



A Better Outlook...with a Couple of Asterisks

Western Wisconsin Ag Leaders Conference

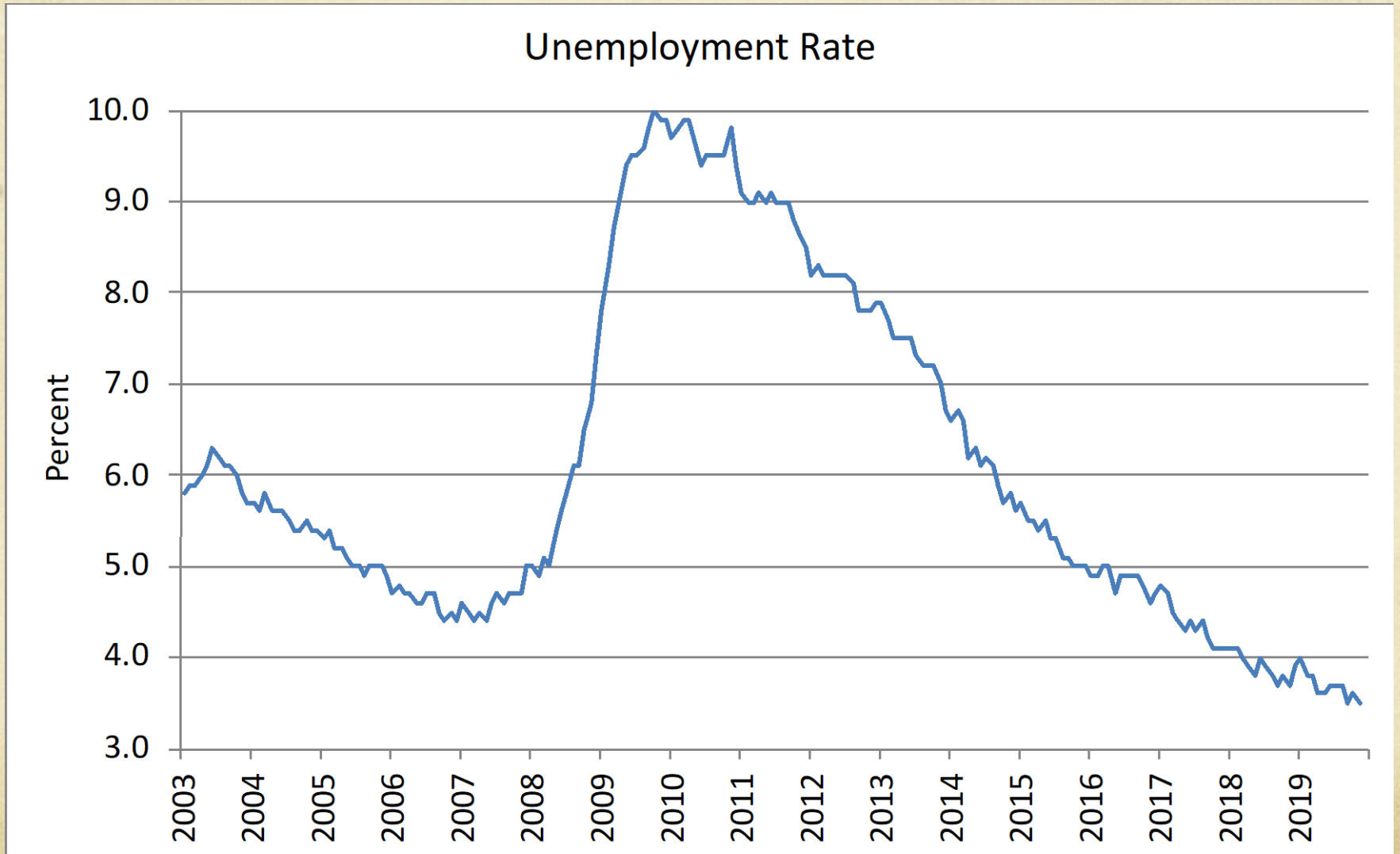


THE UNIVERSITY
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MADISON

Mark Stephenson, Ph.D.

