MMPA Matters

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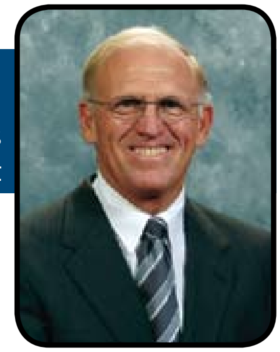

Economic Turmoil Hits Dairy

I purposely procrastinated writing this month's column until I had attended the U.S. Dairy Export Council board meeting in early October. My reason for waiting was that I felt certain I would have the most up to date outlook for international dairy demand for the foreseeable future when I came away from that meeting. However, the financial news of the last couple of weeks leaves doubt in my mind as to what will transpire in that foreseeable future I had planned to write about with such confidence. Information that was current two weeks ago might not be so reliable now.

The financial crisis in this country fostered by a subprime loan mess (who would have thought people without a down payment or a job couldn't make their mortgage payment?) has spread to a worldwide financial crisis. As I write this column, it doesn't appear we have yet reached the bottom, even with massive intervention by our government in the U.S. market and the intervention of foreign governments in their markets. Hopefully, the crisis will come under control so that we can at least sense when the bottom has been reached.

The most recent data available indicates declining demand for milk as consumers' economic concerns heighten. That information leads us to wonder what the impact of this will be on MMPA members now and in the near future. Couple this declining demand with data indicating a rising level of milk production worldwide, and pressure on prices is inevitable. For the first time in two years, Oceania and Europe have unsold powder in warehouses. When powder buyers see this happening, they know supplies are ample. As a result, they buy only for current needs expecting tomorrow's price to be lower, adding yet more downward pressure on prices.

Conventional wisdom led us to believe that the weak dollar was a strong influence on the dramatic increase in export activity in the last few years. Now, however, the hypothesis is that the weak dollar had little to do with increased exports but rather that the production shortfalls in Oceania and the European Union provided the cause. If this is true, then increased production in those areas of the world will make it difficult for the U.S. to maintain the level of exports we have experienced in the last two years. We have just come through a period in time where protein was short around the globe at the same time that consumer incomes were growing. This allowed consumers to purchase increased volumes of dairy products to meet their nutritional needs. It appears that equation has changed in the last few months.

If we do slip into a worldwide recession, the question will be by how much and for how long food purchases will be reduced? Will input costs decline along with the prices we receive? It doesn't ever seem like they do, does it? With high input costs, will milk production decline so supply matches demand? What will the effects of tighter credit have on our industry? Recently, I've been assured there is no lack of money available for agricultural purposes but—even if that is true and remains true—wouldn't you think the standards of loan approval would be tightened considerably? I have more questions than answers right now and, I'm betting so do many of you. That's nothing new, but what is new is that the answers to these questions could have effects that are more far-reaching than in the past. Our industry will probably be affected more dramatically than before.

I have other questions too: Like, if there is so much conventional and current wisdom around, why are we in the mess we are in? Do you remember anybody two years ago predicting $20 milk or $8.00 corn or $15 soybeans or $450 soybean meal? I don't either, so let's all hope the dire predictions of today are wrong too.

We in the dairy industry are not sitting on the sidelines waiting for life to happen. Our industry continues to move forward in the export market. For example, USDEC continues to work with its members to facilitate additional markets around the world. USDEC has aggressively promoted the safety and availability of dairy products in light of the recent melamine crisis in China. The CWT export enhancement program has been very active throughout this year, having facilitated the export of 1.32 billion pounds milk equivalent as of early October. The CWT Task Force has recommended that we increase the funds available for the export enhancement program from the current $30 million per year to $60 million for the next fiscal year. Also, just because we have had one herd retirement this year doesn't mean we won't have another one. Ample funds are available to facilitate another buyout if the economic situation indicates that it would be valuable.

Despite all of our industry's efforts and accomplishments, it looks like we could be in for a wild ride. Hold on tight!

Ken