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## **Outlook for US dairy with an Emphasis on International Trade Issues**

**AAEA Extension Livestock Outlook Session  
July 24, 2006**

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AIC

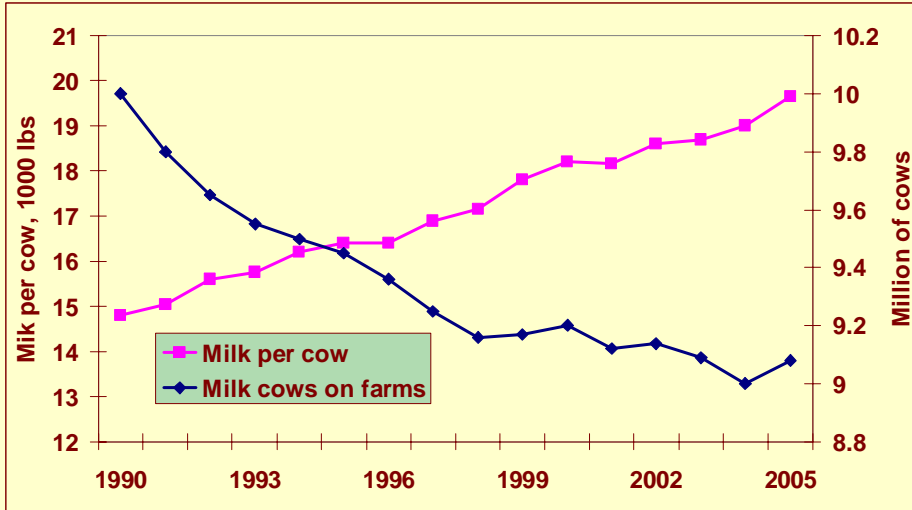
### **University of California Agricultural Issues Center**

**Small applied research center to provide objective information on  
agricultural issues**

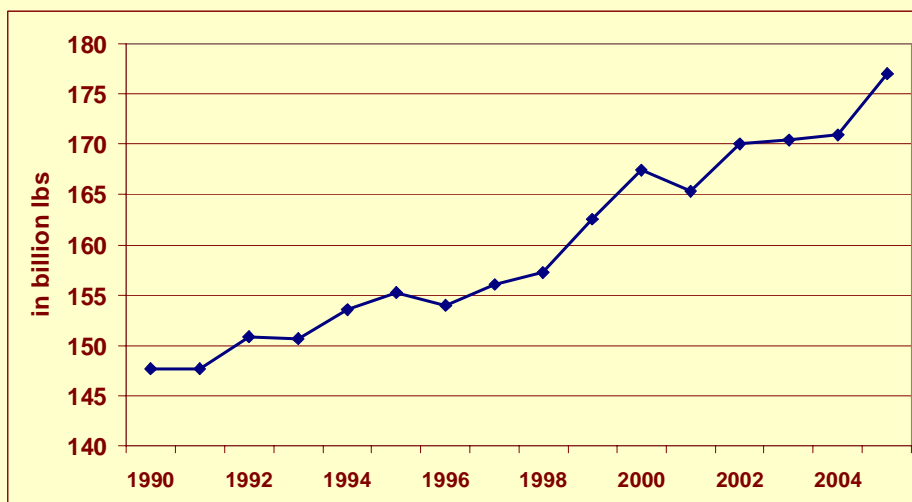
- **Conducts multidisciplinary studies with a focus on economics**
- **Provides empirical overviews of forces and trends in California agriculture... topics include farm policy, international trade, sustainability, agricultural resources, and the agriculture nutrition interface among many more**
- **We make findings available to policymakers, government agencies, interest groups and individuals through workshops, conferences and publications**

