

SIGNS TO WATCH

Analyst details factors affecting industry in coming months

When asked to summarize dairy's 2017 outlook based on first-quarter information, Phil Plourd's response is a mix of bad and good news.

"The situation is a little bit dicey today, but it was worse a year ago," said the president of market research firm Blimling and Associates.

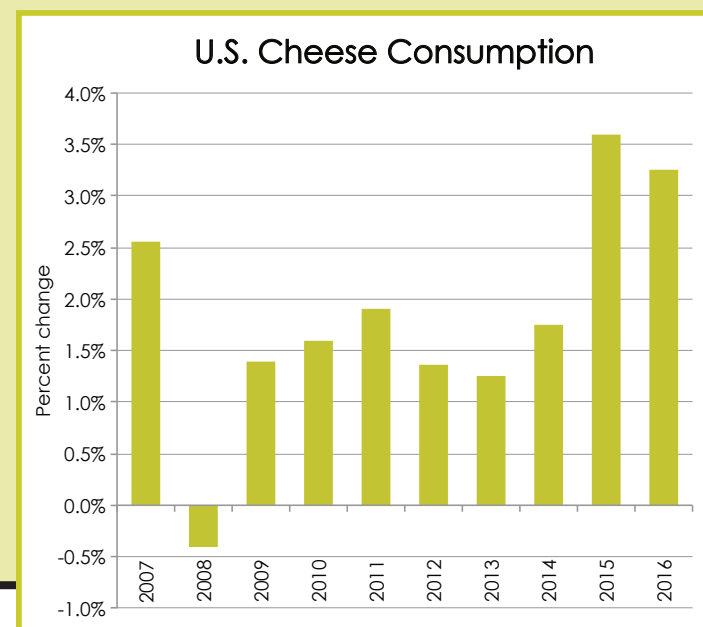
Dairy markets are higher than 2016 levels, but the industry continues to be "just chopping along in a mediocre to poor place marketwise," Plourd told those attending the AMPI Annual Meeting.

Consumer demand, global milk production, product inventories and trade policies are all signs to watch and will play a role in how the balance of the year plays out, the analyst said.



Consumer demand

"We've been on a good run from a demand perspective," Plourd said about AMPI's primary product, cheese.



Domestic demand increased 3.6 percent in 2015 and another 3.3 percent in 2016. At 2.5 percent in the first three months of this year, the growth rate is down slightly.

"We consume about 12 billion pounds of cheese in the U.S. every year. A 1 percent change in demand means about 120 million pounds — or more than 2.5 million pounds per week — of cheese is floating around looking for a home," Plourd said.

Higher inventories are contributing to lower cheese prices in the first quarter, but AMPI members should be optimistic about demand. "Unemployment is low, wages are rising and consumers seem confident," Plourd said, pointing to factors that have historically influenced cheese consumption.



Global milk production

"Global milk production stability or growth has the potential to limit 2017 upside everywhere," Plourd said. Both the U.S. and European Union (EU) are expected to produce more milk.

Last year's efforts to correct the oversupply of milk in the EU resulted in negative production in the final months of the year. Consequently, both EU and U.S. farmgate milk prices are stronger.

Plourd is concerned that this good news won't last. Indicators point to the EU returning to positive milk production numbers by May.

In the U.S., milk production is expected to rise 2 to 2.5 percent over 2016 levels. With domestic demand slightly down and European milk production expected to rebound, there will be more milk on the market. The oversupply will dampen potential Class III milk price increases.

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Phil Plourd
Blimling and Associates Inc.



Phil Plourd of market research firm Blimling and Associates Inc. addresses attendees at the AMPI Annual Meeting. The veteran analyst tackled the key issues impacting the industry.



Product inventories

Despite strong demand, cheese and butter supplies are outpacing disappearance. "We have more milk and more product in storage, and I think that's going to make for slow going in the marketplace," Plourd said.

U.S. cheese stocks for 2017 are already double the average. Plourd expects 1.3 billion pounds of cheese in storage by summer.

Butter stocks are almost triple the normal average and up 20 percent over last year. This year the U.S. experienced its biggest January to February increase in stored butter since 1992.



Trade policies

AMPI members should also keep an eye on trade with Mexico and Canada. "We can't afford to lose Mexico as a customer," Plourd said, referring to the new administration's threat to abolish or renegotiate the North American Free Trade Agreement (NAFTA).

About 10 percent of U.S. milk production goes to Mexico in the form of cheese and powder. This southern neighbor is the top importer of U.S.-made cheese. One out of every four pounds of U.S.-produced nonfat dry milk is sold to Mexico.

"We need this export situation to remain strong," Plourd said. "In years where exports are strong, dairy prices are high."

Though nothing has changed from a U.S. trade policy perspective yet, uncertainty surrounding trade with Mexico is already depressing milk powder markets. Plourd remains confident, however, that a deal will be worked out to keep dairy products flowing over the southern border.

Meanwhile, a revised pricing system in Canada is making Canadian-produced ultrafiltered milk more affordable and cutting out U.S. exports. Midwest producers are likely to feel the impact as milk is diverted from product bound for Canada to U.S. cheese vats or balancing plants that produce powder.

"This could chip away at base prices and premiums as the Upper Midwest, and other regions, certainly don't need any extra milk today," Plourd said.

The analyst believes the industry may have to endure some rough patches in the next three to six months, but he's confident dairy farmers will see improved farm margins this year. "2017 is still pricing out ahead of 2016 and the five-year average," he said, delivering a final note of good news. **DD**

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Did you know?

1 out of every 4 pounds of nonfat dry milk produced in the U.S. is sold to Mexico.