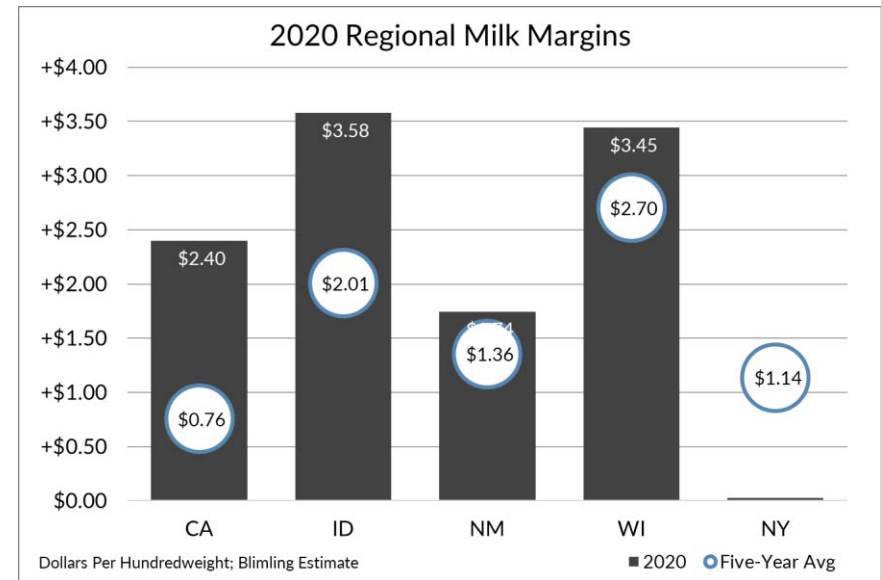
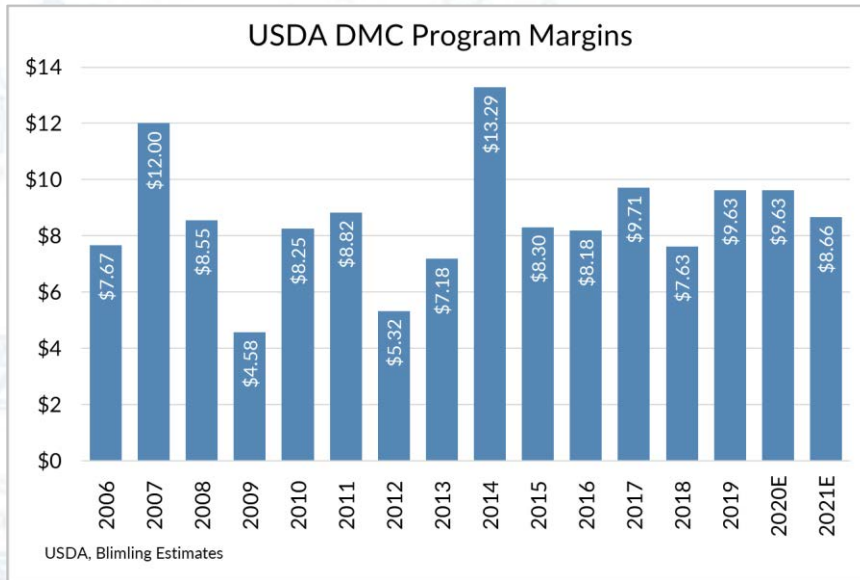
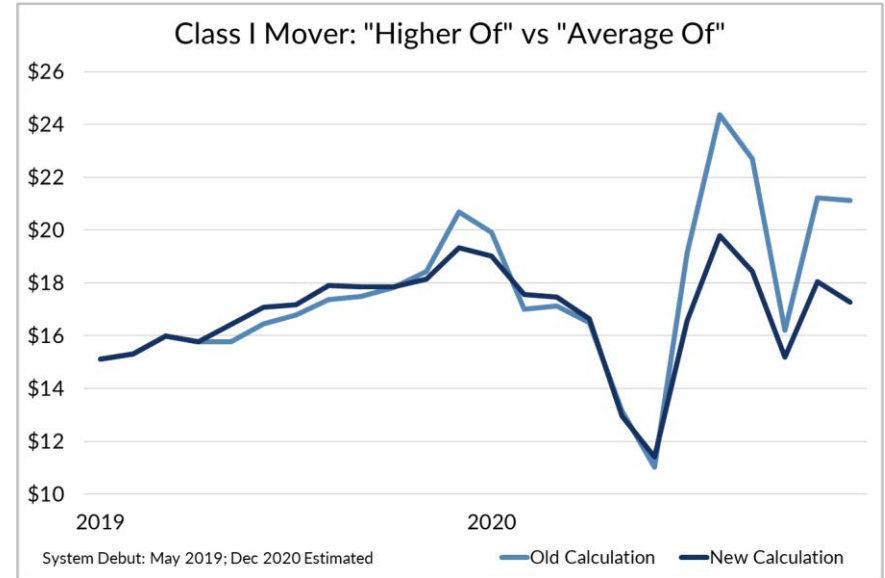
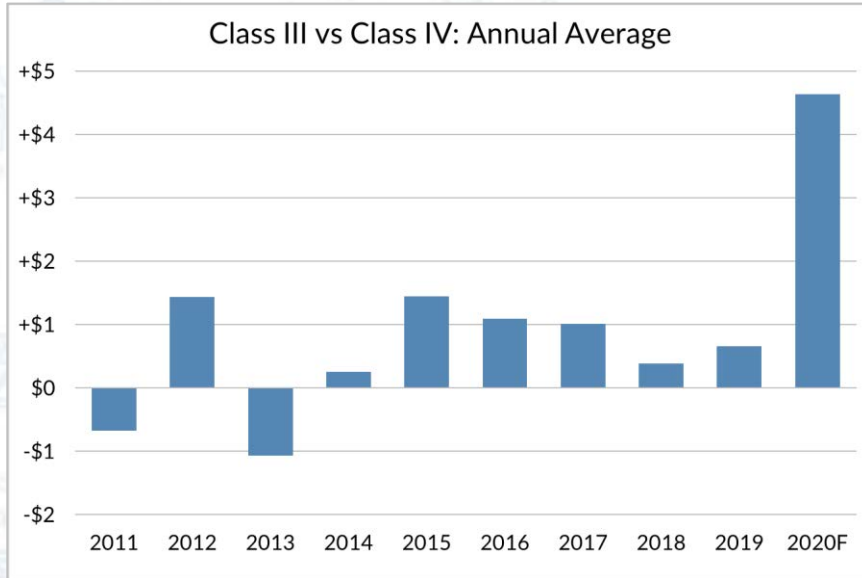