**<http://aic.ucdavis.edu/>**

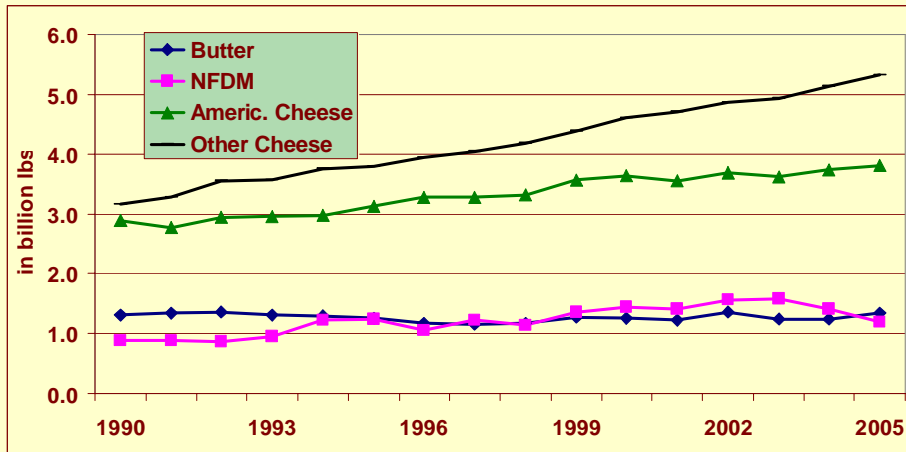
## Number of Cows versus Milk Production per Cow, United States, 1985-2005



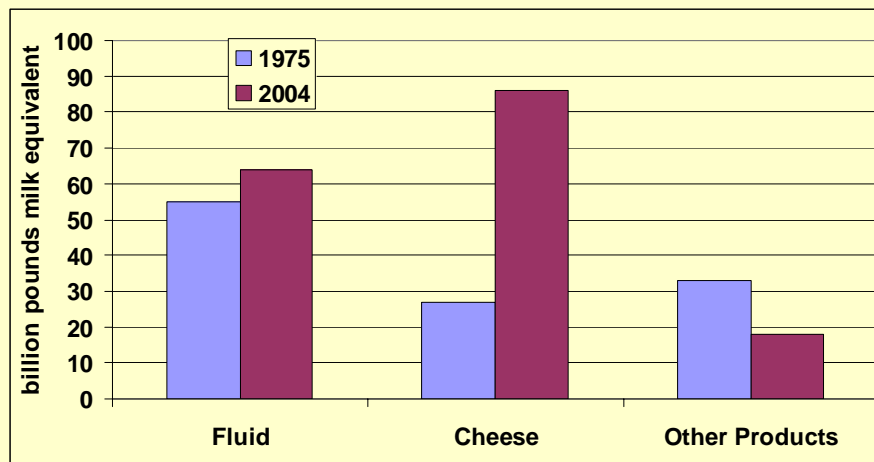
## U.S. Milk Production, 1990-2005



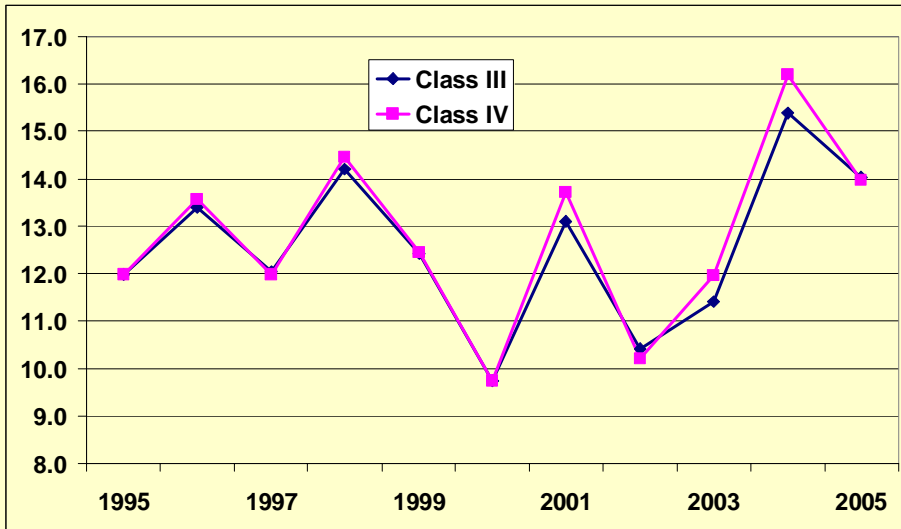
## U.S. Production of Dairy Products, 1990-2006