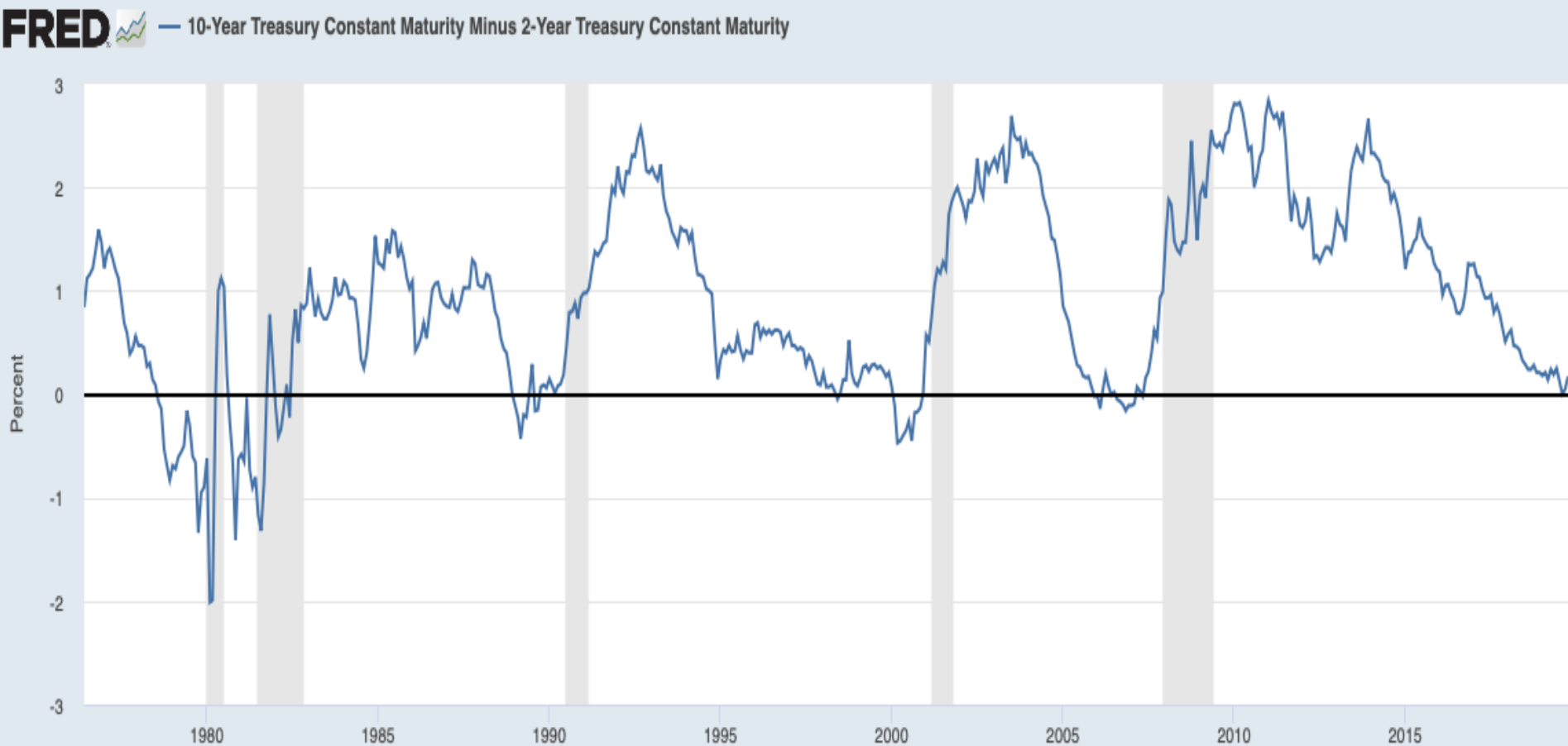
Director of Dairy Policy Analysis

The Economy Has Been Strong



Comments on the General Economy

10 Year Minus 2 Year Treasury Bill Spread

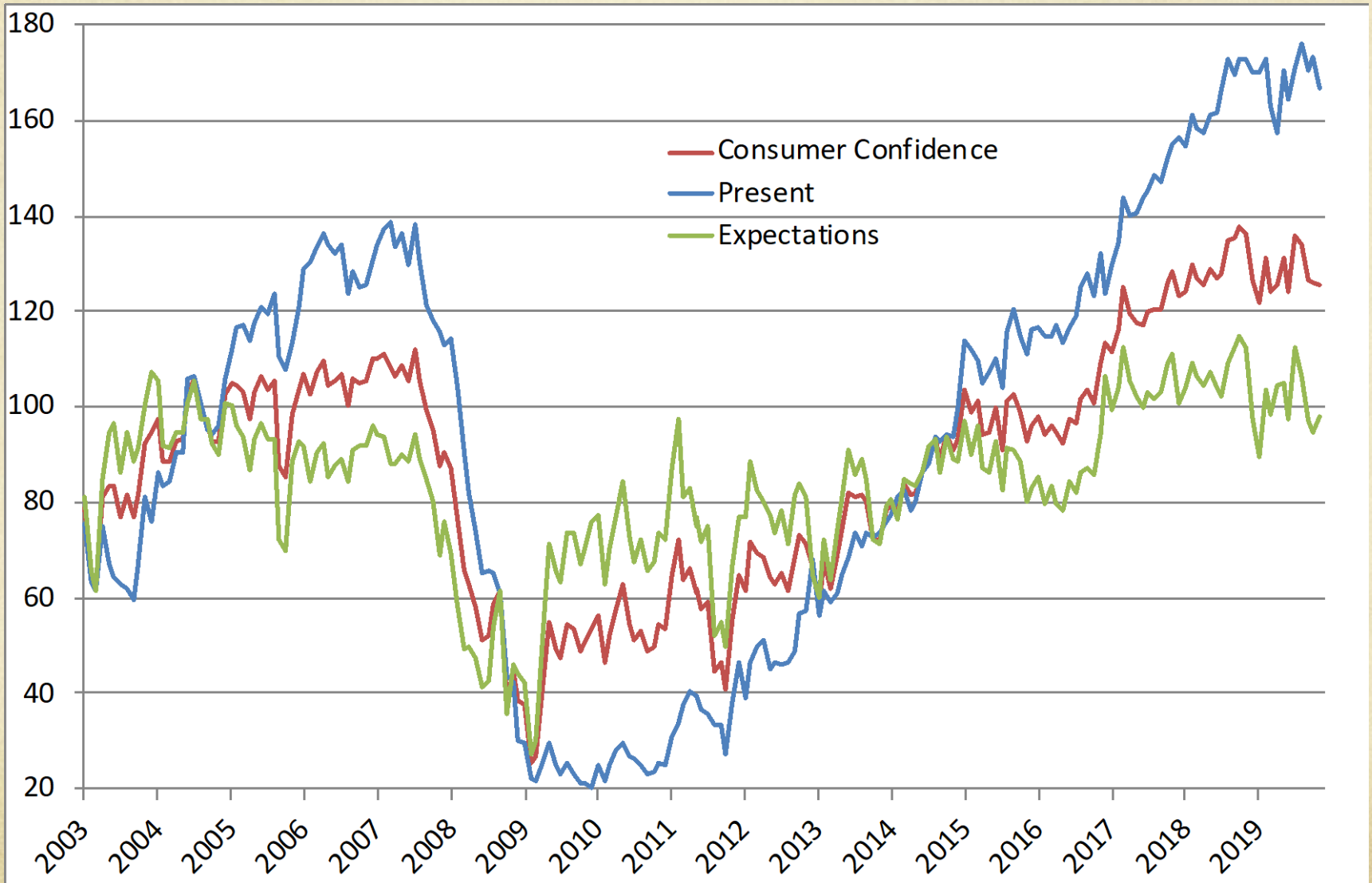


Shaded areas indicate U.S. recessions

Source: Federal Reserve Bank of St. Louis

fred.stlouisfed.org

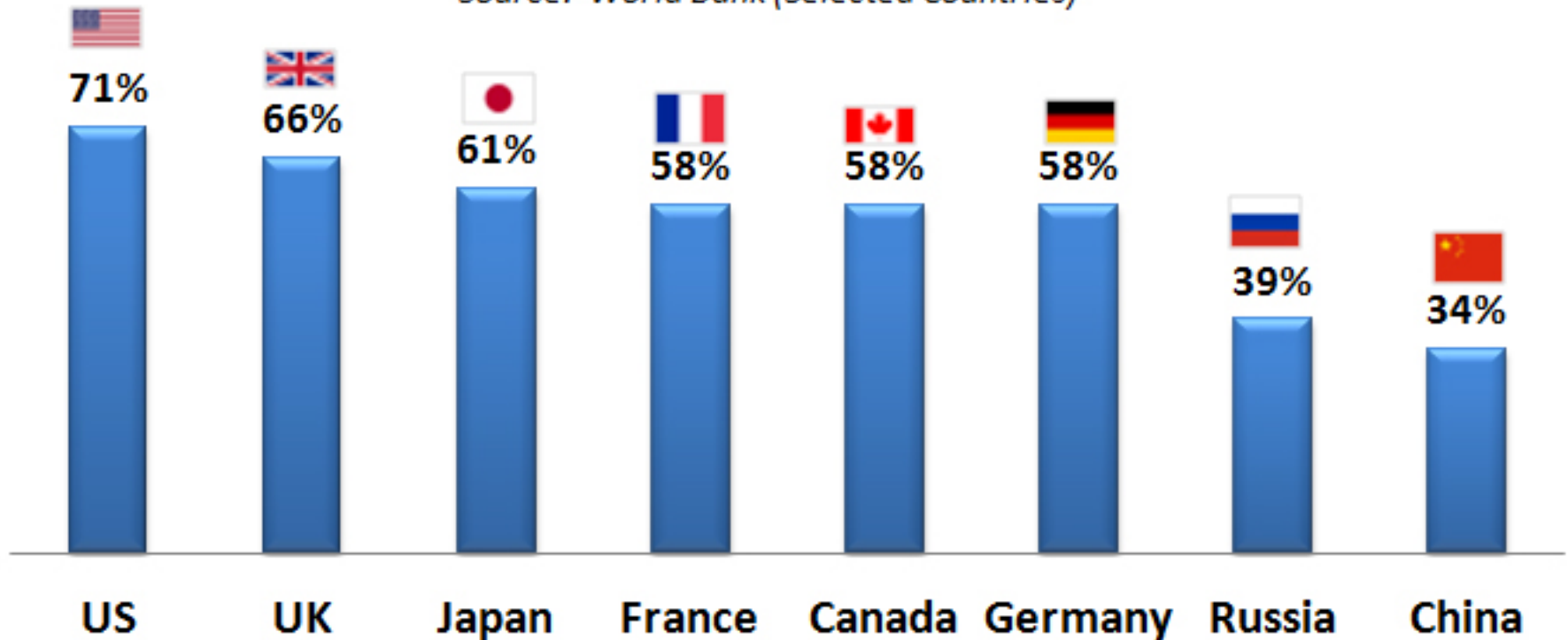
Consumer Confidence



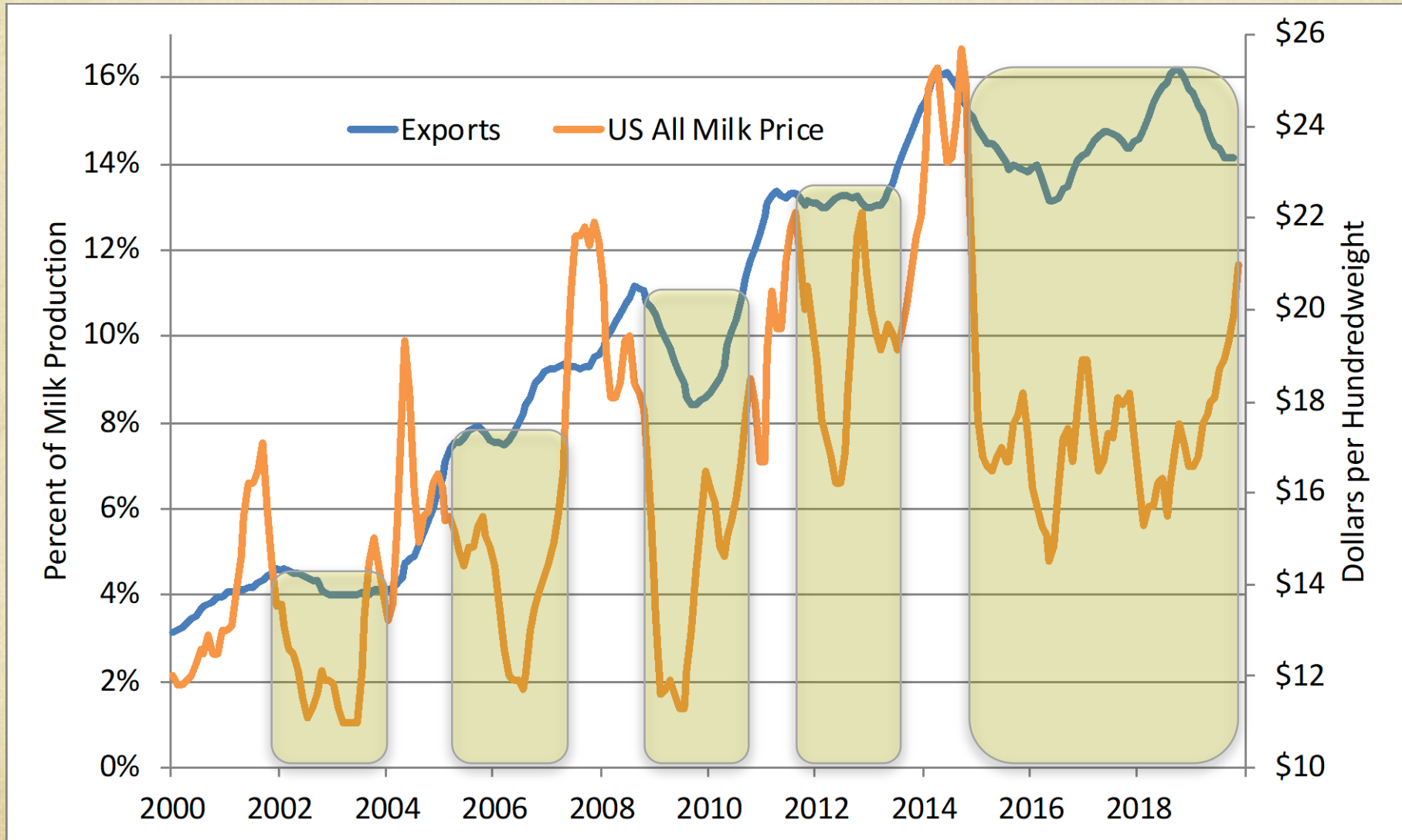
A Consumption-Based Economy

International Comparison of Consumption as a Percent of GDP

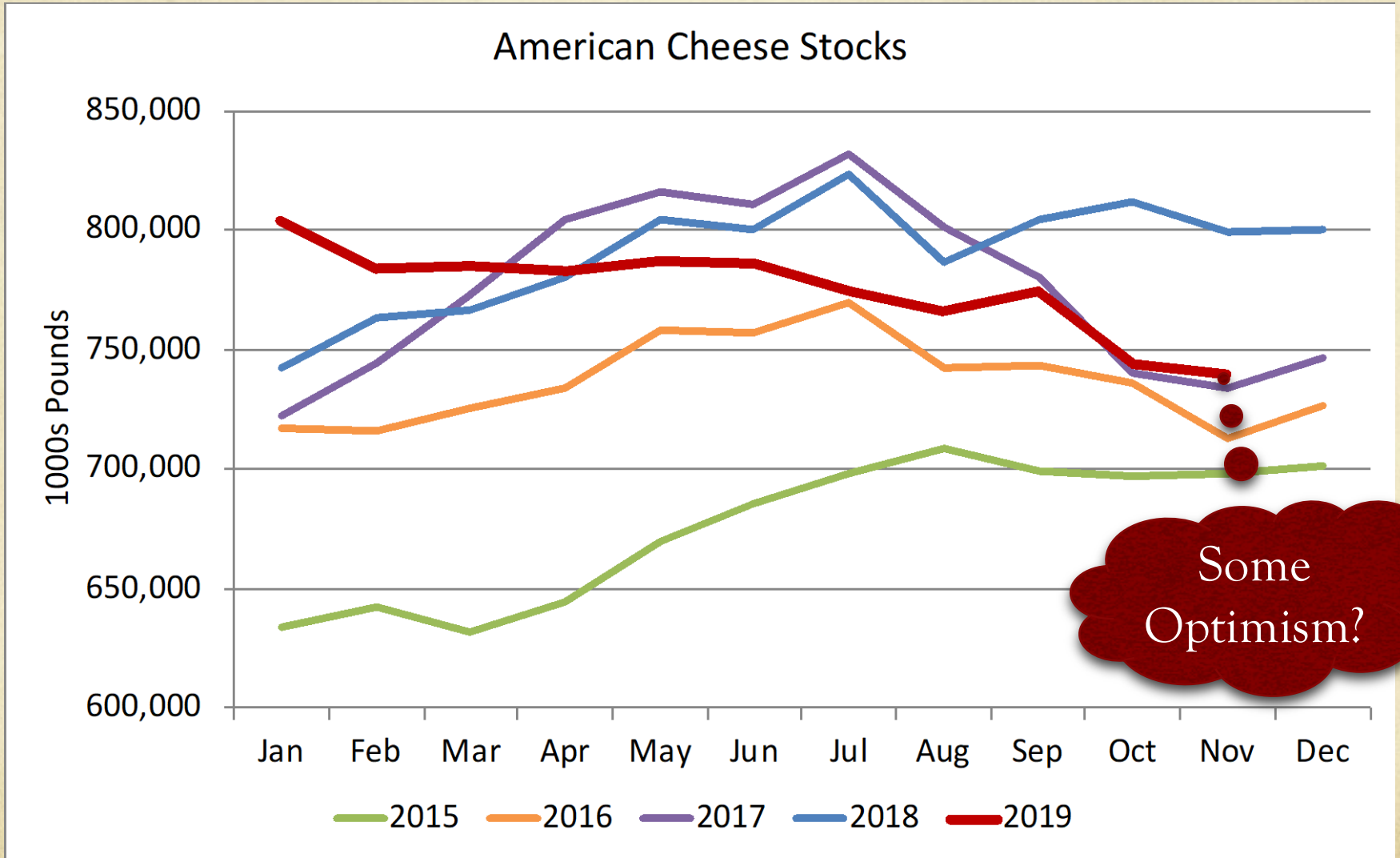
Source: World Bank (Selected Countries)