# farm finance: it depends



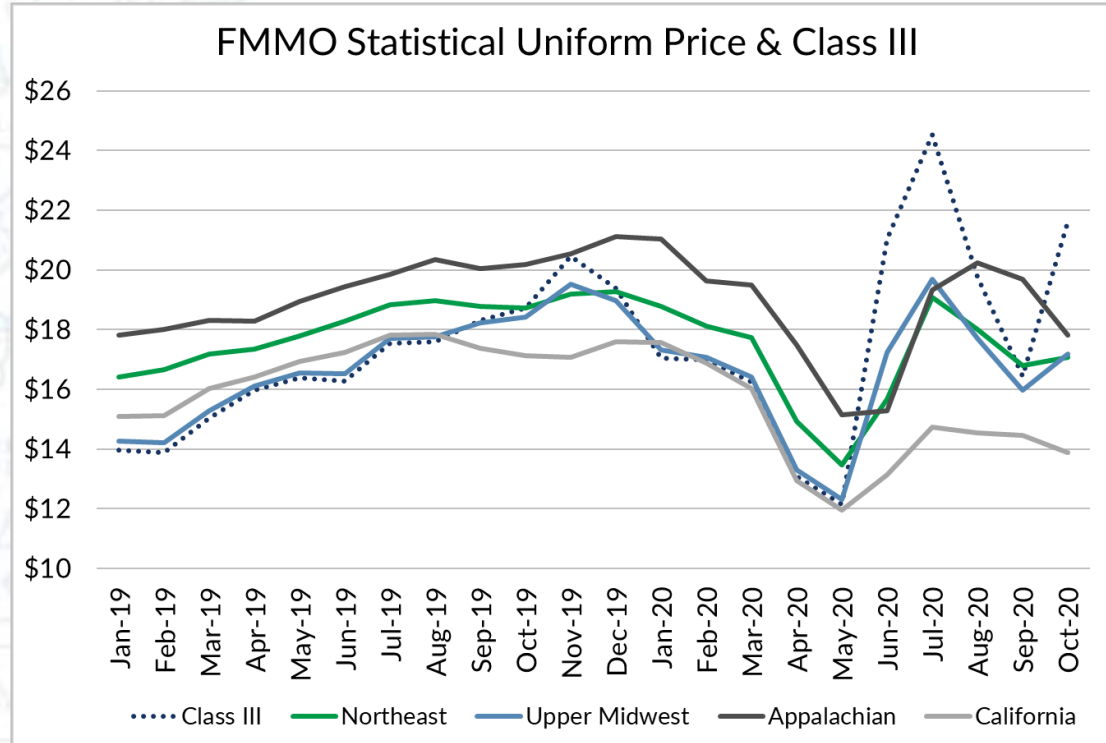
- Overall margins seem reasonable for 2020 (especially with CFAP \$\$\$)
- But: wide spreads, de-pooling and different milk utilization rates dramatically skew performance across regions
- Still: we expect 2021 milk production to grow by 1.7%.

# class iii/class iv spread “issues” persist



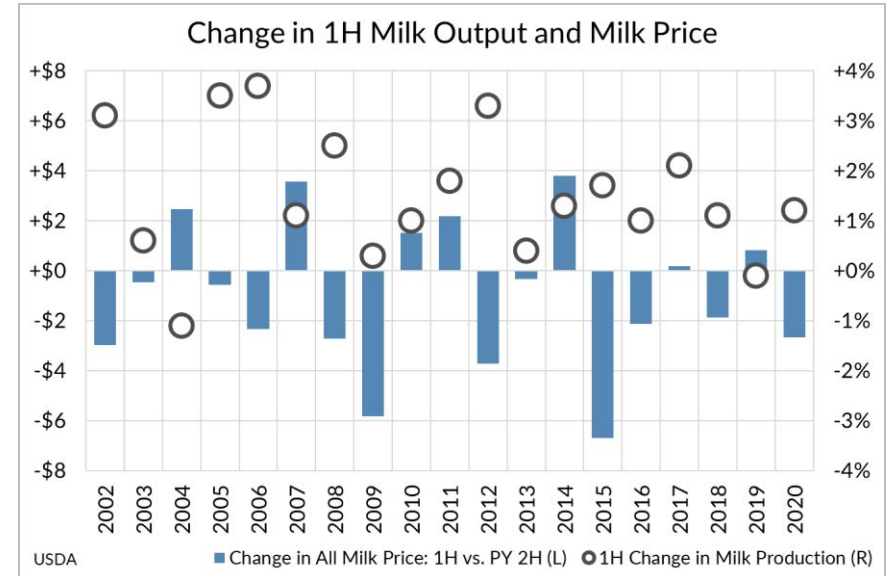
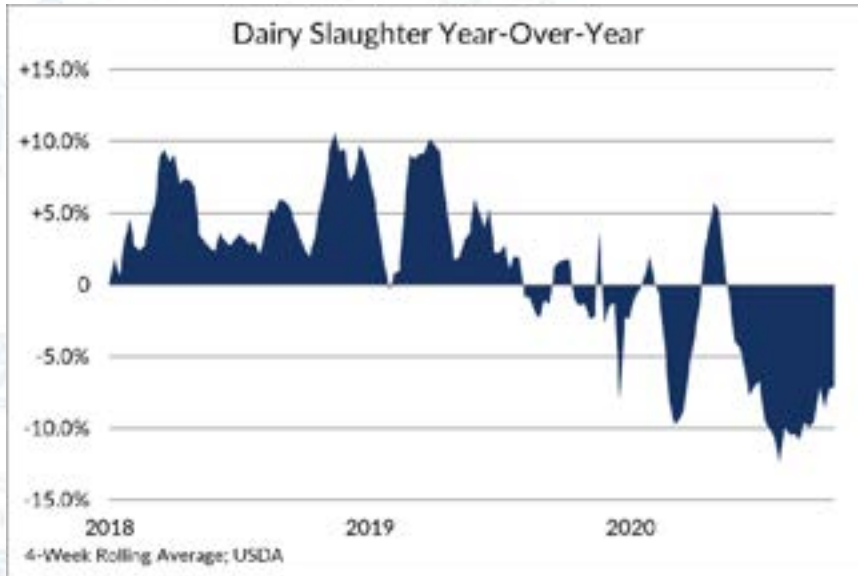
- Class III/Class IV spread remains wide
- Because we now use “average of +74” instead of “higher of” to calculate Class I price, producer results uneven by region