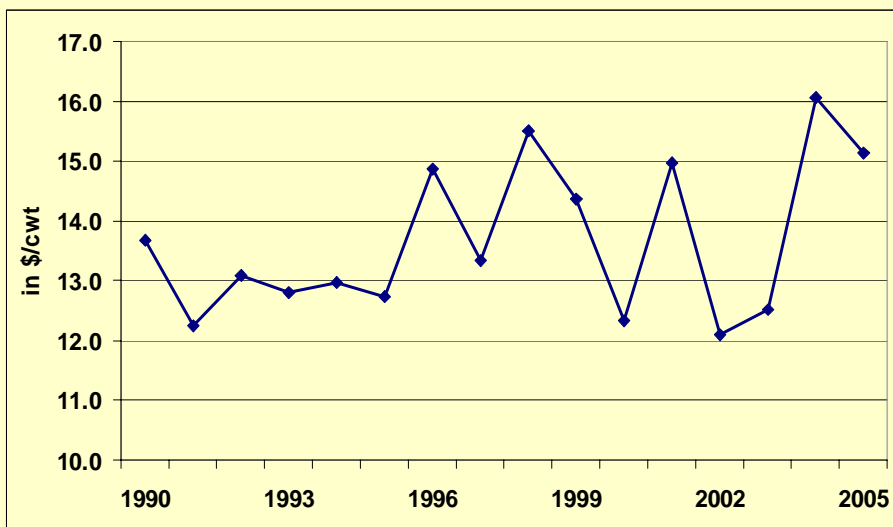
## Consumption of Milk and Dairy Products, 1975 and 2004



## U.S. Class III and IV Prices, 1990-2005



## U.S. All Milk Price, 1990-2005





## Milk Production, by Selected State, 2005

State	Milk per Cow <i>in lbs</i>	Total Production <i>in billion lbs</i>
Pennsylvania	18,722	10.5
Idaho	22,332	10.2
Minnesota	18,091	8.2
New Mexico	21,192	7.0

## Shift to the West Continues

- **Idaho will likely pass Pennsylvania in milk production in 2006**
- **New Mexico will pass Minnesota in 2006 or 2007, if increase in number of cows continues at same rate as 2005/06**
- **Under that assumption , New Mexico will also pass Pennsylvania in 5 years.**

## **Geographic Trends**

- **The U.S. dairy industry continues to evolve.**
- **One part specializes in fluid milk**
- **Another focuses on manufactured milk products**
- **Maybe a small third segment may focus on quality niche products (but this segment may grow)**
- **Raises questions about the efficiency of mainly seasonal processing places that specialize in fluid products**
- **Raises again policy questions about facilitating movement of milk for fluid products longer distances in alternate forms**

**Turn to some short term outlook  
from USDA and others**

## U.S. Number of Cows, Milk per Cow and Milk Production 2006 and 2007 (USDA)

	Units	2006	2007
<b>Number of Cows</b>	<b>1000s</b>	<b>9,120</b>	<b>9,030</b>
<b>Milk per Cow</b>	<b>lbs</b>	<b>19,965</b>	<b>20,275</b>
<b>Milk Production</b>	<b>bil. Lbs</b>	<b>182.1</b>	<b>183.1</b>

Source: USDA WASDE

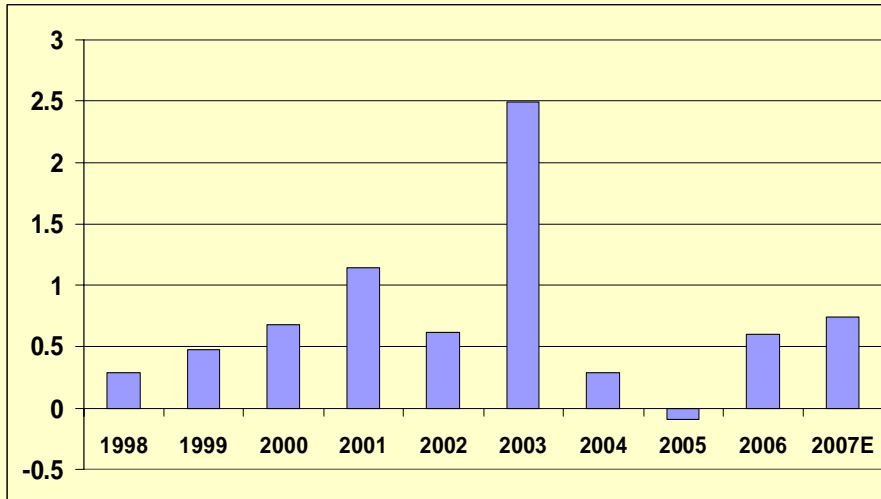
## U.S. Price Forecasts (July)

