 10% taken out
- Use different feed prices
 - prices paid rather than received
 - multiple locations for soymeal prices
- Calculate and pay monthly
- Lower premiums for margins above \$4/cwt
- Expand funding for LGM-Dairy and allow producers to participate in both

Congress Projected Annual Average Crop Market Value

Dairy is the 3rd Biggest Crop

Billion Dollars



@New10_AgEcon

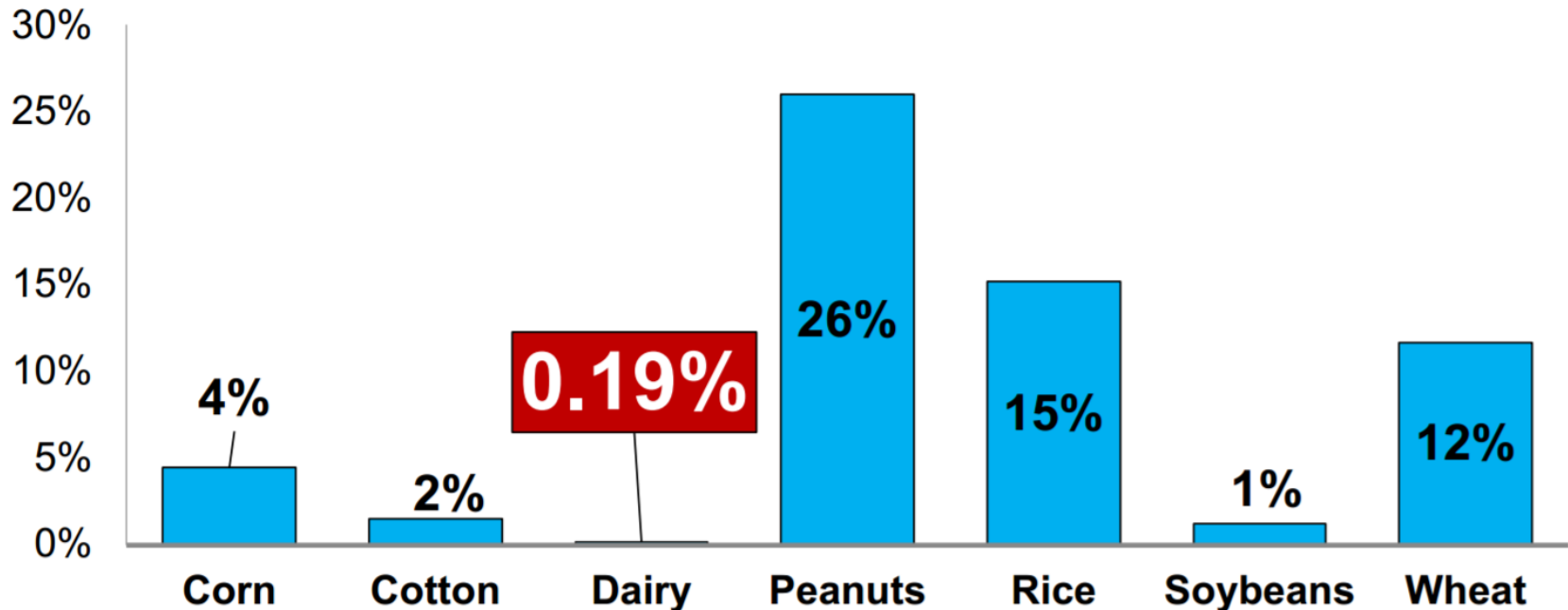
Source: Congressional Budget Office



Commodity Payments as Share of Crop Market Value

Dairy Safety Net Does Not Reflect Value of Industry

Percent



@New10_AgEcon

Source: Congressional Budget Office



Federal Dairy Policy

- Lack of baseline will hinder efforts to improve MPP
- Another track is move LGM-Dairy or Dairy Revenue Protection to “Crop/commodity” category under RMA rather than “Livestock” category

California Federal Order

- USDA AMS recommends FMMO for California
- Aligns classes with current FMMO's
- Keeps class I quota
- USDA estimates result would be higher US cheese prices and lower butter and powder prices
- Next steps?
 - Further USDA analysis on comments
 - THEN, possibly producers vote on order

Thank You

Christopher Wolf
wolfch@msu.edu