# regional fmmo price disparity



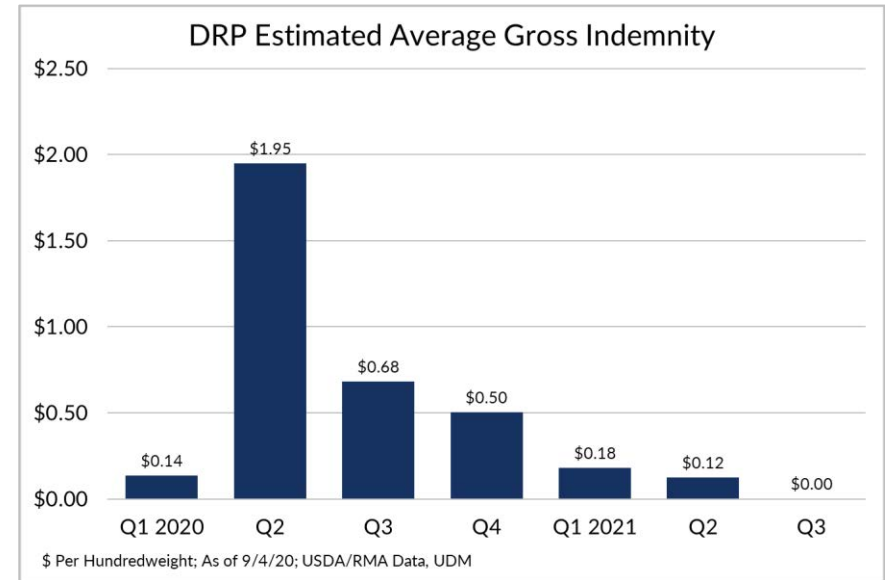
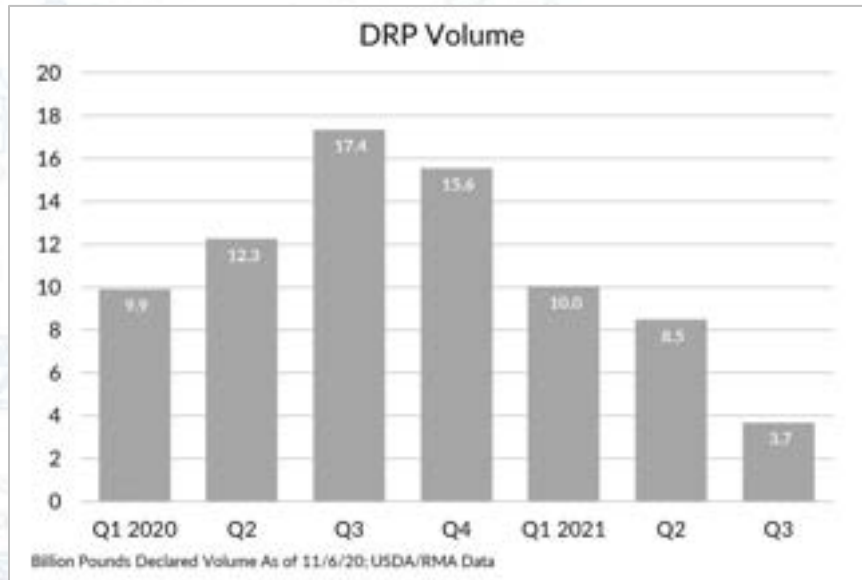
- With wide Class III/Class IV spread, Federal Order minimums vary widely by region

# history says more milk = less money



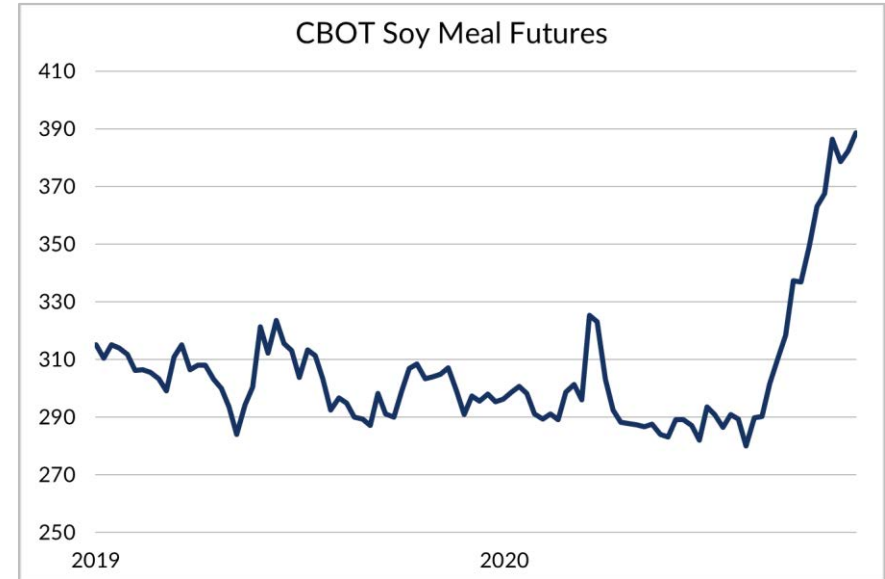
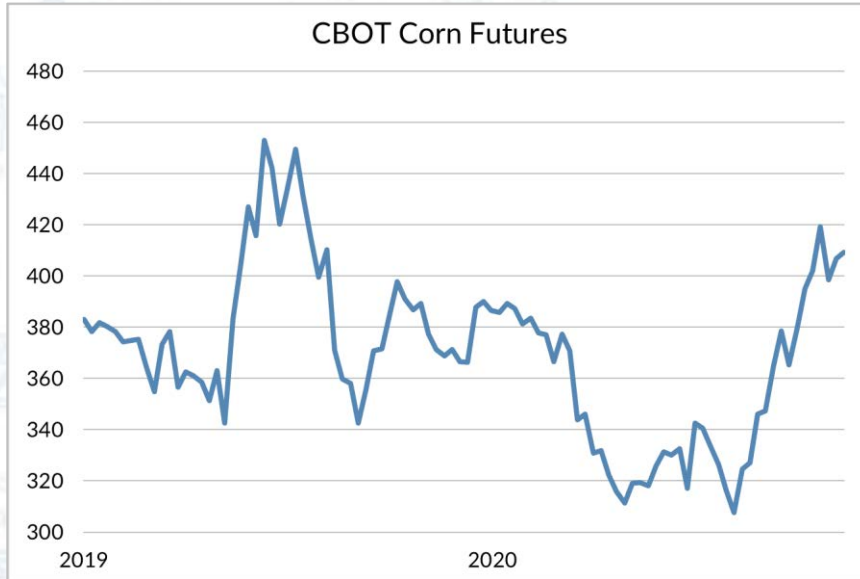
- Dairy cow slaughter is running consistently behind the year-prior pace
- In years with first half milk output up by more than 2% (our expectation for 2021), All Milk price drops by about \$2 per hundredweight versus second-half year-prior

