

## USDA's Latest Dairy Forecast

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April 13, 2020 - USDA's official, consensus forecast for agricultural markets, known as the [World Agricultural Supply and Demand Estimates \(WASDE\)](#) report, just came out. Their analysis of dairy market (as of early April) is as follows:

*"The milk production forecast is reduced from last month on slower growth in milk per cow. The average dairy cow inventory is little changed as a higher-than-expected early year inventory is expected to decline later in the year. The 2020 fat basis export forecast is reduced primarily on lower expected exports of butterfat products and cheese due to weaker global demand. The fat basis import forecast is also reduced on lower imports of butter. On a skim-solids basis, the export forecast is reduced, reflecting slowing international demand for nonfat dry milk (NDM) and lactose. The skim-solids basis import forecast is unchanged from last month. Product prices are forecast lower on weak demand, large supplies, and larger stocks. Thus, both the Class III and Class IV prices are forecast lower. The all milk price is forecast lower than the previous month at \$14.35 per cwt."*

It is well to keep in mind that USDA is not an agency keen to be alarmist or create drama. They strive for honest accuracy but are probably inclined to be a bit restrained when looking at rapidly changing markets. I find it notable that they spent more time in this one paragraph talking about international markets than domestic ones. This may reflect that they feel there is more hard data on international markets. It is also certain that they have not factored in any new federal programs for dairy, such as have been recently proposed by NMPF and IDFA. Of course, it remains quite uncertain what USDA or Congress will actually do.

Relative to their March opinion, they shaved off \$4 on their national average All Milk Price projection, now at \$14.35, compared to their estimate of \$18.65 for 2019. I think a lot of folks in the industry are hoping it doesn't get worse than that. They also show milk production up 1.7% and "domestic commercial use" up 0.8-0.9%, but with the new footnote: *"Dairy domestic commercial use for 2020 includes additional milk marketed but not processed."* Presumably this means dumped milk.

I have a lot of respect for the USDA team and the methodology that they use to come up with their consensus forecast, but I think that it is likely they will be playing catch up with market events for at least the next several months.

As for exports, USDA is currently projecting fat-based exports to be down 2.2% (think cheese and butter) and skim (protein) based exports to be up 1.2%. We export primarily milk and whey proteins. When looking at trade data it is always very important to know if you are looking at quantities or dollars. When it is reported that "sales" are up, it means something quite different if this is because of a price increase, as opposed to a quantity increase.

Anecdotal reports indicate that, since the big virus impact in the US, exports to Mexico are much lower and sales to Asia are somewhat lower. Partly this reflects the fact that there is a lot of competition between exporters but the bigger reason is, apparently, lower demand, due either to purchasing power or health related restrictions.