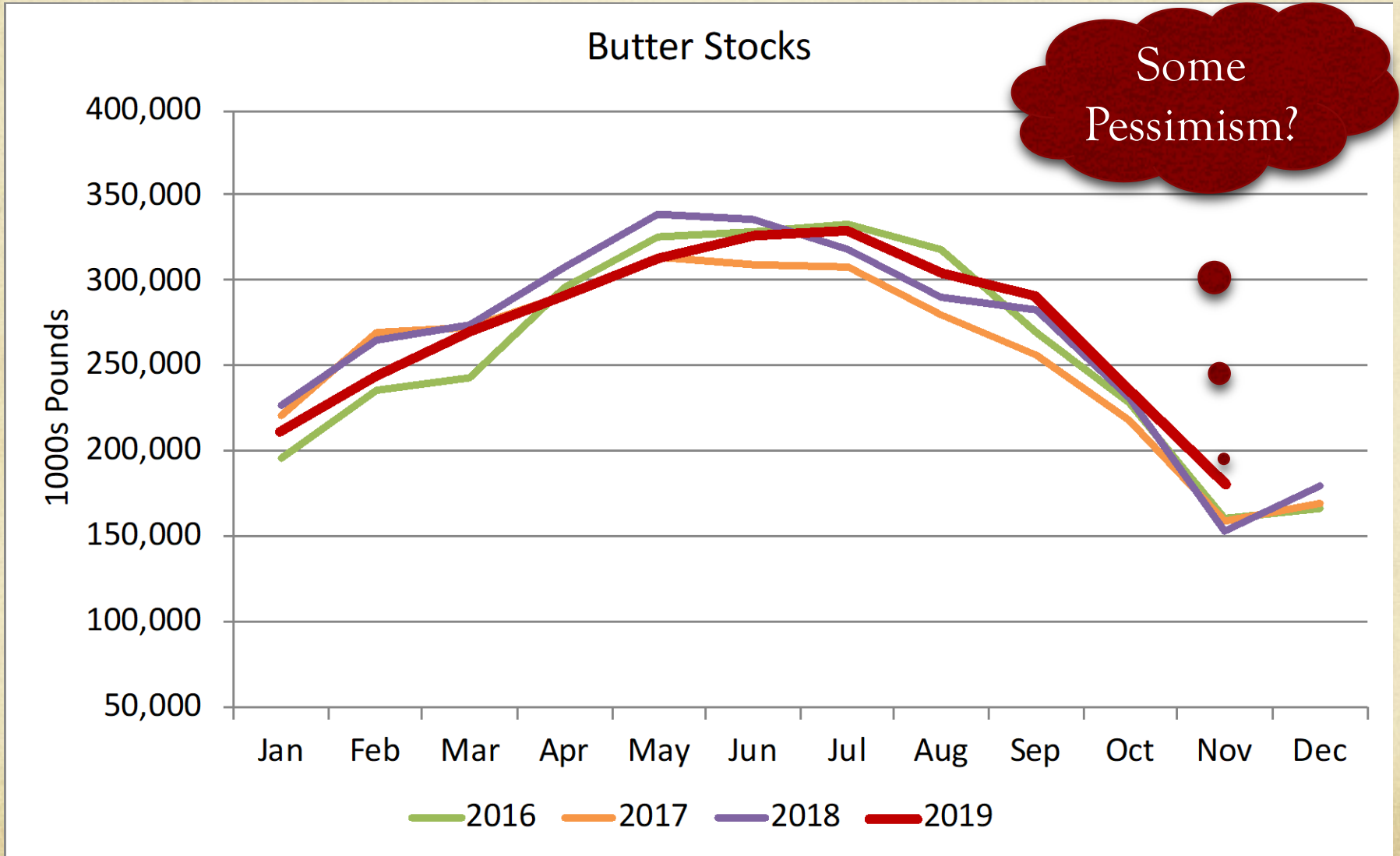
The Importance of Dairy Trade



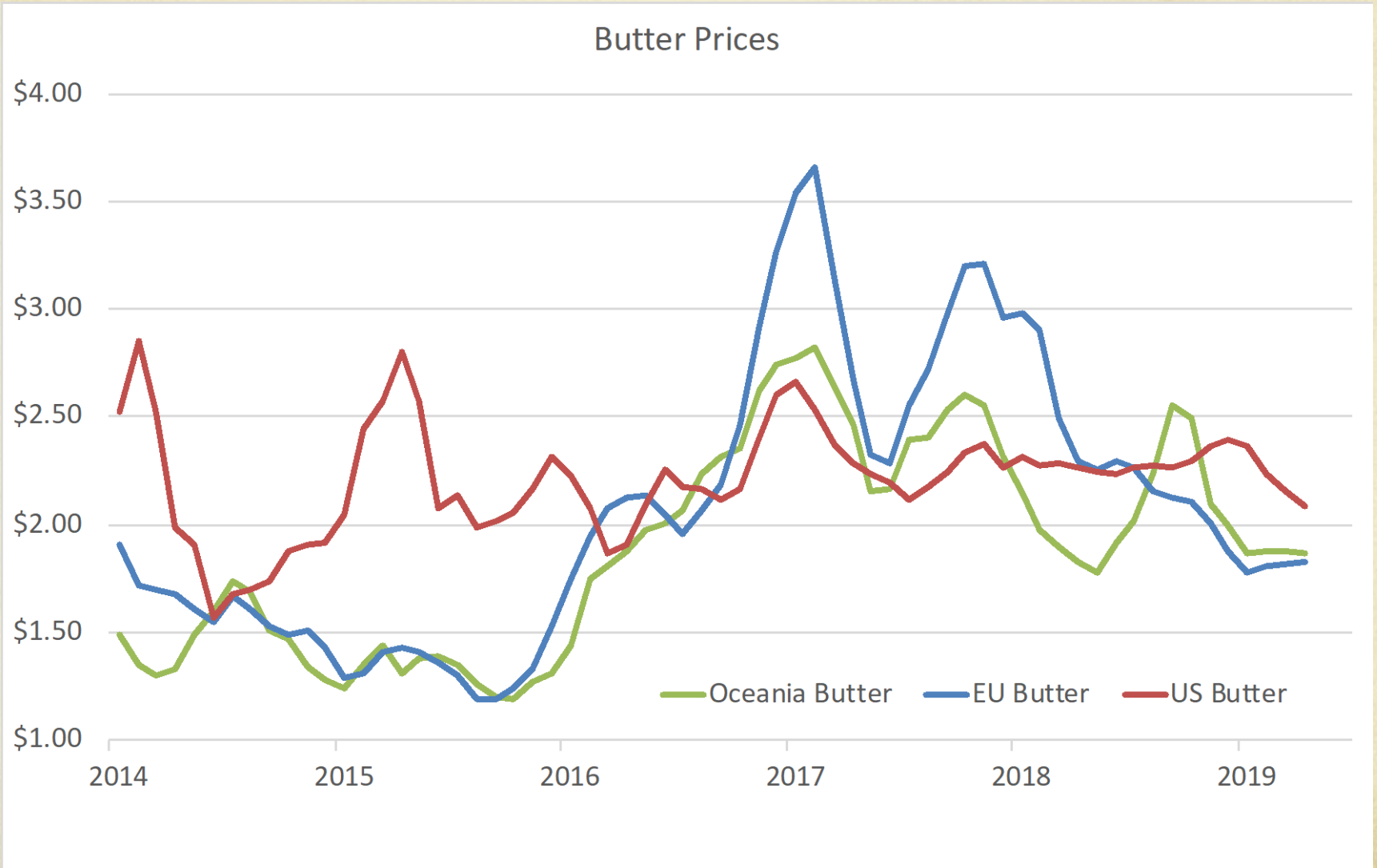
U.S. Cheese Stocks



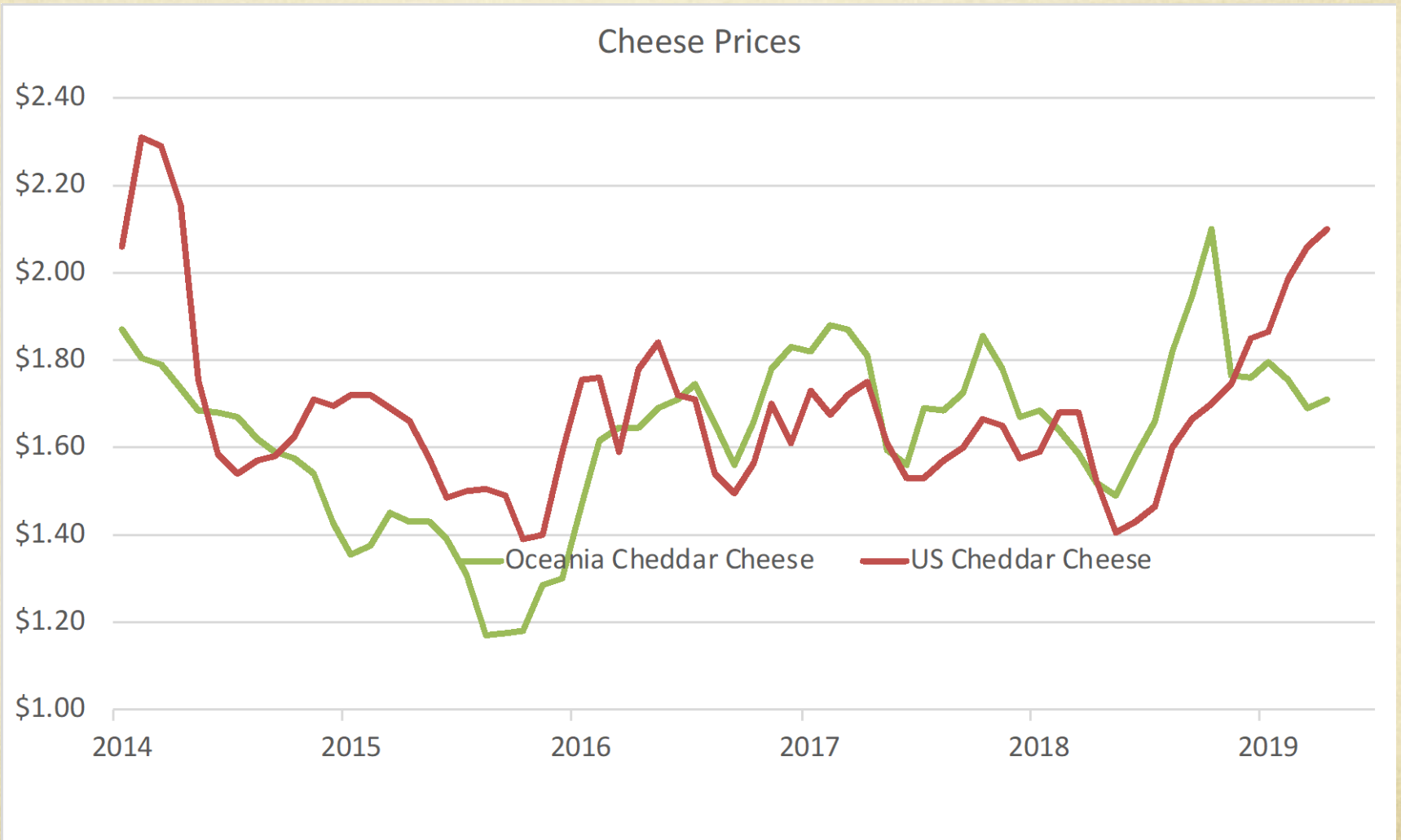
U.S. Butter Stocks



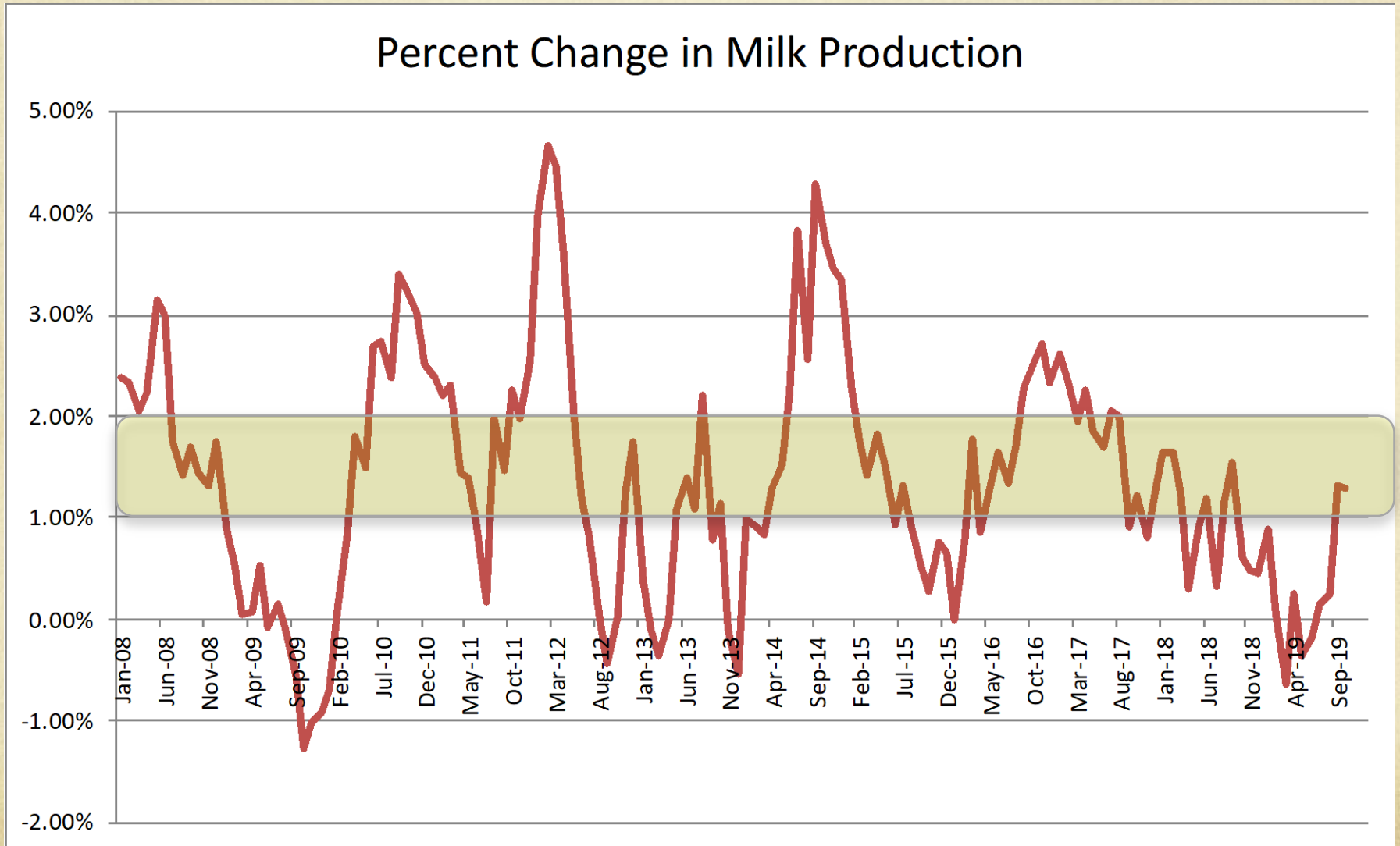
Global Butter Prices



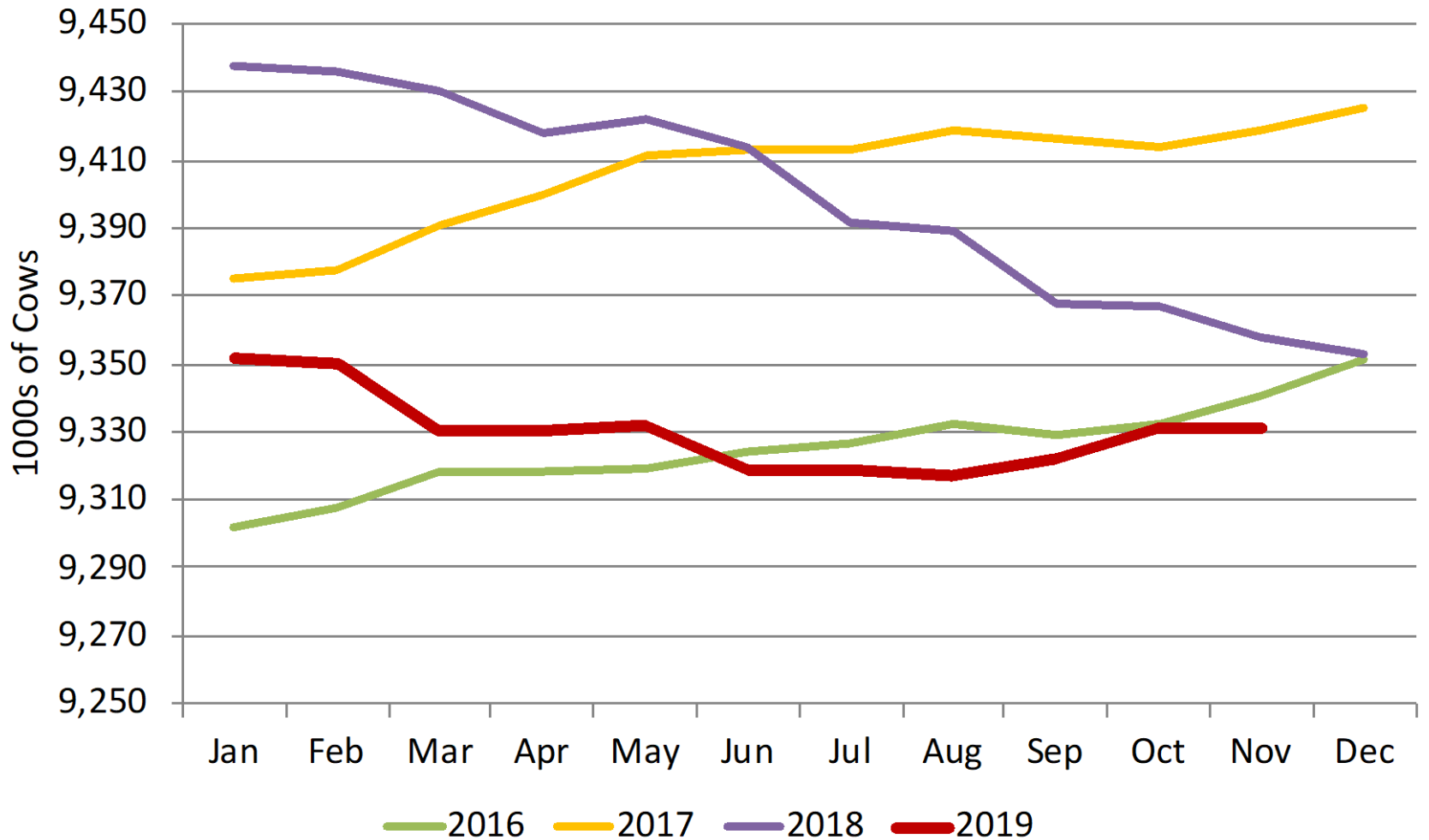
Global Cheese Prices



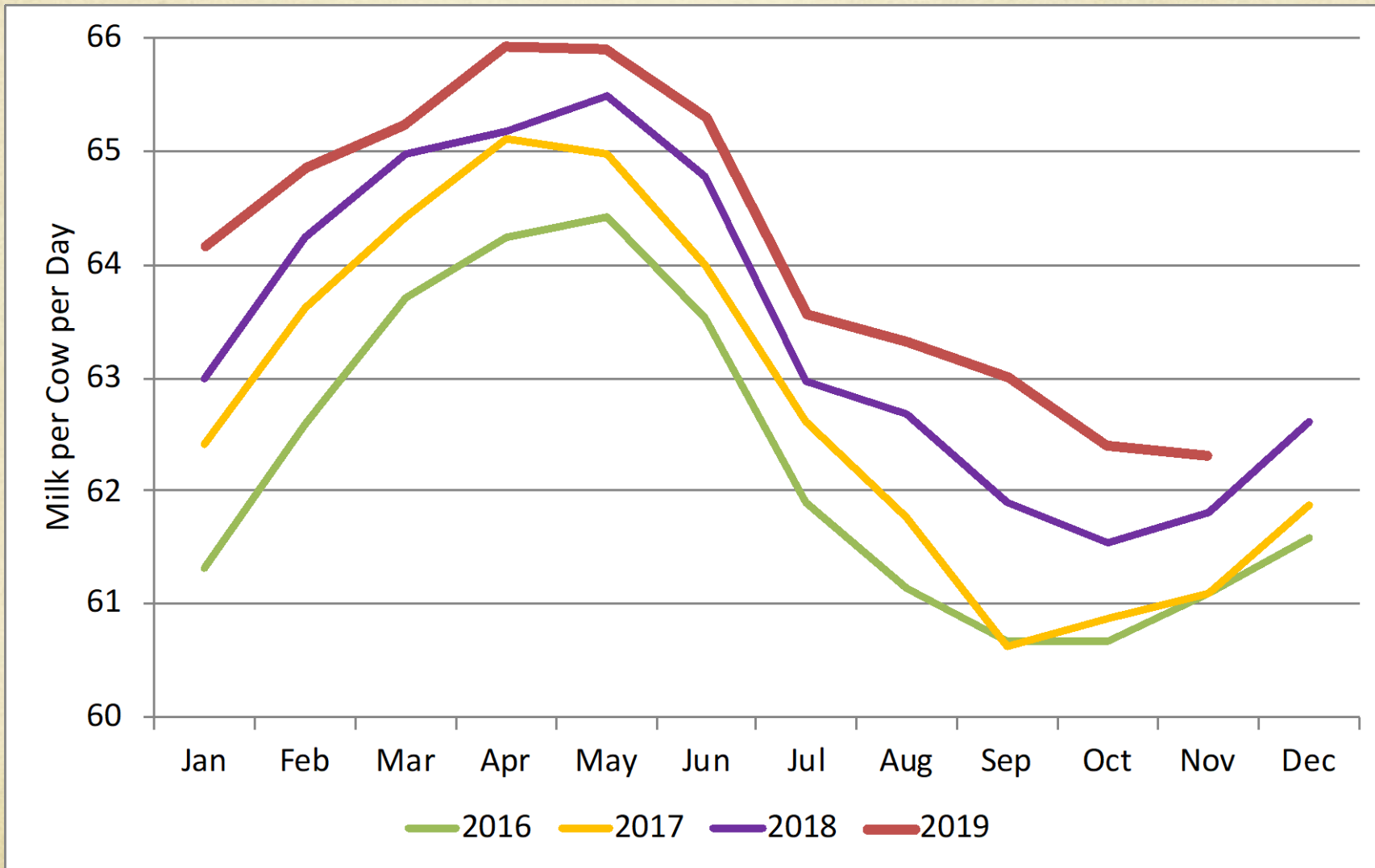
Percent Change in U.S. Milk Production