# drp: popular risk management tool



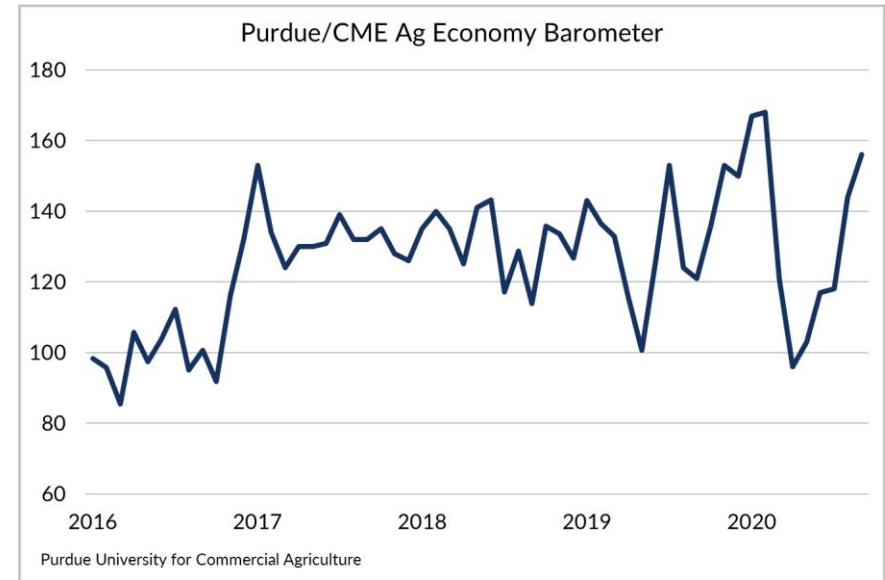
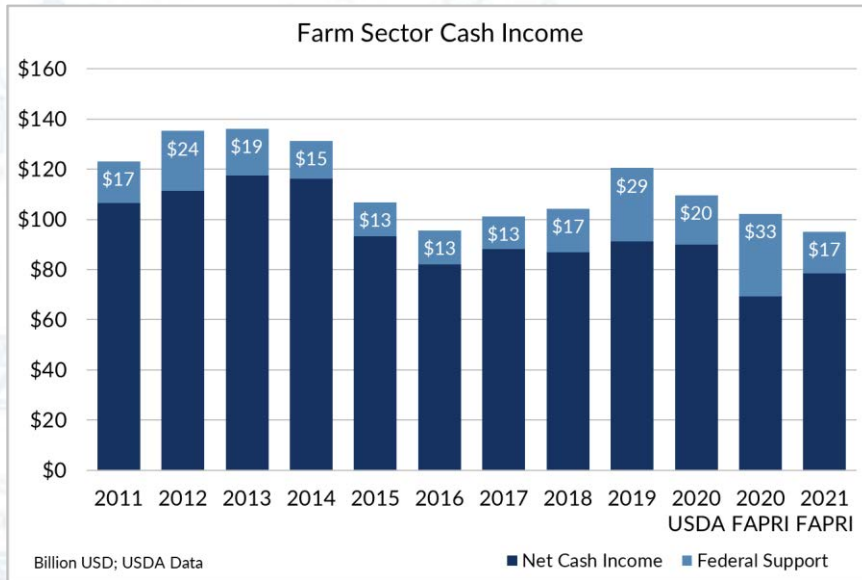
- Dairy Revenue Protection program covered about 25% of US milk in 2020, with significant payouts for Q2 and some for Q3 and likely Q4
- Volatility is pushing up premium costs for 2021.

# feed costs rising



- Corn and soybeans are trading at multi-month highs on a smaller-than-anticipated crop and good export demand
- Dry conditions in many areas of the US