		2006	2007
<b>Class III</b>	<b>\$/cwt</b>	<b>11.55 (USDA)</b>	<b>12.45 (USDA)</b>
		<b>11.60 (FAPRI)</b>	<b>11.95 (FAPRI)</b>
<b>Class IV</b>	<b>\$/cwt</b>	<b>10.65 (USDA)</b>	<b>11.00 (USDA)</b>
		<b>10.97 (FAPRI)</b>	<b>11.20 (FAPRI)</b>
<b>All Milk</b>	<b>\$/cwt</b>	<b>12.62 (USDA)</b>	<b>13.35 (USDA)</b>
		<b>12.85 (FAPRI)</b>	<b>13.15 (FAPRI)</b>

Source: USDA WASDE



## CCC Net Outlays for Dairy Programs 1997-2007(Estimate), (billion \$)



### **I am not about to disagree with Bob Cropp! He says about the situation**

- May 2006 price could have been low for the year but don't expect sharp increase
- Last year, consumption of American cheese fell slightly, but other cheeses reached record 18.7 pounds per person and cheese sales are major factor in milk prices. This year, trend is reverse and Class III prices should show increase
- NFDM prices are about 15% lower than last year at 80-85 cents/pound range

## I am not about to disagree with Bob Cropp! He says about the outlook:

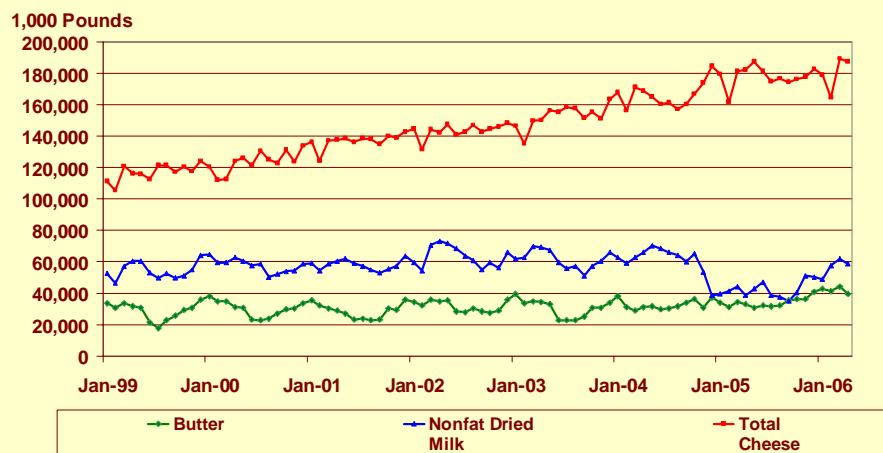
### Beyond summer:

- Milk prices should show some strength
- Growth in milk production is slowing mainly due to decrease in milk/cow
- Lower milk and higher hay prices lowered milk/feed ratio

### Year end:

Average all milk price will be around \$13.25, compared to \$15.14 last year and a 5-year average of \$14.16

