



Q2 2024 OUTLOOK

Margins Improve, but Not Enough to Spur Milk Production Growth

By Ben Laine

Milk production started the year with a steeper-than-expected decline in January.

I now expect production to increase 0.5% year over year in 2024, down from my previous forecast.

Margins are improving with lower feed costs, and new plants under construction are looking for milk supply. However, high expansion costs, expensive replacement heifers, and enticing beef-on-dairy cross revenues continue to hold back production growth at the national level.

The number of milk cows in the U.S. fell by 28,000 head in January compared with December. Cow numbers increased slightly from January to February by 10,000 head but remained 89,000

head below last year. Through mid-March, dairy producers sent nearly 100,000 fewer cows to slaughter in 2024 than in the same period last year, but even that was not enough to stem the tide. Producers wanting to maintain or increase their herd are left with the option of holding on to older cows for longer or buying \$2,500+ replacements.

The spread between Class III and Class IV milk prices remains wide and will be a defining feature of milk markets through the rest of this year.

The further the milk-cow herd declines, the bigger the hill left to climb back to normal levels of growth. Given the downward revisions to the USDA's 2023 cow numbers and the steeper-than-expected drop in January, I now expect production to increase

timelines get pushed further out and producers' eagerness to fill those plants appears lackluster.

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There are dairy expansions underway to provide milk to the new large-scale plants, including Hilmar in Dodge City, Kansas, and Leprino Foods in Lubbock, Texas, but high cow costs, construction costs and interest expenses are making it harder to find the milk than initially anticipated.

To see any meaningful increase in cheese prices, and by extension Class III milk prices, exports will need to pick back up. There have been fleeting moments of price competitiveness during Q1 that opened some export opportunities for the U.S., but the price advantages were neither strong enough nor long-lasting enough to book substantial sales volumes.

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McDonald's has acknowledged slowing business from low-income consumers, while PepsiCo revised growth projections downward following a decline in net income that it has attributed to pushback against higher prices. Kraft Heinz saw sales fall 7.1% from a year ago in the most recent quarter, attributing the decline to inflation pressure as well as cuts to SNAP program benefits last year.

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PRICE OUTLOOK

Cheese prices will likely remain rangebound, barring any major export developments. Butter prices have been climbing since the start of the year, but cream availability is plentiful for churning. Nonfat dry milk prices have been steady, and whey prices have fallen from recent highs after climbing since the beginning of the year. I expect Class III milk prices will average \$17.15/cwt in 2024, down slightly from my prior forecast. Meanwhile, I predict Class IV prices will average \$19.75/cwt, up slightly from last quarter's estimate.



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ABOUT THE AUTHOR



Ben Laine is Terrain’s senior dairy analyst. He has held analyst and economist positions previously at Rabobank, CoBank and Agri-Mark dairy farmer cooperative. Ben has experience developing trading and risk management programs for commercial dairy commodity businesses, producing price forecasts, and providing economic outlooks. Ben earned his M.S. in resource economics from the University of Massachusetts, Amherst.

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