Number of Cows

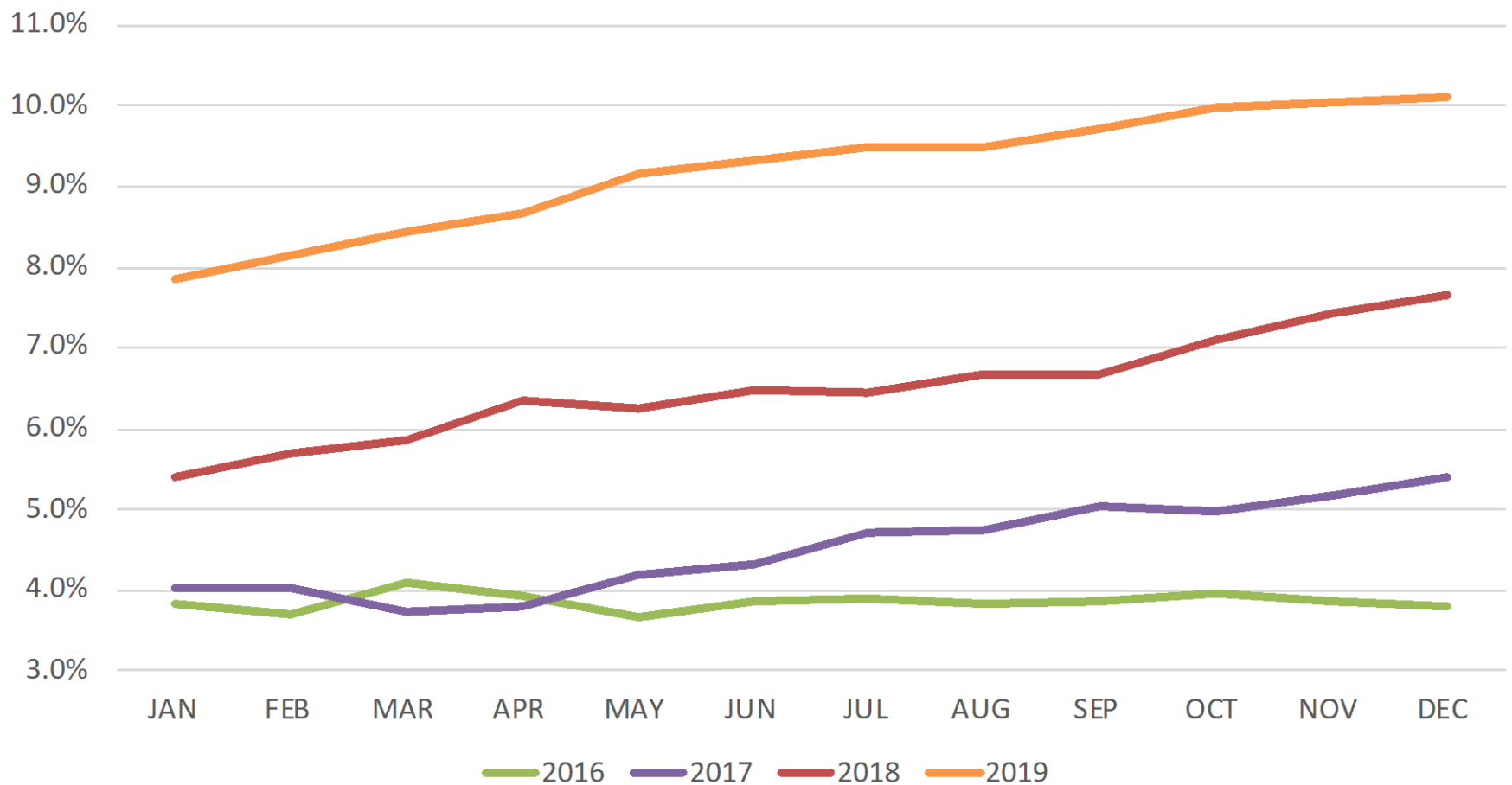


Milk per Cow per Day



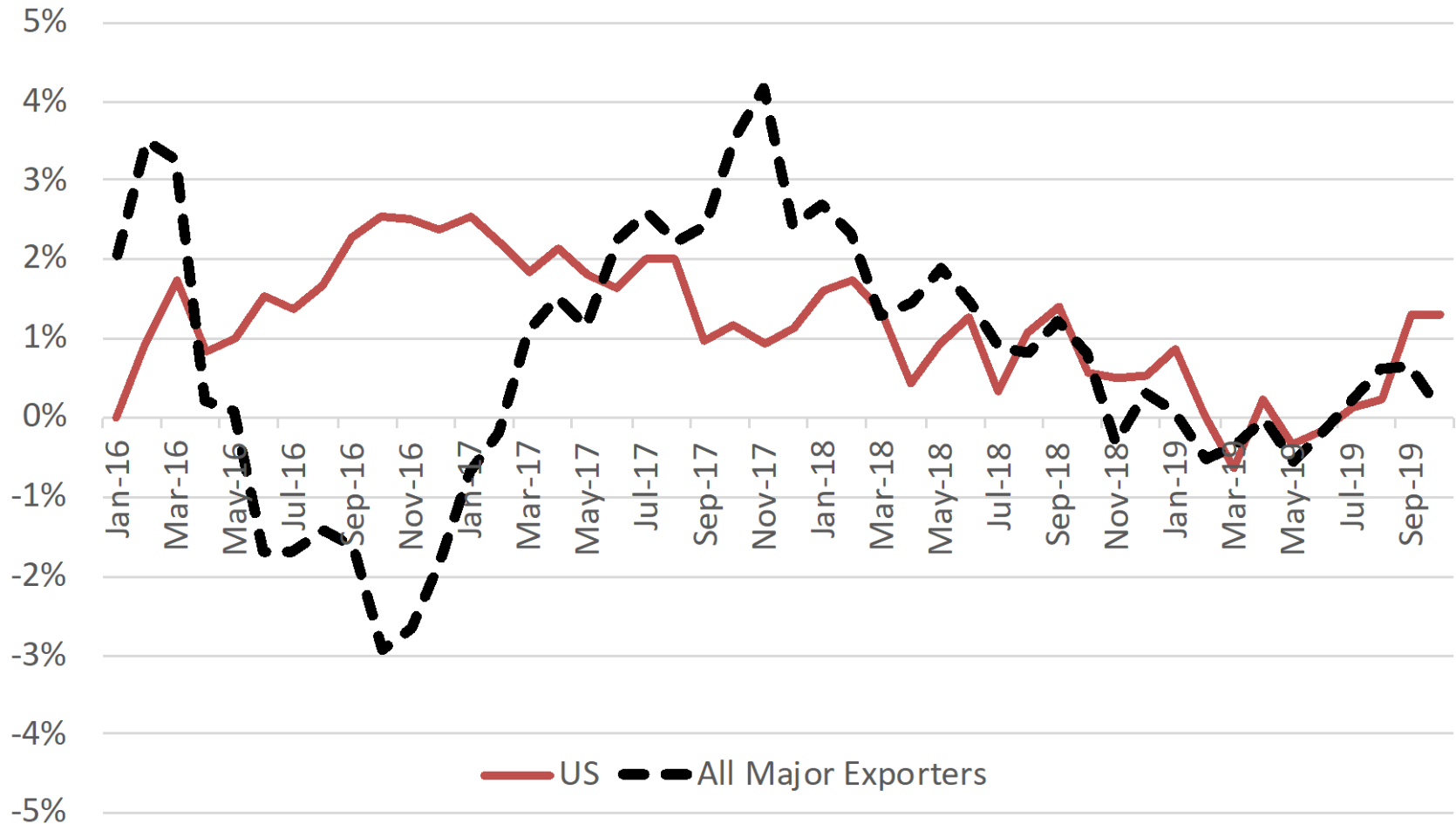
Cow Loss is Also Measured in Farm Loss

Wisconsin Dairy Farm Attrition Rate

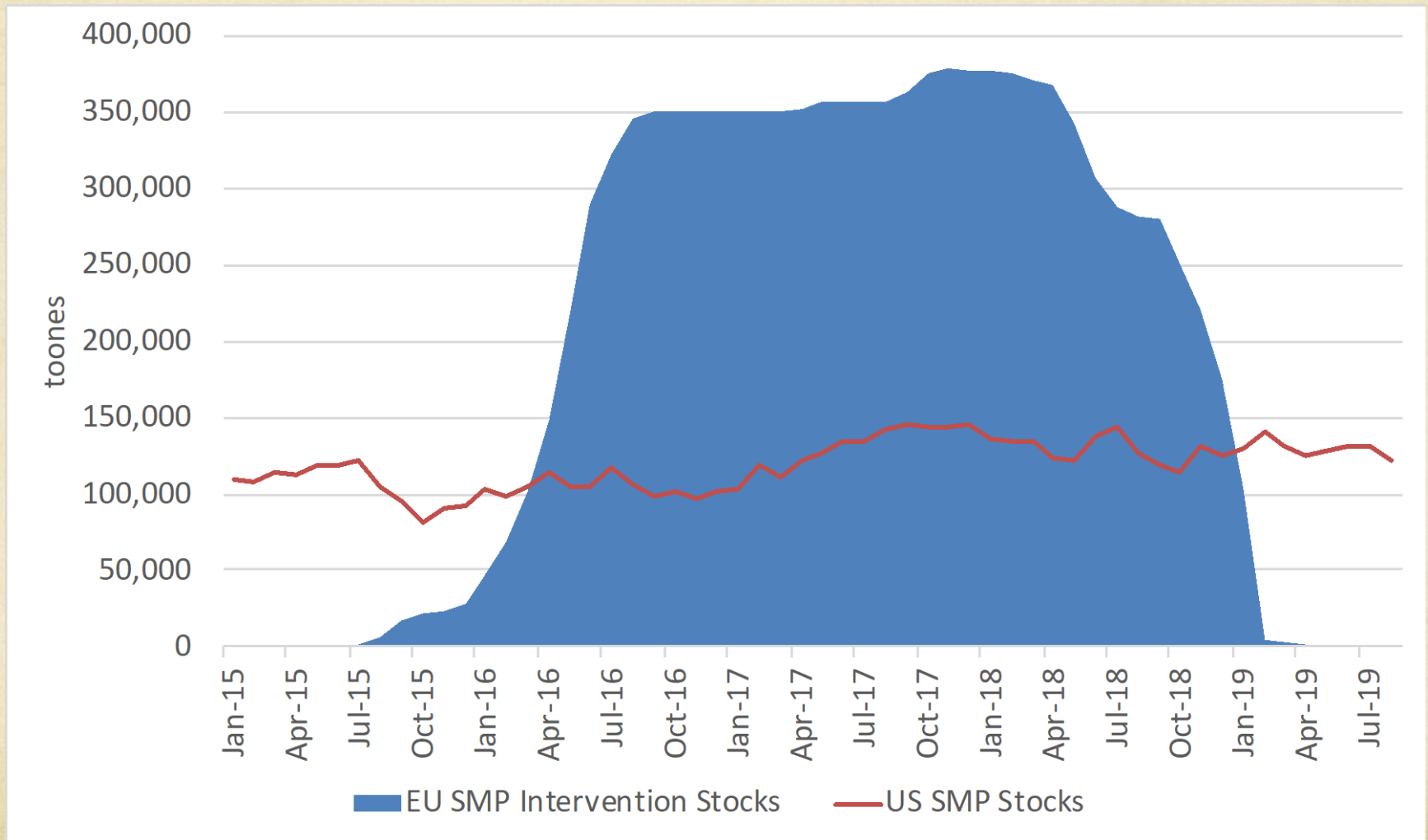


Prices and Weather are Having an Impact

Percent Change in Milk Production from Year Earlier

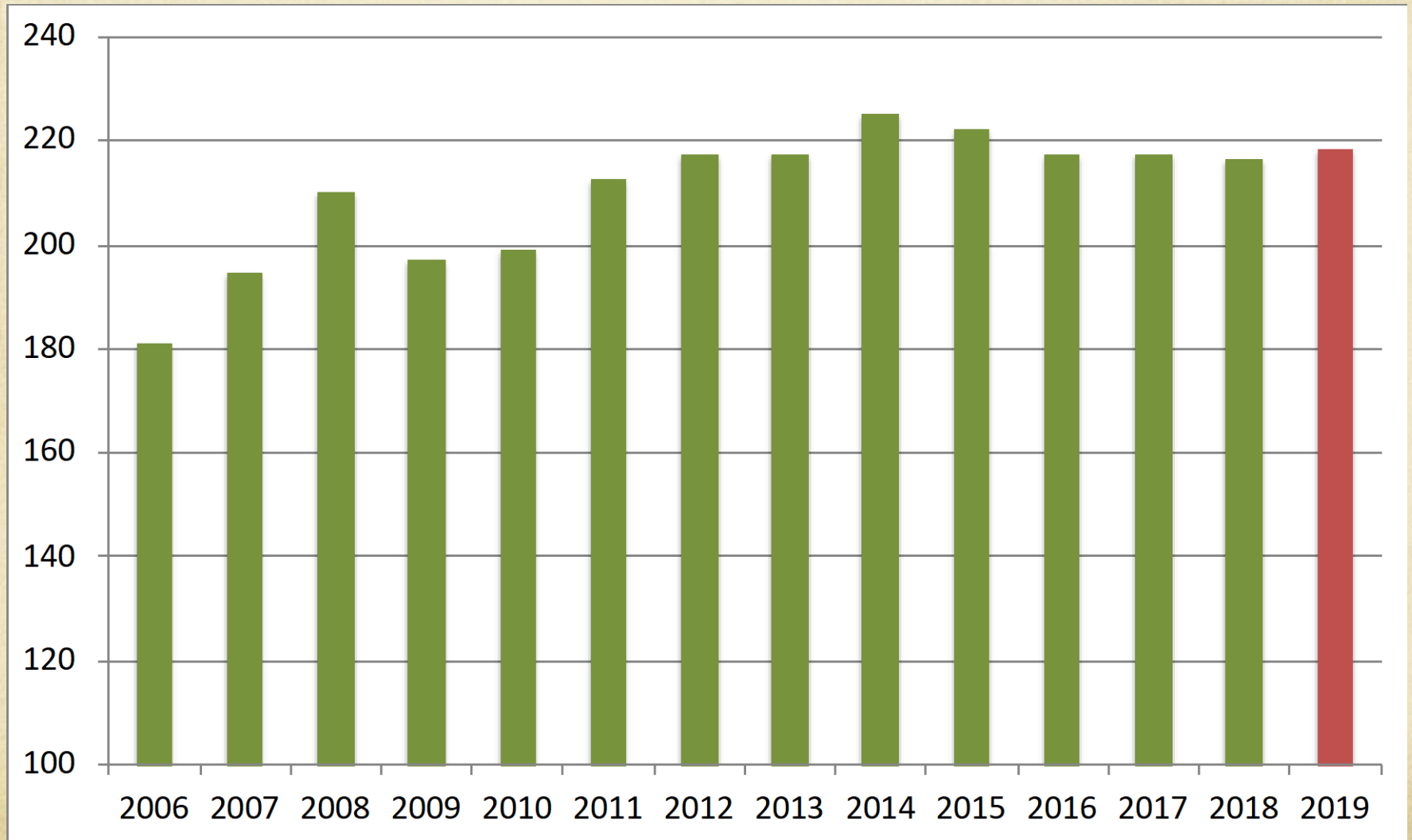


Intervention Stocks Have Overhung Markets, But They're Gone Now.

