July 28, 2021

MCT COMPASS

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Virus, Drought, Prices at Play

At this time last year, COVID-19 had a solid grip on the nation as well as the world economy, election rhetoric was heating up, and supply chain disruptions and product shortages were common. Except for the election, last summer's issues are still at play, but they are being overshadowed by this summer's extreme weather events, including severe drought in the United States and Canada.

After a dismal spring last year, the *MCT Compass* panel of experts were busy revising their forecasts higher as stimulus money flowed into nearly every corner of the economy. Government buying programs and consumer stimulus checks kept dairy prices and demand afloat, which led to persistently strong growth in milk production that continues today, along with the pandemic.

"Our vaccination levels are not where they need to be to stop the virus from further mutations and continued spread," said one panelist. "We are already seeing spot returns to mandated masks, and we can't really declare victory until most of the rest of the world has received their vaccinations."

At the same time, drought continues to grip the western and northern parts of the country, increasing water restrictions and feed prices and threatening milk production. Given the potential for soaring feed costs, milk prices may not need to be as low as in recent years to curb output. "Dairy producers could feel the impact of lower margins at relatively high milk prices due to soaring labor, material and feed costs," said another panelist.

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Shortages of everything from packaging to labor keep disrupting the supply chain. "The potential for lost sales continues, especially in light of reports of foodservice workers leaving their jobs mid-shift. If those sales are lost, it will have a negative impact on prices," said one expert.

To get a sense of where markets might go from here, *MCT Compass* interviewed and collected midyear forecasts from five top dairy economists: Bill Brooks, analyst with Stoneheart consulting and instructor at Northwest Missouri State University; Bob Cropp, University of Wisconsin economist; Sara Dorland, managing partner at Ceres Dairy Risk Management; Monica Ganley, analyst with the *Daily Dairy Report* and principal of Quarterra; and Mark Stephenson, University of Wisconsin economist. We then added their forecasts to

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Ken's Corner

by Ken Meyers
President , MCT Dairies Inc.

Last summer, a COVID-19 vaccine was anything but guaranteed. Coronavirus was spreading rapidly, and the foodservice industry was in shambles. Today, half those eligible for the vaccine in the United States are fully vaccinated and have returned to a life that nearly mirrors the one they were living in 2019, with perhaps less travel and more telework. At the same time, the virus is surging in unvaccinated communities and COVID restrictions are starting to resurface in some counties and states.

The volume of stimulus money injected into the U.S. economy has opened the inflation gate. Prices and wages are rising and costs are increasing through the entire supply chain. Shortages of everything from auto chips to ketchup packets persist. Yet, the dairy industry, for the most part, continues to function relatively smoothly, barring the labor shortages.

Just like the vaccine was anything but guaranteed last summer, a full and quick recovery is also not a given. Persistent inflation could tip the economy into a recession, and a new mutant strain of the coronavirus could, heaven forbid, send us all back into lockdown. For now, though, we can enjoy the calm. Consumers have proven their love for and loyalty to dairy products. The industry is healthy. **MCT**

...price recovery slows

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CME futures closing prices for July 19, 2021, to create a consensus forecast.

Our panel of experts puts the average Class III price at $17.23/cwt., only 7¢ above their 2022 forecast. The most bullish of the analysts expects a 2022 Class III average price of $17.70, while the most bearish projects $15.81. Forecasts for the average 2022 NASS cheese price range from $1.62 to $1.80/lb. As for the Class IV market, the consensus for the second-half 2021 average is $16.20, with the 2022 average climbing to $16.50.

When and if life returns to normal, demand for dairy could soar. "We have watched the impressive growth in demand for dairy products from China. This will happen with other countries as large populations are elevated into a middle class. This is the sweet spot for dairy exports, and the United States has more capacity to increase global sales than any other region," one panelist said.

However, another noted that price inflation and the post-pandemic global recovery could play a major role in future dairy demand: "We have yet to see the impact of inflation. While wages have been rising, costs are moving just as quickly. Should people begin to feel like they have less money to spend that could begin to wear on demand." **MCT**

Consensus Forecast

	Cheese	Class III	Butter	Class IV	Whey	NFDM
July	1.6186	16.48	1.73	15.96	0.59	1.25
Aug	1.6814	16.55	1.72	15.97	0.55	1.25
Sept	1.7235	17.19	1.76	16.20	0.54	1.26
Oct	1.7840	17.81	1.80	16.46	0.55	1.28
Nov	1.7828	17.94	1.80	16.48	0.54	1.28
Dec	1.7346	17.53	1.78	16.42	0.53	1.28
2H 2021 Avg	1.7199	17.23	1.76	16.20	0.55	1.27
2022 Avg	1.7194	17.16	1.85	16.50	0.50	1.26

What the experts say...

Bill Brooks: COVID continues to be a player on the demand side of dairy markets. While many municipalities are open or relaxing rules, others are re-implementing mask mandates and slowing economic activity. The United States in not out of the woods yet, but it is hard to imagine another full-blown shutdown due to the pandemic fatigue many citizens have and the enormous amount of money already created to deal with the pandemic.

Bob Cropp: Unless milk production slows from its current growth rate due to weather impacts, milk prices will need to decline far enough to slow production. While milk prices have already started to decline, it will take time for production to slow, with milk cow numbers well above a year ago and milk per cow increasing above trend. The combination of lower milk prices and higher feed costs will slow output by the fourth quarter.

Sara Dorland: Labor shortages are redirecting milk and changing the product mix. In some cases, milk is dumped because of labor shortages. Whether on farms, in transportation, or in processing facilities, labor shortages are having a significant impact on the supply chain. Due to the redirecting of milk and dairy product supplies, labor shortages could have a profound impact on the direction of milk and dairy product prices this year.

Monica Ganley: The uneven global economic recovery will shape development of dairy demand. While demand is booming in China after a quick economic recovery there, gross domestic product (GDP) in Latin America is not expected to return to its pre-pandemic levels until late next year. Countries with slower economic recovery will see demand suffer as consumers grapple with reduced purchasing power. Furthermore, the speed and comprehensiveness of vaccination programs will play a critical role.

Mark Stephenson: The Biden administration has a few clear agendas, including the environment, and I think this could be good for dairy. Agriculture has a story to tell about aiding carbon sequestration, and it has a few tricks to lessen methane release from animals, including more efficient feed conversion in the genetic net merit scores, and injecting renewable natural gas harvested from digesters into natural gas pipelines. Currently, only about

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