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MCT COMPASS

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Dairies in Pretty Good Shape

The future is a difficult thing to predict, but it is still wise to plan for it. Each year the University of Missouri's Food and Agricultural Policy Research Institute (FAPRI) prepares a 10-year baseline, which it presents to Congress. The Agricultural and Food Policy Center (AFPC) at Texas A&M University uses the FAPRI baseline results to simulate 91 representative crop, dairy, and livestock operations in major production areas in 28 states. The primary purpose of the AFPC analysis is to project the economic viability of these farms by region and commodity for 2015 to 2018.

According to FAPRI, projected increases in fuel prices and general inflation in the economy contribute to an increase in overall farm input prices after 2017.

This year's baseline, released earlier this month, was not as rosy as those in recent years. Nominal net farm income peaked in 2013 at $129 billion, before falling to $108 billion in 2014. This year's net farm income is expected to drop to $79 billion. Through FAPRI's 10-year baseline, net farm income fails to return to the levels seen in 2013 and 2014.

FAPRI relied on an HIS Global Insight forecast for the macroeconomic assumptions used in its model. These assumptions include real GDP growth in the United States that accelerates in 2015 to 3.1% but then averages 2.6% per year between 2015 and 2024, and lower oil prices that reduce inflation in 2015. Longer term, however, oil prices will recover, exceeding $140/barrel by 2024. The unemployment rate also continues to decline slowly, and short-term interest rates increase to near pre-recession levels by 2017. According to FAPRI, projected increases in fuel prices and general inflation in the economy contribute to an increase in overall farm input prices after 2017.

Record production of corn and soybeans in 2014 resulted in lower prices of all major grains and oilseeds. Corn and soybean prices for 2014-15 are estimated at $3.63/bu. and $10.02/bu., respectively. That is significantly lower than average corn and soybean prices of $5.06/bu. and $11.79/bu. from 2008-09 through 2013-14. Through

Continued on page 2

Ken's Corner

by Ken Meyers
President , MCT Dairies Inc.

Given the current financial health of the representative dairies published by AFPC, it looks like milk production will remain strong for the foreseeable future and that the tide has now turned in favor of consumers.

Generally low food-price inflation, coupled with lower milk prices, puts more dairy products in grocery carts and allows pizza makers and chefs to use cheese generously in their recipes.

The outlook for dairies, while not as rosy as it has been, is also not bad. Margins for dairy producers are expected to bottom out this year and then gradually improve.

To compete at the international level, dairy product prices will need to remain relatively low due to the strengthening U.S. dollar. Both processors and producers will need to manage margins by locking in costs and sales prices.

Due to the nature of long-term forecasting, however, long-term outlooks are rarely accurate. There are just too many variables that can, and do, come into play, such as weather, economic conditions, changing consumer tastes, new products, and unexpected international demand. As long as processors and producers manage margins that provide a decent profit, they will be able to withstand the unforeseen. **MCT**

Markets Fairly Stable for Now

It's hard to say that dairy markets came in like a lamb and went out like a lion or vice versa during March. CME spot butter started the month at $1.78/lb. and finished the month at $1.785, after trading as low as $1.68. The CME Cheddar block and barrel cheese prices entered the month at $1.545 and $1.4925, respectively, and finished the month at $1.58 and $1.60. The CME spot nonfat dry milk (NFDM) price started the month at $1.155/lb. but weakened rapidly with production seasonally increasing, stocks building, and exports waning. NFDM is the weakest of the commodities, trading at less than $1/lb. Butter and cheese stocks while building have yet to become burdensome. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Mar	1.5549	1.5290	15.50	1.7166	13.90	0.4750	1.0350
Apr	1.5750	1.5500	15.65	1.6800	13.55	0.4575	1.0100
May	1.5400	1.5200	15.60	1.6500	13.65	0.4700	1.0240
Jun	1.6050	1.5850	15.95	1.6700	14.05	0.4900	1.0350
Jul	1.6550	1.6300	16.70	1.6900	14.65	0.5150	1.0900
Aug	1.7200	1.6950	17.35	1.7200	15.30	0.5250	1.1500

** CME prices.*
***NASS prices.*

Low feed costs will continue to buoy margins...

Continued from page 1

2024, FAPRI expects corn and soybean prices to remain more than $1/bu. lower than the 2008-09 through 2013-14 period.

Lower feed costs buoy margins for the dairy sector. A decline in input costs along with exceptionally high milk prices in 2014 led to record-high margins (milk price minus feed costs). FAPRI reports that the actual dairy producer margin in the United States averaged $13.32/cwt. in 2014 but is expected to fall 37% to $8.33 in 2015. FAPRI expects the margin to improve modestly and consistently over the next 10 years, peaking at $9.95 in 2024. The outlook for dairy margins is dependent on lower feed prices and a Class III price that averages between $17.13 and $17.34/cwt. from 2019 to 2024.

Texas A&M's AFPC confirms that most dairy farms are in sound financial condition, with 15 of the 18 representative dairies in good overall financial condition, two classified as being in marginal condition, and one in poor condition, according to the Representative Farms Economic Outlook for the January 2015 FAPRI/AFPC Baseline. The following states are home to the survey's representative dairy farms: California, Nevada, Idaho, Washington, Texas, Missouri, Wisconsin, Florida, New York, and Vermont. According to AFPC, there is a greater than 50% probability that two representative farms will experience negative severe cash flow during 2015 and 2018. These farms are a 250-cow Washington dairy and a 140-cow Vermont dairy. A 1,500-cow dairy in southern Florida is also in a vulnerable situation with a 25% to 50% probability that the farm will have a cash-flow deficit during the same period. Only the 140-cow Vermont dairy, however, has a 25% to 50% probability of lowering real net worth. Nevertheless, the majority of representative dairies regardless of size and across geographic location remain economically viable.

While the outlook may appear rocky for farmers, it offers some good news for consumers. Projected food price inflation drops to 1.6% in 2015 after peaking in 2008 at 5.5% and averaging 2.6% from 2008 through 2014. From 2015 to 2024, annual food price inflation is expected to be less than 2%. **MCT**

 MCT Dairies, Inc., 15 Bleeker St., Millburn, NJ 07041 (973) 258-9600 fax: (973) 258-9222 www.mctdairies.com. For more information, email **info@mctdairies.com.**