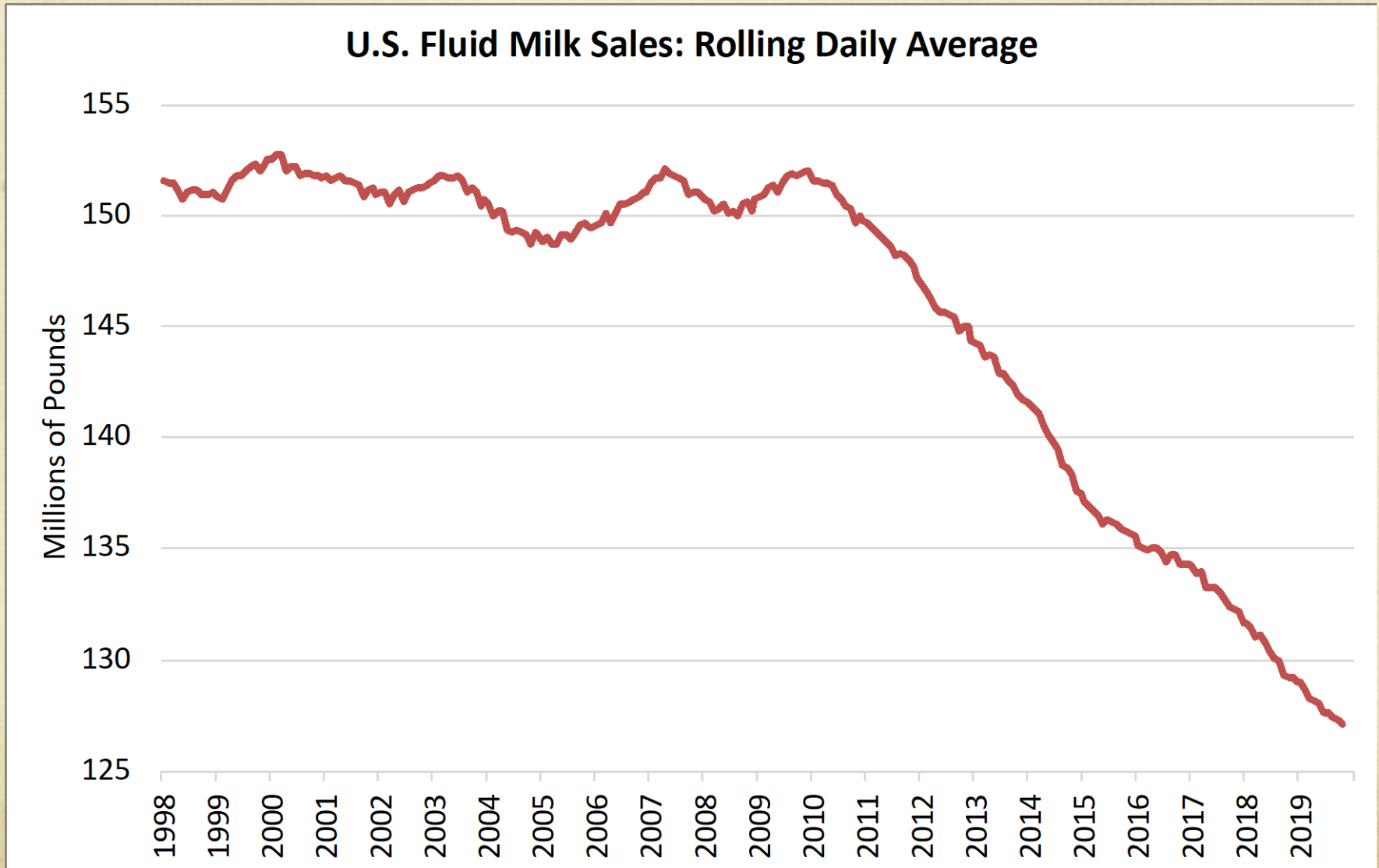


Dairy Products are a Good Buy

BLS – Dairy and Related Products

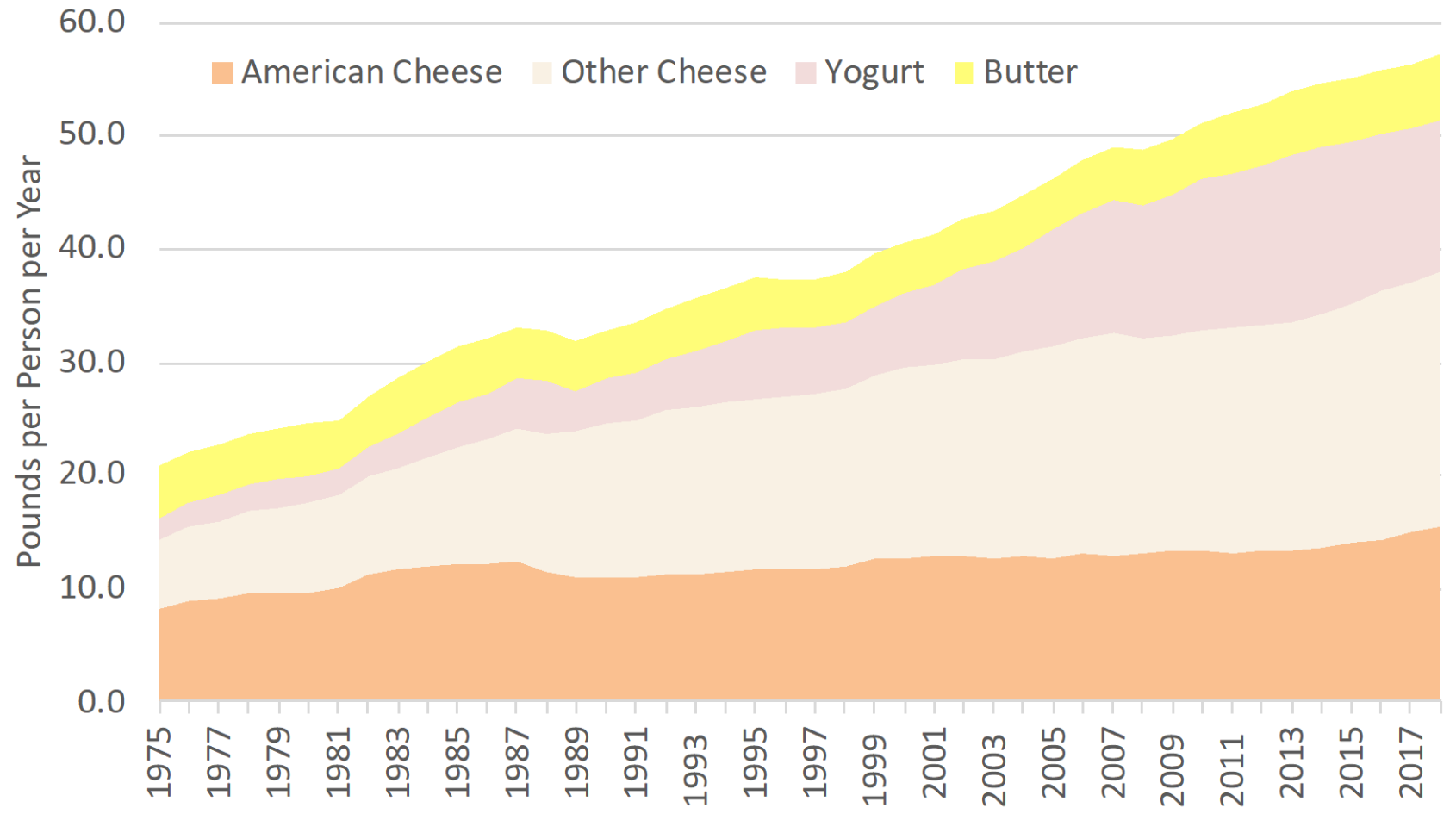


Fluid Milk Sales Continue Slide



It's Not All Bad News

U.S. Per Capita Consumption



Despite Trade Tensions...

- China's per capita dairy consumption is still small and expected to grow (75 lbs compared to world average of about 111 and US average of 640).
- China's small dairies are exiting faster than mid-size and large dairies are growing. This is causing milk production contraction.
- China has historically purchased a lot of U.S. whey and we are re-negotiating trade (but we have stubborn leaders!)
- USMCA has been signed by Mexico and Canada with slightly improved access to Canada. U.S. still needs to ratify.
- Mexico has started to purchase again.

