



# MCT COMPASS

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## Demographics in dairying

The old adage that the big keep getting bigger sure rings true in dairying. USDA's "Milk Production" annual summary confirms that the number of "large" dairy farms is increasing, and that most of these farms are in the western half of the country.

USDA classifies the number of dairy operations by size groups (*see table on page 2*). The number of dairies with less than 500 cows continues to decline while the number with more than 1,000 cows is increasing.

USDA reports that there were 97,560 dairy farms in 2001. Dairies with less than 100 cows account for about 80% of the number of dairy operations but produced only about one-fourth of the U.S. milk supply.

Meanwhile, only 2.5% (less than 2,800) of U.S. dairies have more than 500 cows, but they produce 39% of the nation's milk supply. Most of these large operations are in the West, but in the last four years, the number of 500+ cow dairies in the Midwest has nearly tripled to 340 herds.

### What about those heifers?

The decline of small dairies in the Northeast and Upper Midwest has helped trigger, in part, the shortage of heifers.

Typically, cull rates are lower on smaller dairies. Farms only have so many stanchions, so the extra heifers are sent west and are part of the farm revenue equation. However, as the number of smaller

dairies has dropped so has the supply of surplus heifers. Strong demand has driven the price from \$1,200 per head to nearly \$2,000 per head over the past two years.

USDA reports that on January 1, 2002, there were 1% more heifers expected to calve during the upcoming year than there were last year. This was not totally unexpected given that the U.S. dairy herd actually expanded during 2000 and rising heifer prices since 1999 have prompted dairy farmers to keep more heifer calves. But this may be as good as it gets. The January 1 ratio of replacement heifers to milk cows, at almost 45, was a record and still heifer prices

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## KEN'S CORNER



*by Ken Meyers  
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This month's issue examines one of the big questions manufacturers look at: Where

will the milk come from in the months and years ahead? This question is important because it

affects where we build our plants and how we procure our milk.

It's certainly not news that we continue to produce more milk from fewer cows, and that the large herds are in the western half of the country. But what's interesting to me is that we may be approaching practical limits on growth in the west. Dairy expansion is falling into a Catch-22 trap:

Mega-dairies are shunned in many places because of their impact on the local environment, yet the huge investment required to comply with all the environmental regulations can only be justified by building a large operation. Dairying today requires efficiency – which often means scale – yet welcome signs for mega-dairies are getting tougher to find. □

## Supply comeback puts prices in doldrums

A mild winter has helped spur a comeback in milk supplies. Coupled with lackluster movement in fluid milk, higher volumes of milk are moving to manufacturing channels. Inventories of cheese, butter and powder are building.

We expect more of the same over the next few months. Cheese prices have found a comfortable level near

MCT Forecast					
	Block*	Barrel*	Class III	Butter*	Class IV
FEB	1.2075	1.1800	11.63	1.2440	11.54
MAR	1.1950	1.1700	10.58	1.3000	11.60
APR	1.2300	1.2050	10.83	1.3250	11.63
MAY	1.2750	1.2500	11.00	1.3800	11.67
JUN	1.3450	1.3200	11.79	1.5000	11.96
JUL	1.3750	1.3500	12.35	1.6000	12.58

\* Block, barrel and butter are monthly averages of CME prices.

\$1.20 for blocks. The butter market should get a boost from Easter

demand, but huge inventories could limit price gains later this fall. □

## Dairy demographics...

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remain strong – because an ever-increasing average cull rate and the demand for heifers to fill new and expanded facilities continue to create strong demand for heifers in excess of supply.

What will solve the heifer problem? Decreased cull rates and a slowdown in expansions.

Cull rates now approach 40% nationwide because as dairies expand many do not have enough of their own replacements to fill their new facilities. They then buy heifers from wherever they

can find them. Some estimate that 20% of these heifers don't even make it though the first lactation due to illness or injury.

In many Western states, producers have the will to expand, but environmental pressures are pulling on the reins. For instance, in Twin Falls County, Idaho, officials just lifted an 18-month moratorium on dairy permits. Meanwhile, in neighboring Gooding County, county officials have extended their permitting moratorium through the end of May. The state's largest

processor, Glanbia Foods, is putting a planned expansion on hold because it is not sure the milk supply can grow to support the project.

In Tulare County, California, the nation's largest dairying county, 70 permits are reportedly still waiting for approval – the equivalent of about 100,000 cows. The state keeps adding cows, but most of those are going into herds with older permits.

To maintain the historical milk production growth rate of 1.0% per year, U.S. dairy producers will need to boost production by almost 18 billion lbs. over the next 10 years. That's the volume of milk produced today by 1,000 herds of 1,000 cows each. If dairymen can't expand in their existing states, they'll likely look elsewhere. States like New Mexico, Colorado, Kansas, Indiana and Michigan all enjoyed milk production growth last year and could be candidates for expansion in the years ahead. □

U.S. Dairy Operations				
Head	1999	2000	2001	% chg, '00 to '01
1-99	89,910	84,280	77,235	-8.4
100-199	13,250	12,865	12,335	-4.1
200-499	5,290	5,350	5,195	-2.9
500-999	1,600	1,700	1,700	0.0
1,000-1,999	695	695	770	10.8
2000+	255	280	325	16.1
TOTAL	111,000	105,170	97,560	-7.2

Source: USDA, compiled by MCT Dairies Inc.

