



## MARKET SNAPSHOT DAIRY

March 31, 2022

### Executive Summary

Drivers for the dairy industry include rising feed costs, a tightening global dairy supply and increased volatility.

- The cost of production continues to rise, weighing on producer profitability and limiting dairy growth.
- Increases in geopolitical tensions may reduce worldwide supply, supporting further increases in domestic and global milk prices.

### 12-Month Profitability Outlook



Northwest FCS' 12-month dairy outlook suggests profitable returns. Increasing feed expenses will create headwinds for producer profits and halt dairy expansion. Further reductions in dairy herd numbers could promote higher milk prices. Milk price future contracts have steadily increased since mid-2021. Geopolitical tensions have caused greater volatility in dairy milk prices.

### Northwest Situation

In 2021, most dairy producers were profitable due to support from government programs that offset losses from the pandemic and risk management programs. In 2022, producers face many of the same challenges experienced in 2021, but with added uncertainty and further cuts to government program payments.

Rising input and feed costs are squeezing profit margins. While dairies that grow their own feed have more control over their costs, they will still experience higher overall feed expenses. Increasing fertilizer and fuel prices, along with limited water availability, have some dairies that grow their own feed considering purchasing feed this year.

Near term production will likely decrease further as producers attempt to curb increasing input costs. Northwest dairy herd numbers have already declined. In Washington, the dairy herd decreased by 15,000 cows, or 2.5%, over a year. Idaho milk production was stable with milk cow numbers and milk production remaining unchanged from February 2021 to February 2022.

Continued significant declines in production could place further upward price pressure on dairy product prices. If input cost increases are passed onto customers through higher milk prices, demand may decline. Decreased demand for dairy products might also be driven by inflation if consumer purchasing power is reduced. As breakeven costs increase, with some forecasts as high as \$18.50-\$19 per cwt, higher milk prices will not fully mitigate increasing production costs, but producers are still forecasted to be profitable.

Rapidly increasing corn and soybean futures will provide additional headwinds for Northwest dairy producer profitability. Dairies are expected to be profitable in 2022 as milk prices should remain above breakeven levels. However, managing operating costs through locking in input prices, feed contracts and risk management strategies will boost profitability.

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**Milk Cows and Production: February 2022 Compared to February 2021**

	Milk Cows (head)	Milk per Cow**	Milk Production**	Trend
Idaho	0	0 lbs.	0.0%	-
Washington	-15,000	15 lbs.	-2.5%	↓
Oregon	0	-5 lbs.	-0.5%	↓
Northwest Total	-15,000	10 lbs.	-1.0%	↓
24 States Total	-77,000	3 lbs.	-0.7%	↓

Source: USDA NASS, [Milk Production](#). March 21, 2021. \*\*Weighted average by head count.

**National Situation**

The national dairy herd is declining. In the last year, the total U.S. dairy herd reduced by 96,000 cows, 1.0% year over year decline. As a result, U.S. milk production growth will remain stagnant, with a forecasted increase of only 0.4%. Surging operating costs are creating headwinds for dairy expansion, and many dairies have halted expansion plans in the near term. March’s ratio of bred dairy heifers to dairy cows reached the lowest level since 2009.

Milk prices are elevated and volatile, and futures prices have steadily climbed since January 2022. Class III May future contracts rose from \$20 per cwt on Dec. 31, 2021, to over \$25 per cwt in March. Class IV 2022 contracts reached bids above \$24.50 per cwt. Rising milk prices aren’t only seen in the futures market. The World Agricultural Supply and Demand Estimate (WASDE) forecasts the All-Milk price at \$25.05, a 34.7% increase year over year. WASDE forecasts \$21.65 per cwt for Class III and \$23.70 for Class IV milk prices. Milk prices are expected to remain favorable and fluctuate throughout 2022. Use of risk management tools, like Dairy Risk Protection insurance, can help combat challenges with price volatility.

**Historic and Forecast Milk Prices (annual, in U.S. dollars)**

	2019	2020	2021	2022*
All Milk (per cwt)	\$18.65	\$18.24	\$18.60	\$25.05
Class III (per cwt)	\$16.96	\$18.16	\$17.05	\$21.65
Class IV (per cwt)	\$16.30	\$13.49	\$16.05	\$23.70
Cheese (per lb)	\$1.76	\$1.92	\$1.68	\$2.03
Butter (per lb)	\$2.24	\$1.58	\$1.73	\$2.58
Nonfat Dry Milk (per lb)	\$1.04	\$1.04	\$1.27	\$1.74
Whey (per lb)	\$0.38	\$0.36	\$0.58	\$0.71

Source: [USDA World Agricultural Supply and Demand Estimates](#). March 9, 2022.

\*Forecast.

Demand for dairy products will face headwinds. Food prices have climbed to the highest level since 2011, and consumers are directly seeing the impact of inflation reflected in rising prices at the grocery store and gas pump. If inflation continues, changes in disposable income and higher retail prices may constrain U.S. demand for dairy products. Consumer habits have shifted, and more people are eating at home in March 2022 than July 2021. The National Restaurants Association reports that the consumer preference shift to dining at home will be long-lasting.

### International Situation

Prices at the Global Dairy Trade have risen consistently for several consecutive Global Dairy Trade events. These price increases point to a reduction in global supplies and strong demand. Following slow growth at the end of 2021, global dairy production declined in 2022. Ongoing supply chain issues and constraints from the pandemic will keep global milk growth idle for the remainder of 2022.

European milk production is expected to grow less than 1% due to pressures from rising production costs and government regulations. Government programs enforcing environmental regulations have hindered European milk production growth and may create limitations around domestic herd size. In the Netherlands, programs to reduce chemical usage also decreased their year over year milk production by 3.1%.

Milk production in Oceania has slowed. High temperatures and dry weather burnt New Zealand pastures and national milk production started its decline in August 2021. As of February, New Zealand had reached its lowest milk production volume since 2013. Australian milk output also fell with milk output estimated to shrink by 1%-3% this season. Anticipating tight profit margins, dairies in Oceania are drying off cows and reducing their supplemental feed. Declines in Oceania's milk production are contributing to declining global production.

South American milk production grew. Milk production in Mexico and Argentina rose 10% and 3% year over year, respectively. Uruguay set record production in 2021. However, rising costs and devaluation of local currency from geopolitical uncertainty will likely counteract recent milk production growth in South America.

The conflict in Ukraine has injected uncertainty into the global dairy market and will have far reaching spill-over effects. Even if a ceasefire is reached quickly, this conflict will impact the energy sector, food markets and inflation. Since the initial invasion on Feb. 24, 2022, oil prices jumped to \$139 per barrel, a 14-year high. Gas prices in the U.S. have risen above \$4 per gallon. Ukraine and Russia are major wheat, corn and fertilizer exporters. Disruptions in exports will contribute to increases in commodity prices putting upward pressure on feed costs. While milk prices were strong prior to the conflict, increasing geopolitical tensions will add volatility to dairy prices.

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### Additional Information

Northwest FCS Business Management Center  
[www.northwestfcs.com/Resources/Industry-Insights](http://www.northwestfcs.com/Resources/Industry-Insights)

AgDairy  
[www.agdairy.com](http://www.agdairy.com)

CME Group

[www.cmegroup.com](http://www.cmegroup.com)

Milk Producers Council

[www.milkproducerscouncil.org](http://www.milkproducerscouncil.org)

Hoard's Dairyman

<https://hoards.com/>

Daily Dairy Report

[www.dailydairyreport.com](http://www.dailydairyreport.com)

Progressive Dairy

[www.progressivedairy.com](http://www.progressivedairy.com)

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