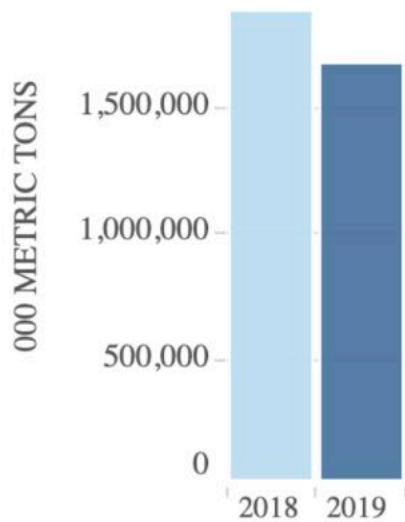
Year to Date Net Exports

U.S. Exports (Volume, MT)

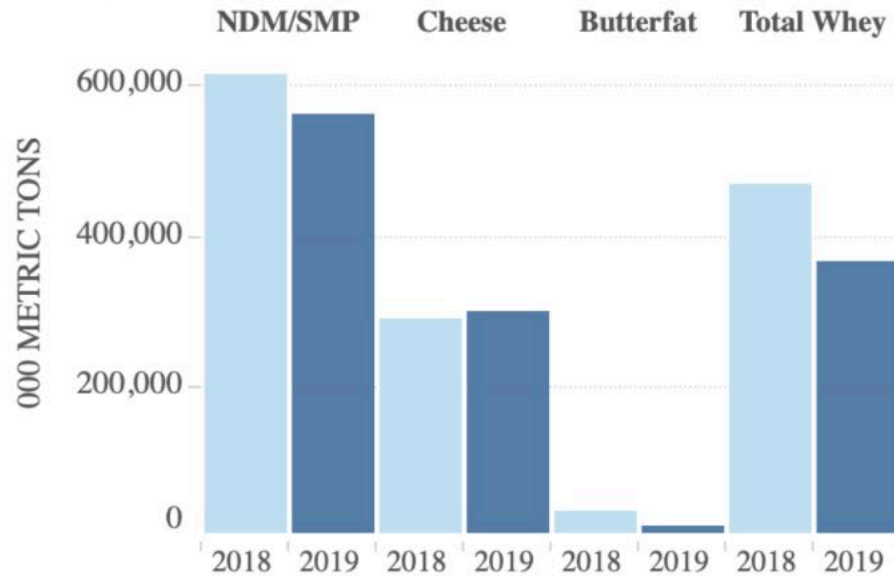
Data updated to Oct. 2019

Show ▼

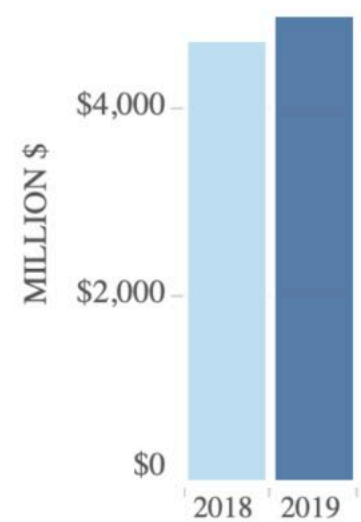
U.S. Exports Aggregate Volume* - YTD



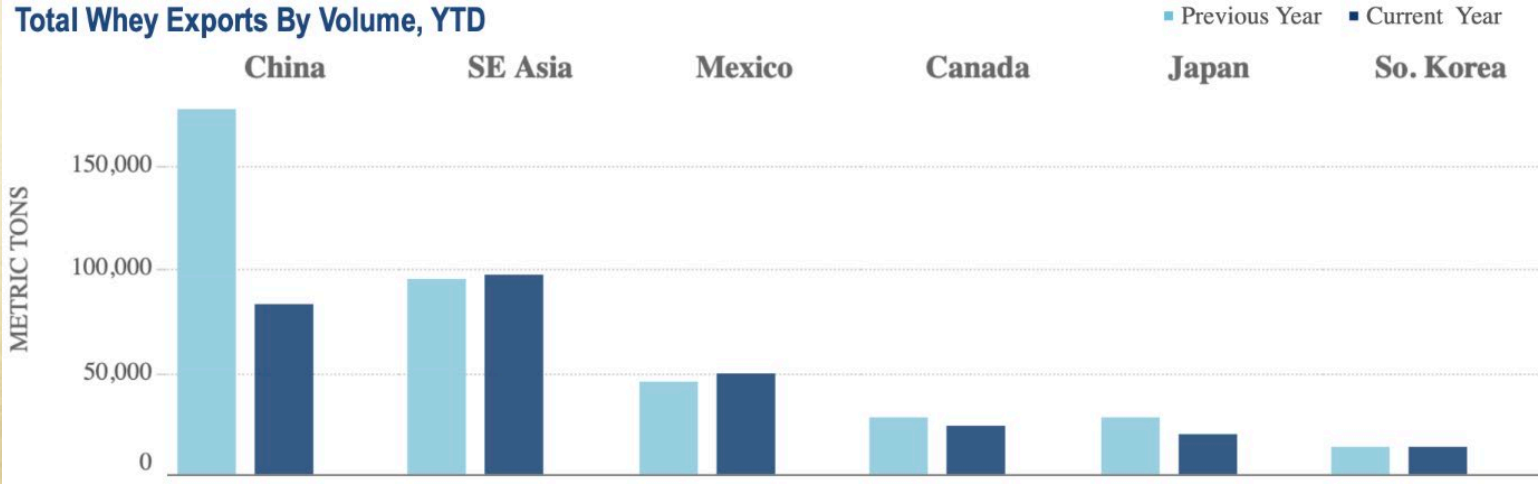
U.S. Exports Volume - YTD



U.S. Exports Value - YTD



Year-to-Date Change in Exports



The Alternative to Producing Milk

Cull Cow Price

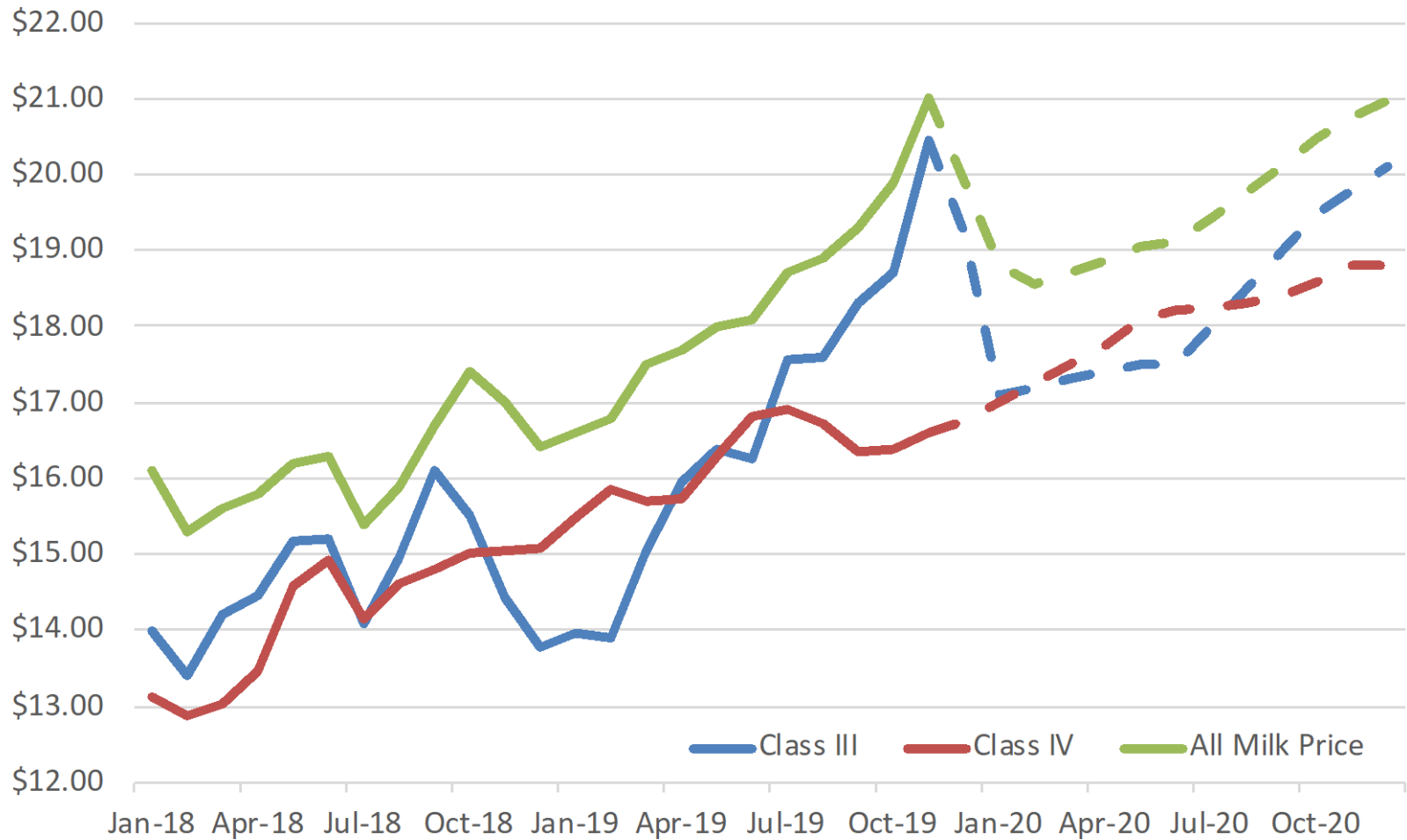


Other Factors

- DMC looks very promising—especially for smaller dairies. 2019 net benefit of almost 40¢ at \$9.50 level for Tier 1, but no projected payments for 2020.
- Genomics has been breeding low end cows to beef bulls. Fewer heifers in the pipeline.
- Some larger producers around the country are not looking for expansion opportunities. They are more circumspect this time.
- A more general economic downturn is the one thing that could temper my expectation for a more complete milk price recovery.

Price Forecasts

Actual and Forecast Milk Prices



Outlook Contributing Factors

Positive Factors

- Slowing US and World milk production
- Declining U.S. and world dairy stocks
- Relatively strong domestic economy
- Trade improvements ??

Negative Factors

- Prolonged trade negotiations
- Slowing GDP growth in some countries like China
- Weak economies in Europe
 - Germany, France, UK
- Possibility of U.S. recession

My Forecast...

- I don't think that milk prices will feel "good" until exports represent about 16-17% of milk of milk production on a rolling average 12 months or, our milk production contracts even more.
- But, I am projecting that the 2019 All Milk Price will be up by about \$2.33 and that it will continue to climb (absent recession) another \$1.30 in 2020. We could hit \$20 milk again next year.
- We've had a fundamental structural change in the dairy industry. The reasons are different than the 1980s, but I believe that the impact will have been about as great.
- Farm loss will have a long tail—It will take time to settle back into a new equilibrium.

Questions?