## California Production of Class 4a+4b Dairy Products, 1999-2006



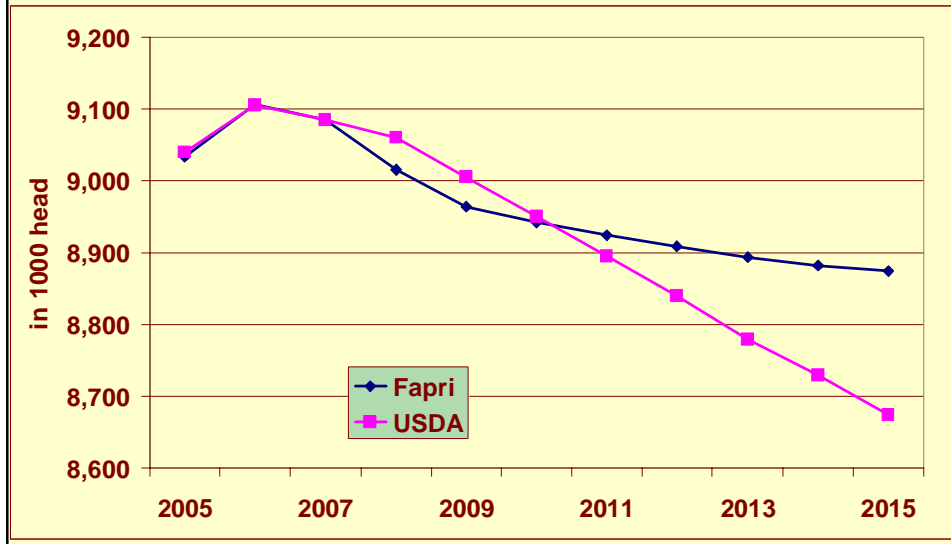
Source: CDFA

## California State-wide Blend Milk Price, January 2002-May 2006

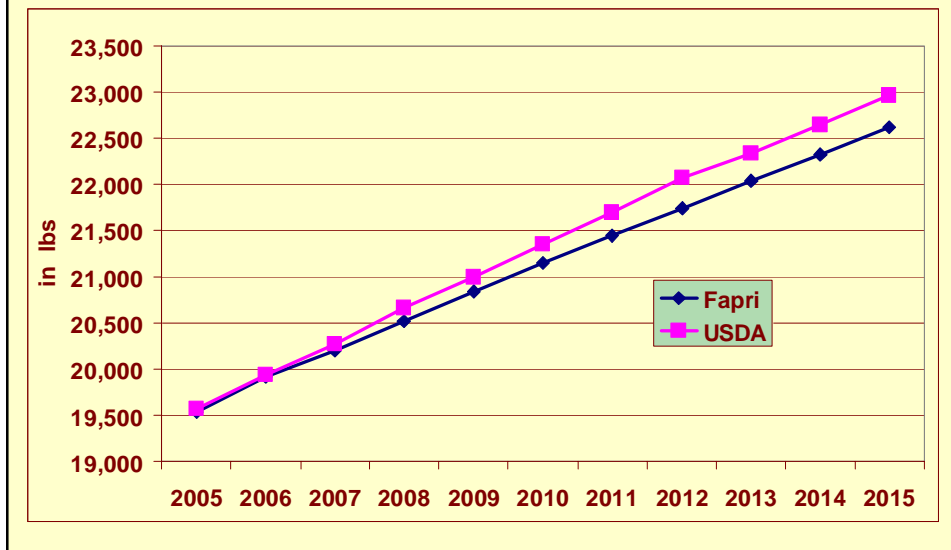


**Some longer term outlook  
from USDA and FAPRI**

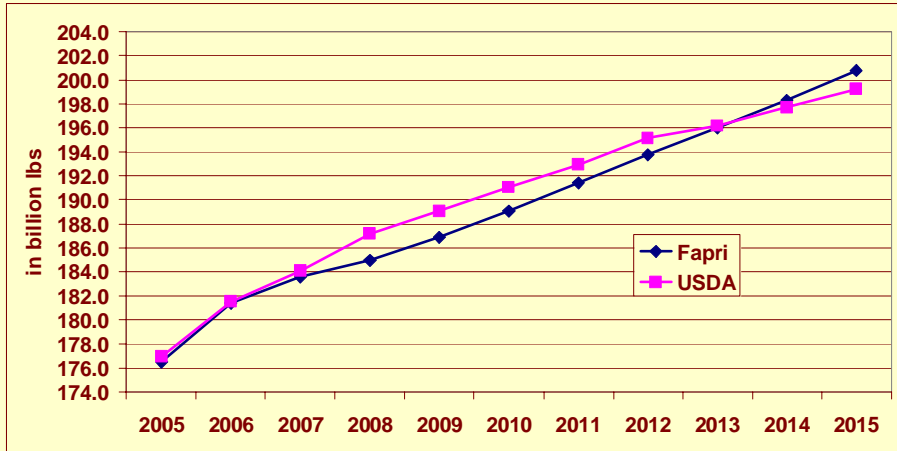
## FAPRI and USDA Baseline Projection of Number of U.S. Dairy Cows, 2005-2015