# ag sector optimistic



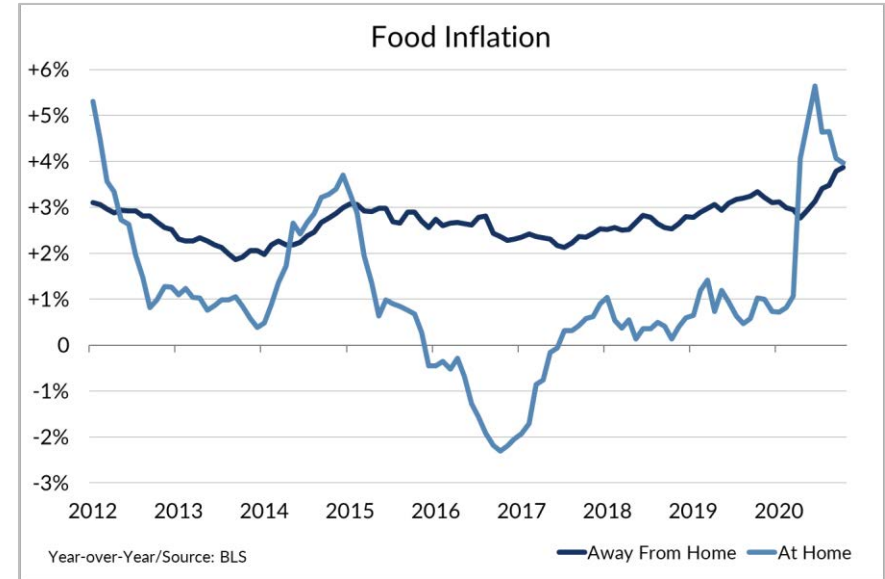
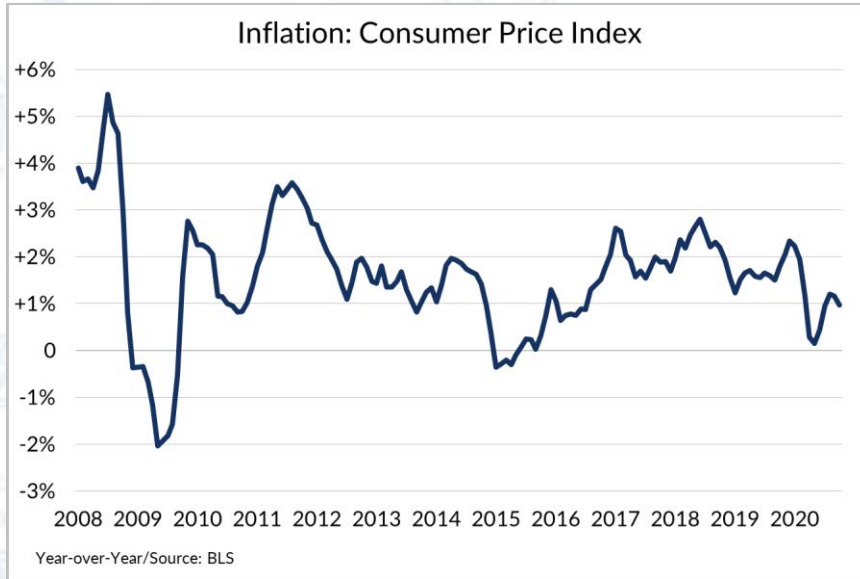
- This year was supposed to be about renewed traded and fewer government payments... turns out that has not been the case
- Majority of farmers still see good/better times ahead -- 23% of farmers expect higher land prices in 12 months, most since survey began (2016).

# everything is just fine...really



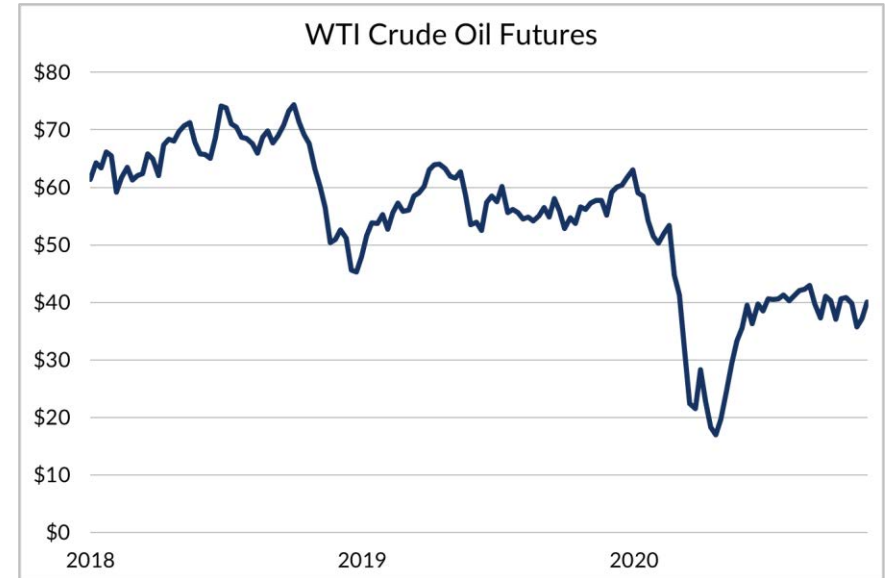
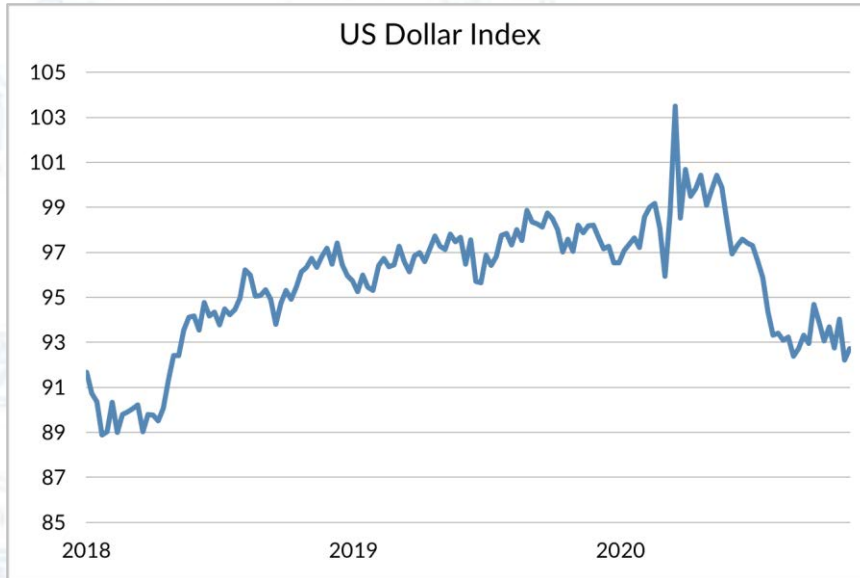


