



CLIPPINGS a weekly column from Iowa State University Extension and Outreach

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For Immediate Release

Finding the New Normal in the Dairy Industry

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Prior to COVID-19, increased national dairy herd and increased production pointed to lower milk prices in the future. Generally, product stocks were increasing. However, with the CARES and HEROS aid programs, government purchases have begun to lower cheese stocks. Post COVID-19 EU is purchasing powder and storing, begging if this will negatively affect world price when they start selling.

The flipside is for seven months exports topped year-earlier levels according to the most recent USDEC report. In March, U.S. suppliers shipped 190,456 tons of milk powders, cheese, whey products, lactose and butterfat, two percent more than the year before. This is the highest figure since May 2018. On a solids basis, exports were up three percent. Meanwhile, the value of all exports was the most since August 2014 – \$592 million, 10 percent more than a year ago.

Tempering the good news, the Mexican peso has been devalued some 20 percent since January. Even though the value of sales to Mexico were up in March, Mexico bought 19 percent less nonfat dry milk/skim milk powder in terms of volume. This was the largest volume drop of such sales since January 2018. On the global view, low US prices compared to world prices helped sales, but the strong dollar will certainly play a role in future months as world economic conditions struggle.

In Iowa, we are blessed with processing capacity, especially fluid milk. As far as I know, there has been no on-farm milk dumping in this area. Some has occurred in Nebraska. Let's be clear, empty shelves in stores was not an indication of a milk shortage, but rather a break down in transportation and processing. If the processor is set up for ½ pints, they generally can't switch to gallons or 16-pound shredded cheese bags switch to 8-ounce bags for home consumption. About 60 percent of U.S. butter and 50 percent of cheese is consumed away from home prior to COVID-19.

COVID-19 will not last forever, but it will change what the new normal looks like. Rather than a "V-shaped" rebound, the U.S. economy may follow a "U-shaped" or "Nike-swoosh-shaped" recovery, largely because consumers will not instantly get back on their feet. We are looking at 30 to 40 million unemployed people, plus a large percentage of others whose incomes are reduced.

Recommendations for dairy producers:

- **Review and use risk management tools that are available.** While prices trending up is good, most producers are still short of their cost of production. It is almost painful to remember that several risk management tools could have locked Class III production well over \$17 this past winter. Using risk management tools has been common for row-crop producers but is yet to be the “norm” for milk production. While dairy margin coverage is not an option as of this writing, I encourage producers to check into dairy revenue protection. As spikes come along in the market, and they will, setting a floor may keep a trickle of red ink from being a terminal hemorrhage.
- **Get your financials in order.** Assess your first-quarter results for 2020 and carefully document all of your losses.
- **Assess equity depletion.** Divide losses into equity to determine the rate at which you are currently burning equity.
- **Reach out to your lender.** One option that many agricultural bankers are utilizing is switching to interest-only, principal-deferred payment plans in the short term.
- **See your accountant.** Before you proceed with any partial or full liquidation, find out the potential tax implications of doing so.
- **Seek financial and/or mental health counseling resources if needed.** There is no shame in seeking counsel, whether formally or informally. Sometimes just a conversation with a trusted, older mentor can help you keep things in perspective. Help with stress management is available in the recent Dairy Team newsletter (<https://www.extension.iastate.edu/sioux/news/april-issue-dairy-news-views-focuses-covid-19-stress-and-management>).

While several experts have predicted that dairy prices have hit rock-bottom in May and the CME seems to agree with that outlook, once government purchases end and the market adjusts, we have to understand that a balanced market may or may not maintain sustainable prices. The function of the market is to find the price that moves product to buyers. Recently, that has been painful and unless production matches domestic consumption and exports, it will be painful again.

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