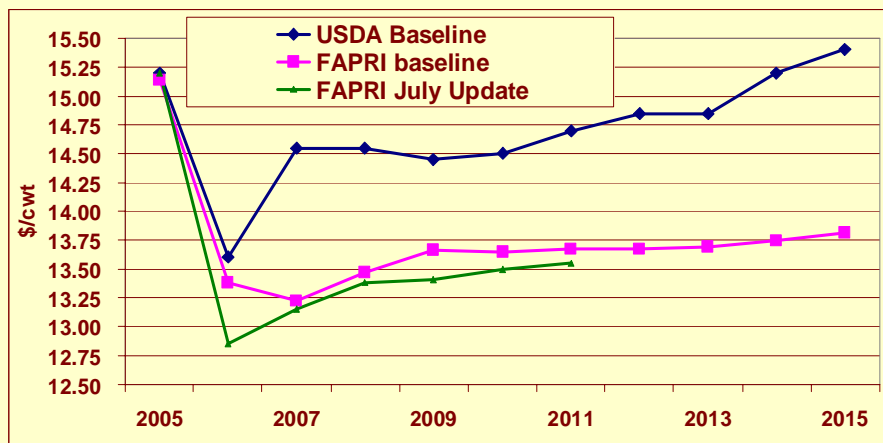
## FAPRI and USDA Baseline Projection of U.S. Milk Production per Cow, 2004-2015



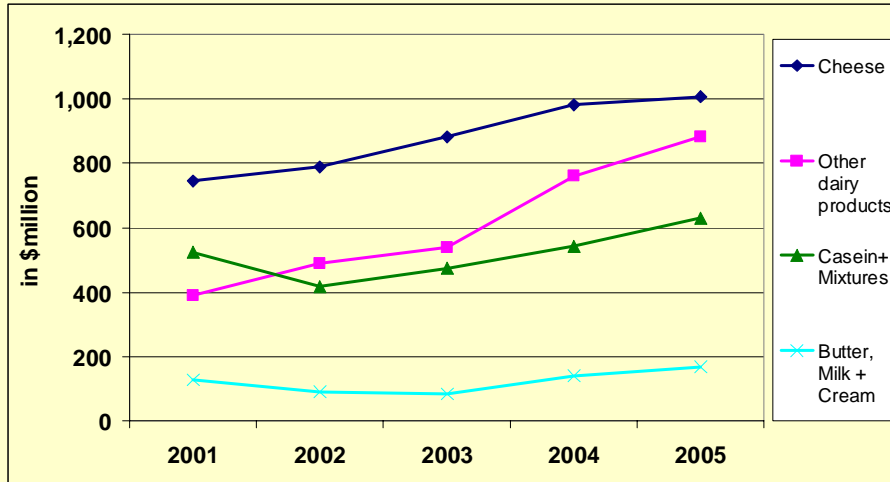
## FAPRI and USDA Baseline Projection of Total U.S. Milk Production, 2005-2015