# inflation: slow overall, food high



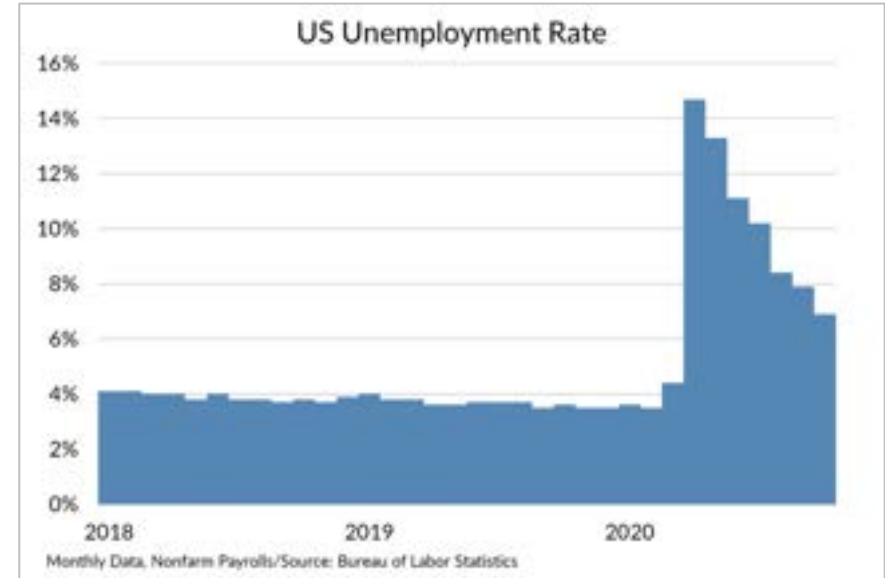
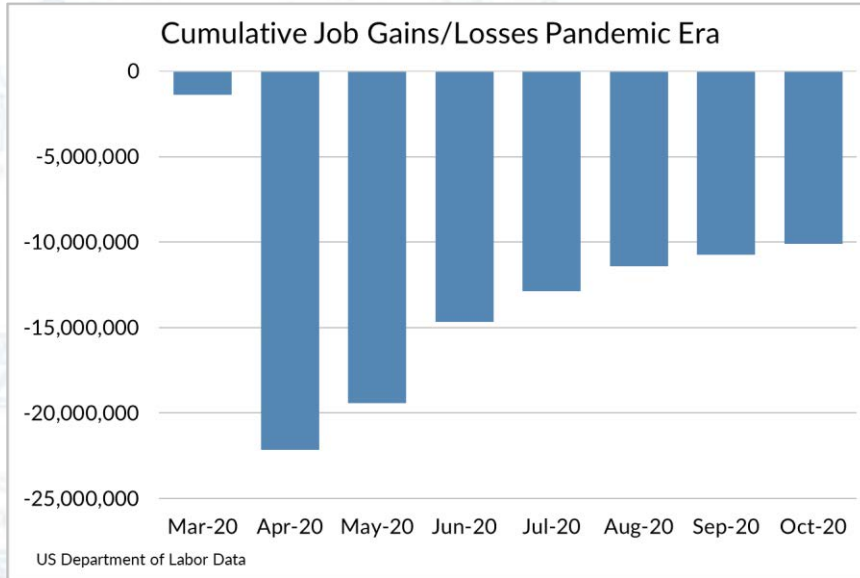
- With gasoline prices low, overall consumer price inflation has been modest
- But: food prices are up about 4% year-over-year

# inflation monitor



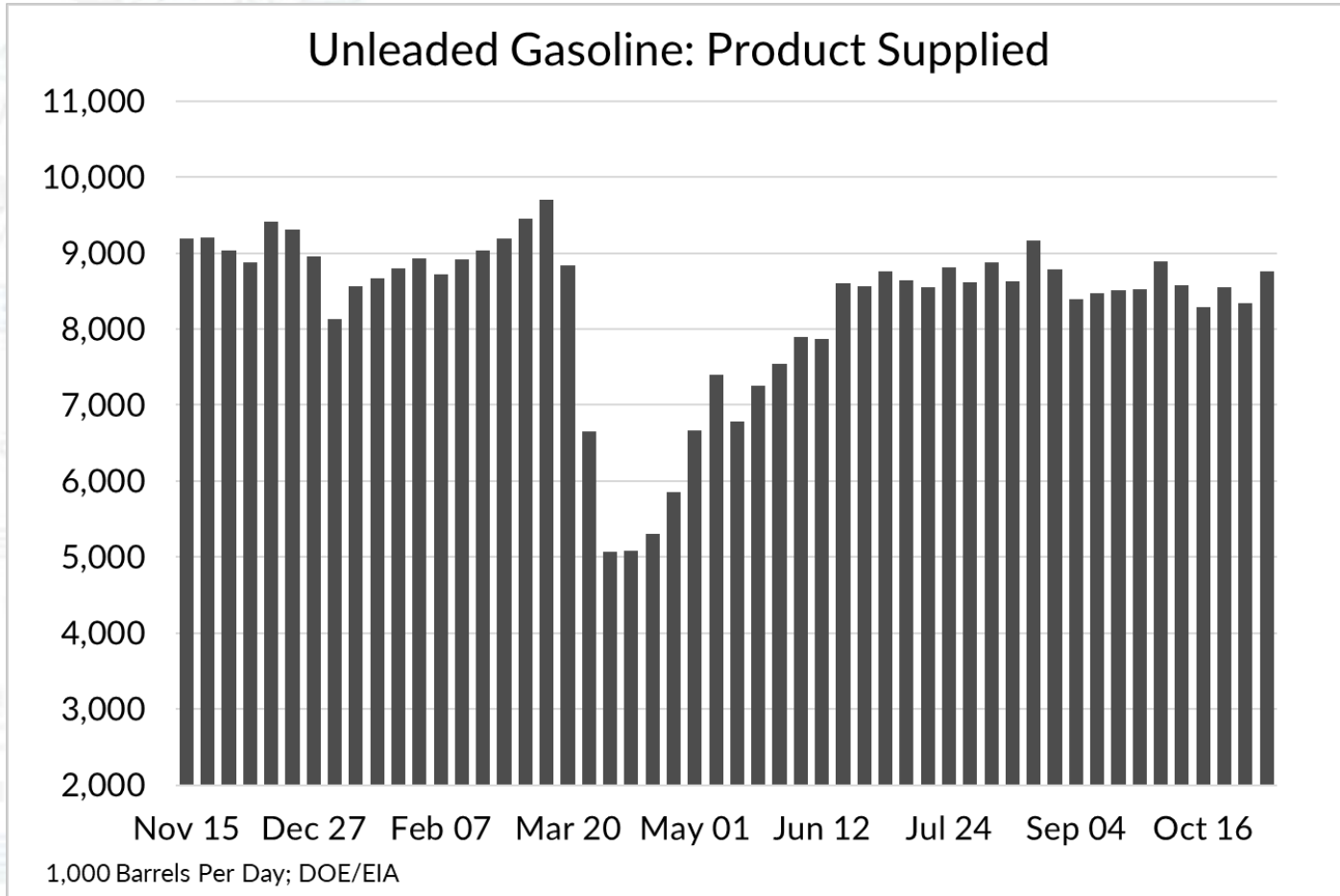
- USDX is near two-year lows
- Fed seems to be okay with a little inflation
- Seems to be some speculative money flowing into commodities

