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MCT COMPASS

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COVID-19 Dwarfs All Else

At this time last year, the major concern of dairy economists was 2019's cool, wet spring, followed by a record-setting heat wave in June. Optimism was riding high and the *MCT Compass* panel of experts was expecting better milk prices to raise farm margins as well. What a difference a year makes. Today, the worldwide coronavirus pandemic and resulting economic recession, particularly in foodservice and travel, have overshadowed every other factor that goes into forecasting, including the November presidential election.

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In the final months of 2019 and early 2020, dairy markets were definitely improving. Then in the spring, the bottom fell out. CME block cheese prices plunged to $1/lb., dairy producers dumped milk as restaurants and schools closed, retailers couldn't keep pace with soaring retail demand, and co-ops and processors implemented supply reduction programs complete with penalties. The future looked bleak. But then better-than-expected retail sales and exports, slowing milk supplies, and significant USDA orders sent most dairy markets higher within weeks. Still major issues persist.

"Dairy will see a long-lasting, secondary impact from the worldwide recession that COVID has caused," says one economist. With about 42% of cheese and 45% of butter historically used in foodservice channels, the loss in sales has been devastating. Today some cities, counties, and states are dialing back to earlier opening phases, which has been financially crushing for some industries. "Many restaurants will never reopen," he adds.

To stem the pain, the U.S. government has poured money into businesses and food aid. In response, CME block cheese prices have soared to record-high levels. This month's Class III price is projected to hit $24.21, up 21% from last July's $17.55. The Class IV price has not fared as well. Our panel of experts expects July's Class IV price to near $13.85, down 18% from July 2019's $16.90.

To get a sense of where markets might go from here, *MCT Compass* interviewed and collected midyear forecasts from five of the nation's top dairy economists: Bill Brooks, Northwest Missouri State University; Bob Cropp, University of Wisconsin; Sara Dorland, managing partner at Ceres Dairy Risk Management; John Newton, head economist with the American Farm Bureau; and Mark Stephenson, University of Wisconsin. We then added their forecasts to CME futures settlement prices for

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Ken's Corner

by Ken Meyers
President , MCT Dairies Inc.

The coronavirus has spread its pain far and wide throughout the world. By the time the pandemic has ended, millions of people will likely have lost their lives, while others will have lost their livelihoods as countless businesses go bankrupt. Travel, hospitality, and foodservice will take the brunt of the financial pain, which will spill into the businesses that supply these industries, including dairy processors and producers.

Already governments have spent vast sums of money to keep economies, businesses, and the unemployed afloat. So far, the pandemic has spurred the U.S. government to pump $6 trillion into the economy, and the budget deficit has climbed to $3 trillion due to a combination of stimulus spending and falling tax revenue.

Through June, USDA has added more than $1.8 billion to dairy revenues. In addition, money from the Paycheck Protection Program and other sources has also made its way into the dairy supply chain. This unparalleled aid will inevitably increase supplies of milk and dairy products; hopefully, it will occur at a time when a steeper recovery is taking hold in the foodservice industry. However, without a vaccine, markets will likely continue to struggle, and at some point, the dairy industry could once again be forced to rebalance supply with demand. **MCT**

…2021 Class III to drop

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July 20, 2020, to create a consensus forecast.

Our panel of experts thinks the Class III market will remain strong this year before falling in 2021. Their average Class III price for second-half 2019 is $20.66 but falls to $16.95/cwt. next year. The most bullish of the analysts expects a 2021 Class III average of $18.40, while the most bearish projects $16.19. Forecasts for the average NASS cheese price for the next six months range from $2.08 to $2.54/lb., while average 2021 cheese price projections range from $1.68 to $1.98/lb. As for the Class IV market, consensus for the second-half 2020 average is only $14.51, and recovery will be slow with the 2021 average at $14.97.

Regarding this year's election, one expert says, "whoever inherits the White House will also inherit a massive deficit and a serious recession. I suspect that agriculture will have to stand in line for budget crumbs in years ahead."

COVID will remain center stage for months if not years. "So far, there is no end in sight to the pandemic, and dairy supply and demand will need to continue to react to changing rules implemented by local and state governments—just as it has the past six months," says one expert. Trade agreements, feed supplies, milk-reduction strategies, and USDA aid will also play a role in markets. **MCT**

Consensus Forecast

	Cheese	Class III	Butter	Class IV	Whey	NFDM
July	2.6534	24.21	1.74	13.85	0.32	1.01
Aug	2.4857	22.51	1.77	14.22	0.31	1.03
Sept	2.2222	20.81	1.84	14.64	0.31	1.05
Oct	2.0796	19.69	1.86	14.82	0.32	1.06
Nov	1.9831	18.81	1.84	14.83	0.33	1.07
Dec	1.8784	17.93	1.81	14.72	0.33	1.07
2H 2020 Avg	2.2171	20.66	1.81	14.51	0.32	1.05
2021 Avg	1.7889	16.95	1.85	14.97	0.34	1.08

What the experts say...

Bill Brooks: Much success was seen in recent months in slowing milk deliveries to processing plants using the economic signals of two-tier pricing. Those supply reduction strategies could remain a tool in the milk buyers' toolbox going forward. A segment of the producer sector has always favored some type of supply management and many of these strategies use a two-tier pricing system to achieve supply control.

Bob Cropp: World economies were showing signs of recession prior to the pandemic, but the pandemic has worsened the recession. Economies will not return to growth until the worldwide pandemic comes much more under control. I do not see a return to pre-COVID economic growth before 2022. The pandemic has had a big impact on world demand and dairy trade, but a strong world economy would strengthen demand more than the pandemic has lowered it.

Sara Dorland: Through summer, foodservice should be able to withstand this latest onslaught of COVID-19 because consumers have stay-at-home fatigue and likely feel a bit safer going to restaurants when they can sit outside. But that sentiment could shift when the weather requires indoor dining. Now that consumers have been out, they are less likely to forego delivery or takeout this winter. This all suggests that foodservice demand could remain lower than pre-COVID levels but higher than the depressed demand seen in April and May.

John Newton: Economists are all over the board in terms of the shape and length of the economic recovery, and this varies around the world. On a sector-by-sector basis, the recovery also varies. For example, it could be five or more years until airline travel resumes to pre-COVID levels. Lower economic output will impact the purchasing power of our foreign consumers. Consider that in Mexico, consumers spend 20% or more of their income on food eaten at home. As food insecurity grows around the world, it will impact demand for U.S. products.

Mark Stephenson: Many consumers have rediscovered or newly discovered the joy of home cooking. This will continue to be a factor in the years ahead, especially with restaurants unable to open or operate at capacity. The dairy supply chain will need to meet consumers where they are and support home preparation of meals that contain dairy. New cooks may have become tired of the five recipes they have perfected and will want new ideas. Dairy should be a part of that exploration.

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