Wisconsin Dairy Task Force 2.0

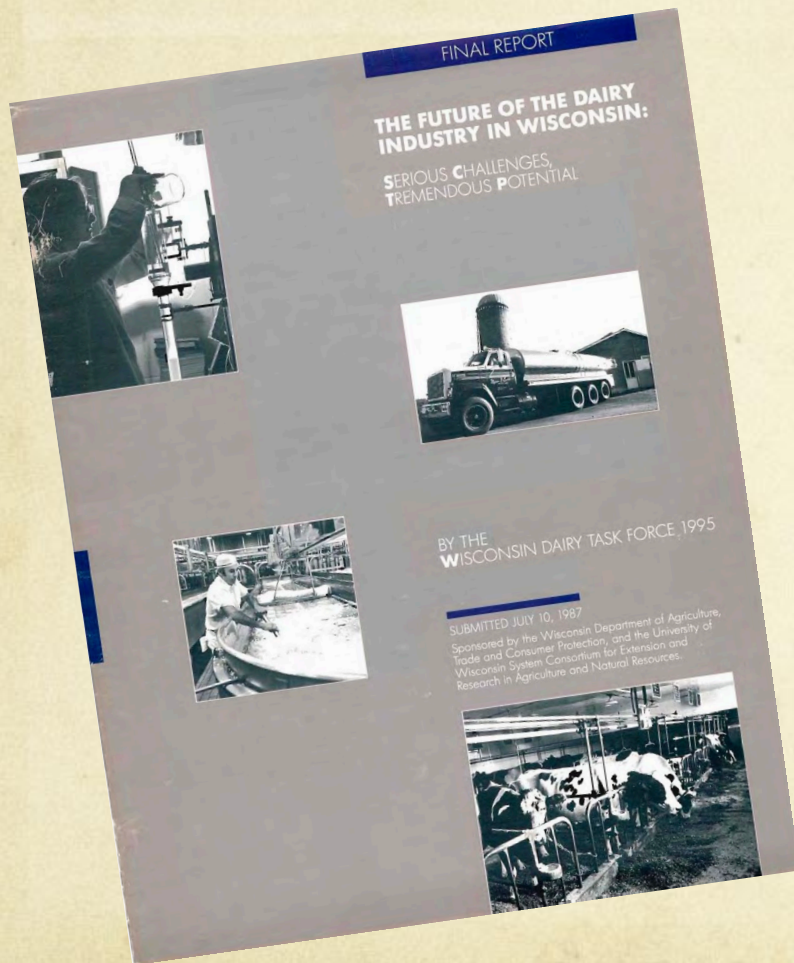
Mark Stephenson, Executive Director



The Genesis

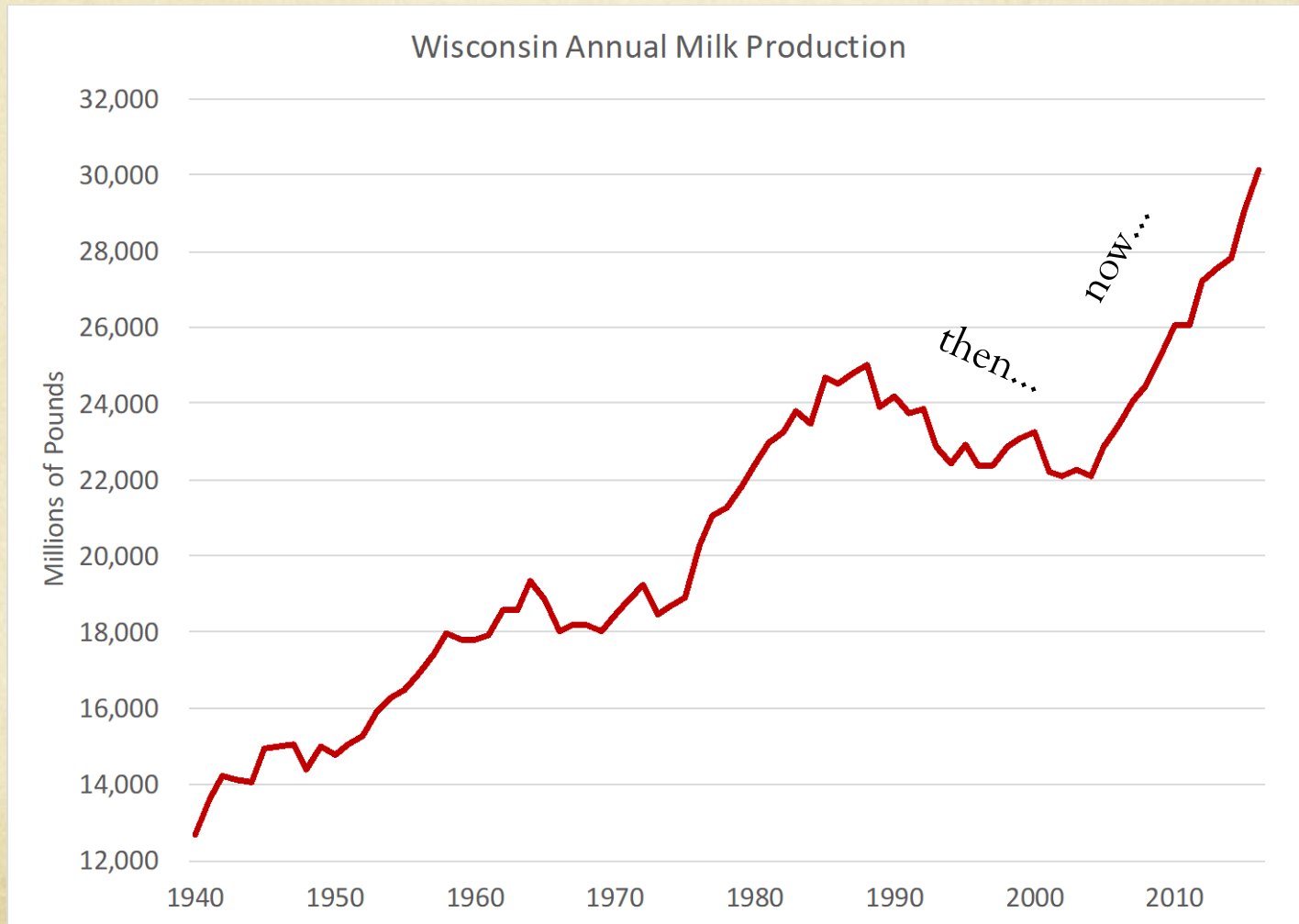
- UW President Ray Cross and CALS Dean, Kate VandenBosch asked John Lucey and me to plan a Dairy Summit which was held June, 2017.
- This led to then-Governor Walker to ask UW System and DATCP to convene a Wisconsin Dairy Task Force 2.0 and I was asked to be the Executive Director.
- Looked at the original Task Force to see if the model was successful.

The Model—1985 Task Force



- Well defined problem—losing milk production!
- Consisted of farmers, processors, marketers, DATCP and UW
- Thoughtfully considered and enumerated the problems
- Made 75 recommendations
- Began implementing them
 - Modernize dairy systems
 - Lower hurdles to growth
 - Change from commodity cheese production to specialty cheese

Wisconsin Annual Milk Production

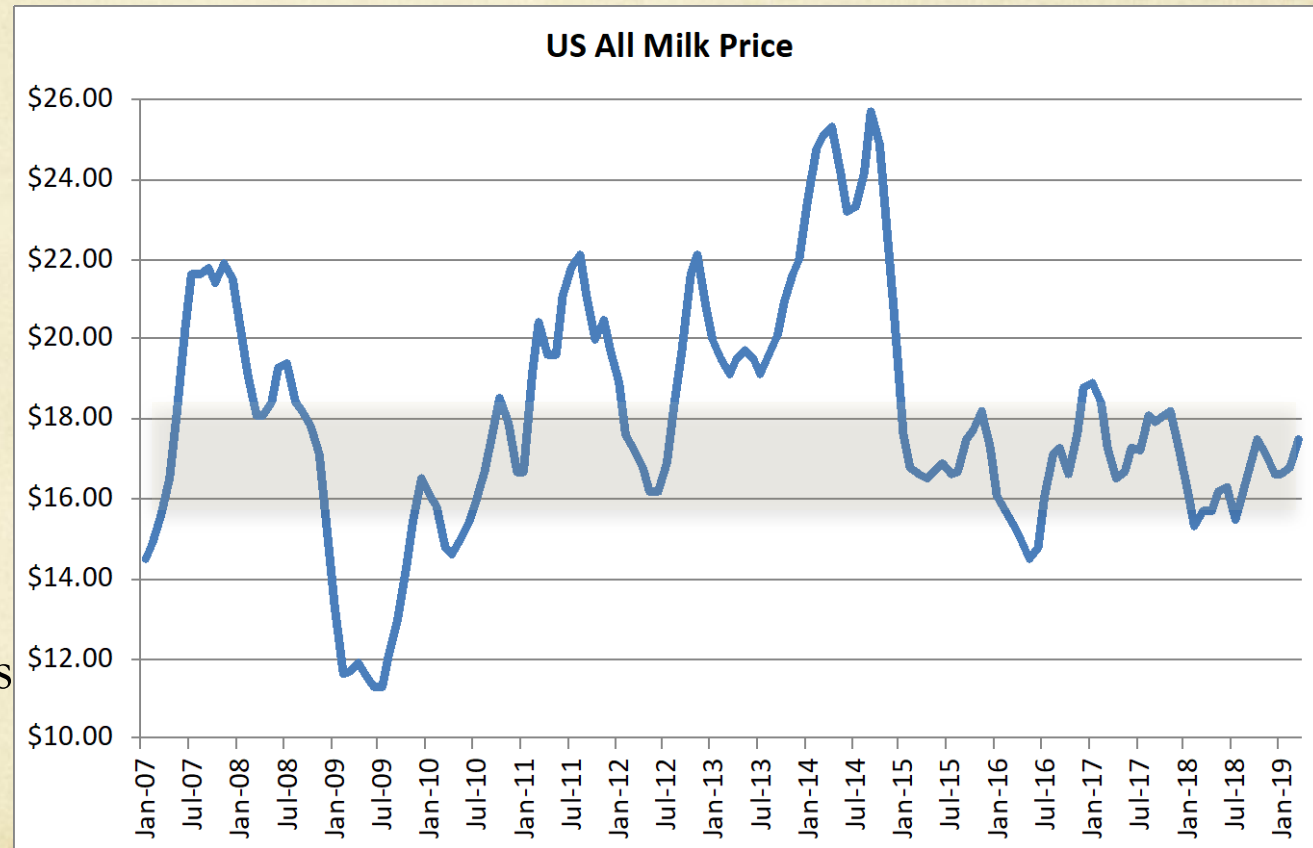


Task Force 2.0

- DATCP Secretary, UW President and I sent out notices to major dairy organizations in the state and asked for nominations to serve on TF2.0
- 31 members were selected representing business and geographic diversity
 - 14 dairy farmers—small to large, conventional to organic
 - 7 milk processors and marketers
 - 10 allied organizations
 - Banks
 - Input suppliers
 - Veterinarian
 - Milk hauler
- Problem not as well defined!

I asked TF2.0 *not* to focus on today's milk price.

- Market will provide the solution before we ever could.
- It's fair to consider what caused this trough and whether it could be better managed in the future.
- Used a facilitator to define current issues at the first meeting.



Everyone Provided Input

- First meeting held on August 13, 2018
- Members gave a short self-introduction
- Group process identified 130 issues
- Issues were arranged into 12 categories which were further refined into 9 groupings
- TF2.0 members volunteered to serve on 9 sub-committees
- All meetings were held under Wisconsin open meeting laws

9 Sub-Committees

Working Groups	Priority Vote	Sub-Committee Chair	Resource People
Product and Process Innovation and Invention	17	Chad Vincent	Kent Weigel John Lucy
Regulatory Certainty	13	David Ward	Peter Vadas
Rural Communities Support & Infrastructure, Economies of Scale versus Size	10	Elizabeth Wells	Steven Deller
Markets	9	Rob Byrne	Krista Knigge
Price Volatility and Profitability	8	Michael DeLong	Kevin Berhardt
Consumer Confidence and Perception	8	Dennis Bangart	Jen Walsh
Education Workforce, Management of Time and Money	6	Lori Weyers	Bob Milligan
Access to Capital, Barriers (Financial)	5	Brad Guse	Kevin Berhardt
Next Generation (Transfer and Transition)	5	Dave Daniels	Joy Kirkpatrick

Working Meetings

- The full Task Force met 4 times
- The sub-committees physically met 19 times
- The sub-committees met via teleconference another 21 times
- A total of more than 1,200 person hours were spent in committees...
 - Not counting travel time to and from meetings
 - Not counting personal work on ideas and recommendations
- Full Task Force voted on 53 recommendations and approved 51 of those recommendations—most by near unanimous vote.

Characterization of Recommendations

- Invest in research and innovation
 - Dairy Innovation Hub
 - Become one of the Dairy Product and Business Innovation Centers
 - CDR staffing, etc.
- Emphasize education
 - Non-farm audiences
 - Students interested in a career in agriculture (scholarships, internships, apprenticeships, etc.)
 - Continuing education for producers
- Stimulate demand
 - Food labeling
 - Fluid milk consumption in schools
 - Consistent messaging

Characterization of Recommendations

- Focus on Exports
 - Develop a Wisconsin brand (like Kerrygold)
 - Cheese export program at CDR including country preferences
 - Develop shipping and export assistance
- Regulatory Changes
 - Consistent enforcement
 - FDA standards of identity
 - FMMO milk classes, mandatory pooling
- Rural Communities
 - Rural broadband
 - Equity in road funding
 - Study dairy impact on rural communities
 - Healthy workplace practices

Characterization of Recommendations

- Farm Level
 - Animal identification
 - More stringent milk quality standards
 - Run for local offices and commissions
 - Support FARM program or equivalent
 - Contract/Member agreement
 - Understand milk pricing and marketing tools available
- Access to Capital
 - Grant funding
 - New and emerging technologies
 - Access to Better Credit (ABC) act
 - Farm savings accounts

Characterization of Recommendations

- Milk Hauling
 - License reciprocity
 - Hauling regulations (drivers timing out in some months)
- Farm Succession
 - More facilitators
 - Eligibility for DWD services to re-tool exiting farmers
- Several others

Where are we now?

- Task Force 2.0 Final Report was delivered to the Governor's office on June 21, 2019.
- Task Force 2.0 was adjourned “sine die”
- Now we all work on the tasks of implementation
 - Many are underway (21 at last count)
 - Many more to begin
 - Some may never be done...

Questions?