# employment situation: better



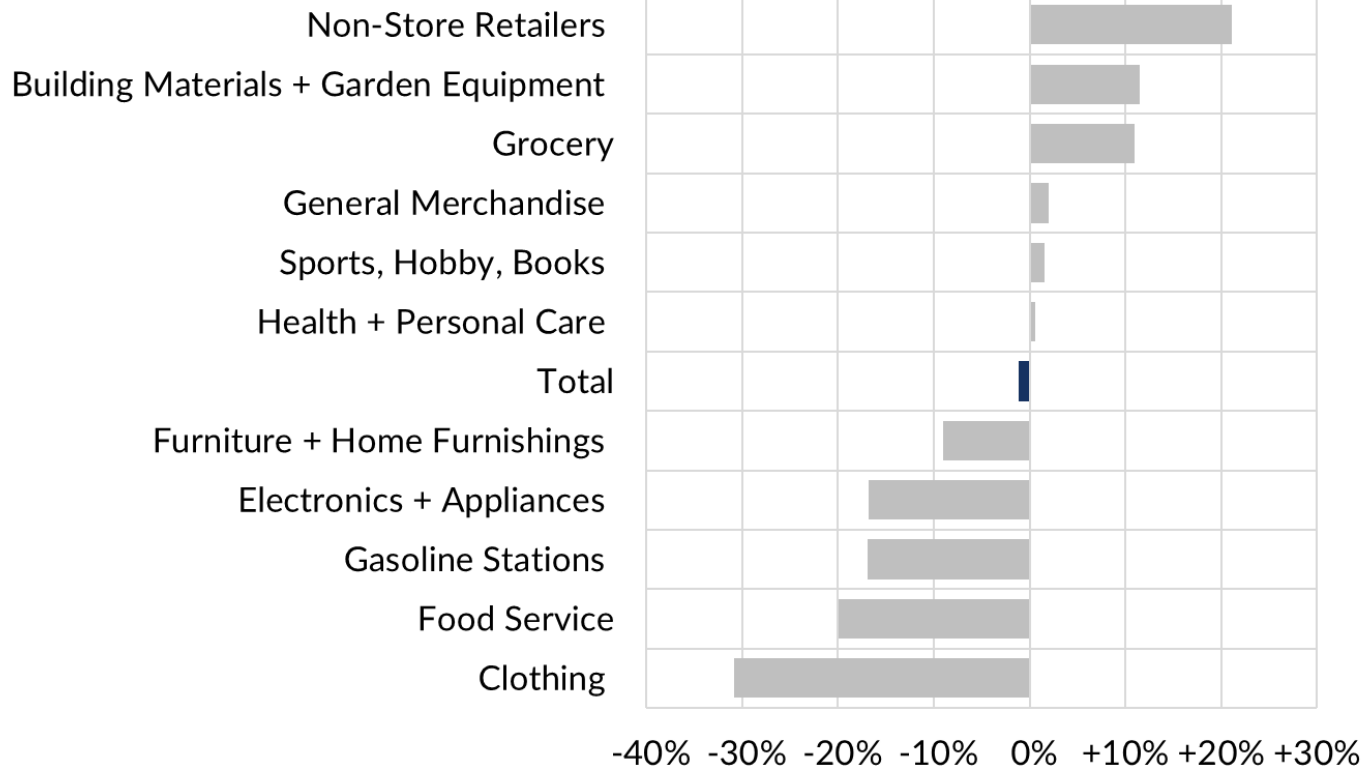
- September *Employment Situation* report showed payrolls expanding by 638,000, above expectations
- We've now regained about 45% of the jobs lost in March and April
- Unemployment rate drops to 6.9%

# key indicator: gasoline demand



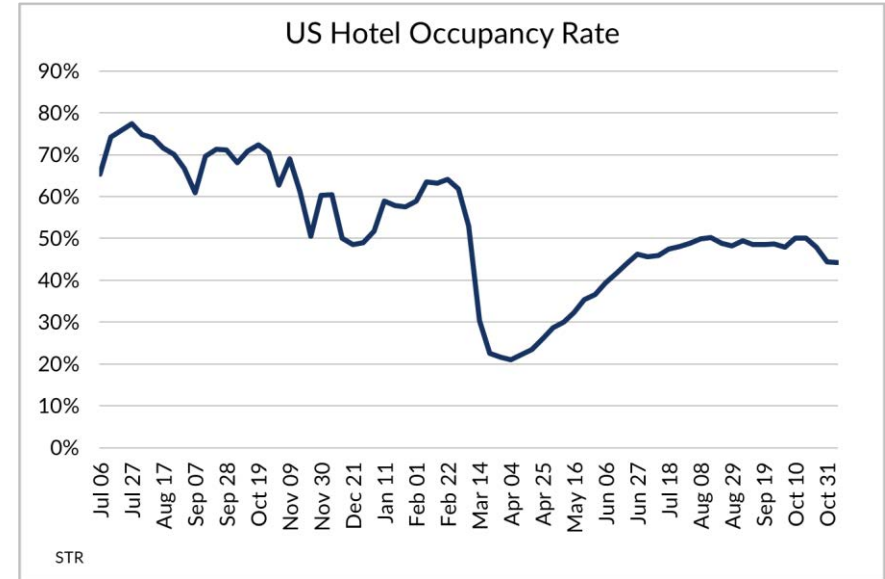
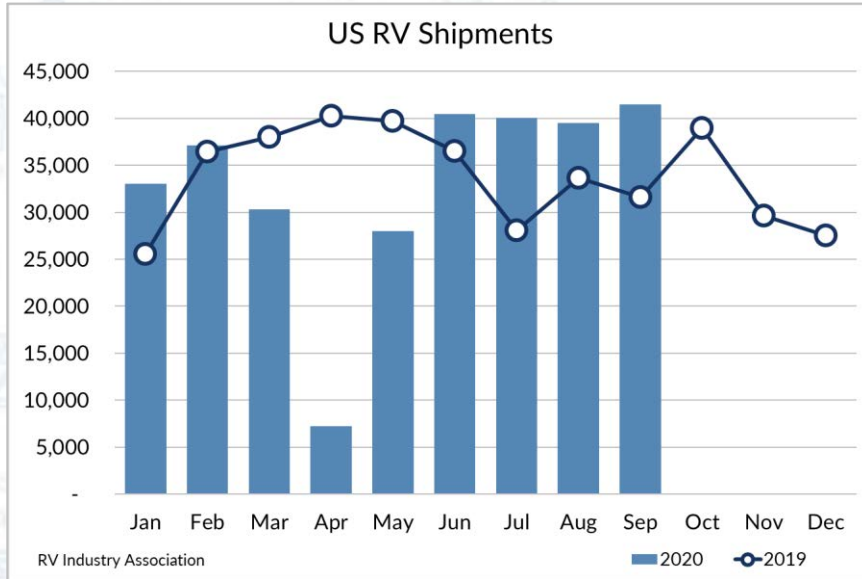
# key indicator: retail sales