## FAPRI and USDA Baseline Projection of U.S. All Milk Price, 2005-2015

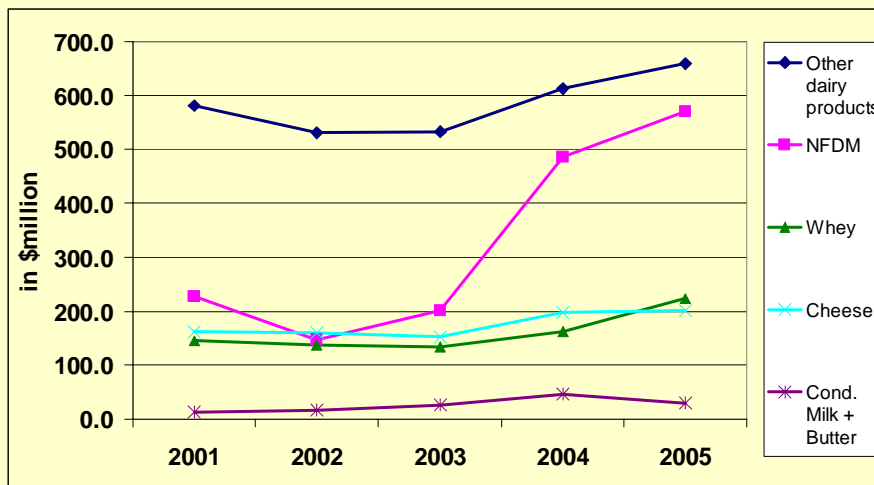


## U.S. Dairy Product Imports, by Value, 2001-2005



Note: Other Dairy includes whey, infant formula, yogurt, sour cream, food preparations, etc

## U.S. Dairy Product Exports, by Value, 2001-2005



Note: Other Dairy includes whey, infant formula, yogurt, sour cream, food preparations, etc

## **U.S. Dairy Position in the World**

- **The United States is increasingly in a position to compete at the world level as least in non-fat milk products.**
- **But, U.S. import barriers still protect the U.S. farm price**
- **Much of U.S. milk is produced on farms that are on their way out of the business for domestic reasons**
- **As they leave the competitiveness of the industry will be more clear**

## **Australian-U.S. FTA: Background**

**AUS-FTA signed in February 2004**

- **Extremely modest increased access for dairy (Australian negotiators failed to get any meaningful gains for their industry)**
- **The US industry claimed devastation if the US market was opened (Our work indicates this was a larger than usual exaggeration (Alston et al. 2006))**
- **Result: essentially zero negative implications for US dairy, but a strong indication that US negotiators are willing to protect the industry**

## **Korean FTA**

- **Korean dairy has grown dramatically in recent decades as per capita demand increased**
- **Total demand still small but growing with about 45 million affluent consumers**
- **Heavily protected industry**
- **With market opening imports would expand substantially and the Korean industry would specialize in fluid products**
- **US would gain relative to NZ and Australia**
- **Effects on US dairy would be modest but measurable gains in market size and prices in the intermediate run**

## **Percentage Changes of a Potential WTO Agreement on World Fat and Protein Prices and U.S. All Milk Price**

	<b>Scenario 1</b>	<b>Scenario 2</b>
<b>World price of fat</b>	<b>11.3</b>	<b>11.2</b>
<b>World price of protein</b>	<b>21.4</b>	<b>21.5</b>
<b>U.S. price of all milk</b>	<b>-2.1</b>	<b>-2.0</b>

**Note: Scenario 1 assumes a tariff cut of 50% and the elimination of all export subsidies. Scenario 2 assumes a uniform tariff cut of 50%, the elimination of all export subsidies and a 100% expansion in import quotas.**



## Final Remarks

- Dairy prices have been highly variable, but current forecasts see the highs of recent years as likely normal prices into the future
- Regional shifts will continue and much of the industry in the midwest and east will continue to find it hard to compete with the west
- The US industry will be more competitive globally
- The US dairy industry flexed its political muscle to block dairy market opening in the AUS-FTA and stands to gain from a Korea-FTA
  
- The farm bill may be the occasion to shift out of dairy price supports and maybe end the MILC
- Threat of WTO litigation also may make price support and even certain features of marketing orders vulnerable

## FAPRI/UW Dairy Policy Alliance

[http://www.aae.wisc.edu/future/dairy\\_briefs\\_1.htm](http://www.aae.wisc.edu/future/dairy_briefs_1.htm)

*Briefing Papers for dairy policy*

1. Milk Price Support Program
2. Milk Income Loss Contract Program
3. Target Price/Deficiency Payments
4. Voluntary Supply management
5. Marketing quotas
6. Dairy Compacts
7. Milk Protein Concentrate Imports
- 8a – 8d. Trade/WTO issues:
- 9a – 9d. Federal Milk Marketing Orders

Our trade-related research and California information is found at: <http://www.aic.ucdavis.edu>