US Retail Sales: Annual Change YTD Sep 2020



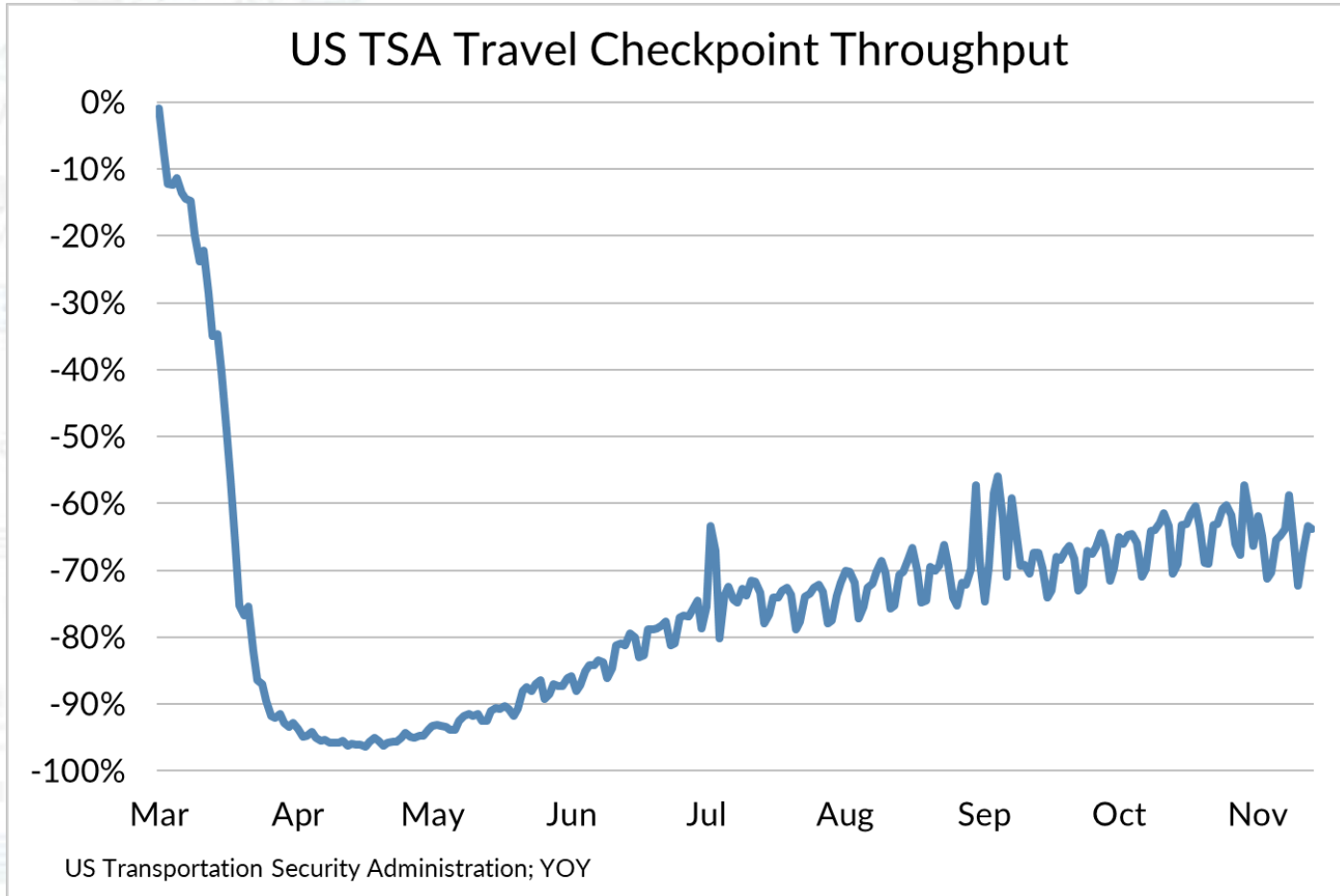
US Census Bureau

# sleeping in the new rv



- RV sales up 24% year-over-year for June through September
- Hotel occupancy having trouble getting beyond 50%

# key indicator: airline travel



# assertions and opinions

## **The Only Certainty is Uncertainty**

Lots of questions... with no way to predict the answers. There's no playbook.

## **Convenience & Cost Dominate**

Companies that make it easy and make it cheap will stay in front.

## **We Are Pretty Resilient**

"Normal" is a long way off, but America will figure out more ways to cope.

## **Uncle Sam May Be Less Accommodating**

The election is over. But: food aid could remain a big deal.

## **"Too Much" Milk More Likely Than "Too Little"**

We have a lot of supply side momentum. That could be a problem.


## **Be Proactive, Not Reactive!**

Lots of convenient tools to manage price risk. Some easy. Use them!




# the dairy download podcast



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Phil Plourd is president of Blimling and Associates, Inc., a research and consulting firm focused on the dairy markets. Phil has been involved in dairy market analysis, research, forecasting and risk management activities for 20 years. He is based in Madison, Wisc.

**KATHLEEN NOBLE WOLFLEY, HOST** 

Kathleen Noble Wolfley is senior economist and research specialist for Blimling and Associates. Previously, she worked as a dairy economist for Leprino Foods, the world's largest mozzarella cheese maker. She grew up on a dairy farm and today is based outside of Buffalo, NY.

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