

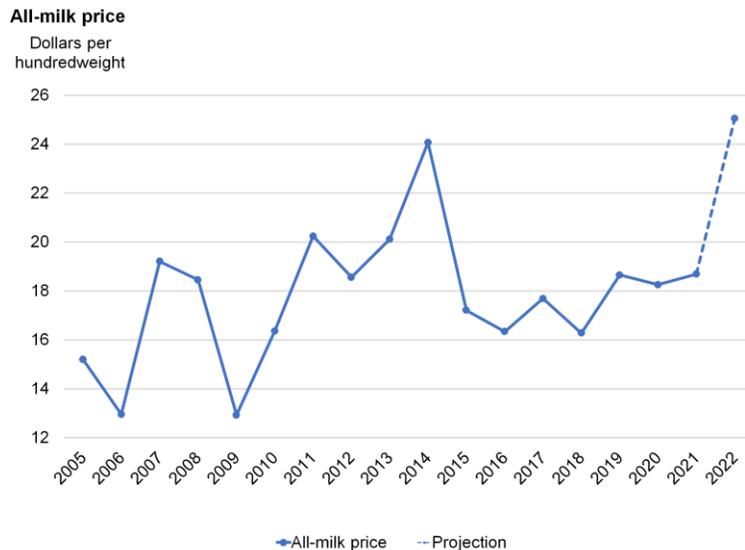
Texas Dairy Matters

Higher Education Supporting the Industry

The 2022 Dairy Industry Outlook

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Despite the challenges dairy farmers have faced over the last two years with the COVID-19 pandemic, this year’s milk market forecast looks promising. However, while milk prices are predicted to be higher, the input costs of producing, processing and selling milk products are also increasing, putting into question the overall increase in producer margins. This article will discuss information about this year’s predicted milk prices, estimates of milk production and cow numbers, and challenges dairy producers will face because of increased production costs.



Predicted Milk Prices for 2022

Based on information from the U.S. Department of Agriculture (USDA) National Agricultural Statistics Service and World Agricultural Outlook Board, the milk price is predicted to hit a high of \$25.05/cwt for 2022 (Fig. 1)¹. This is a \$5.88/cwt increase from the high milk price received in 2021, which was \$19.17 in December, and the highest milk price since it was around \$24/cwt in 2014.

In Texas, the Southwest Marketing Area Federal Milk Marketing Order 126 data shows that the 2021 vs. 2022 uniform

Figure 1. Past milk prices per cwt from 2005 to 2021 and projected milk production for 2022. Figure by USDA, National Agricultural Statistics Services; USDA World Agricultural Outlook Board¹.

blended milk price per hundredweight was up in January and February by \$6.73 and \$7.76, respectively (Fig. 2)².

If the differences between the highest milk price predicted by the USDA in 2022 is compared with the reported milk price in 2021¹, there could be an average of \$5/cwt more for milk during 2022. Based on this year's predicted milk production of 227.2 billion pounds, this could result in an additional \$11.4 billion in revenue for U.S. dairy producers³.

Predicted Milk Production and Exports

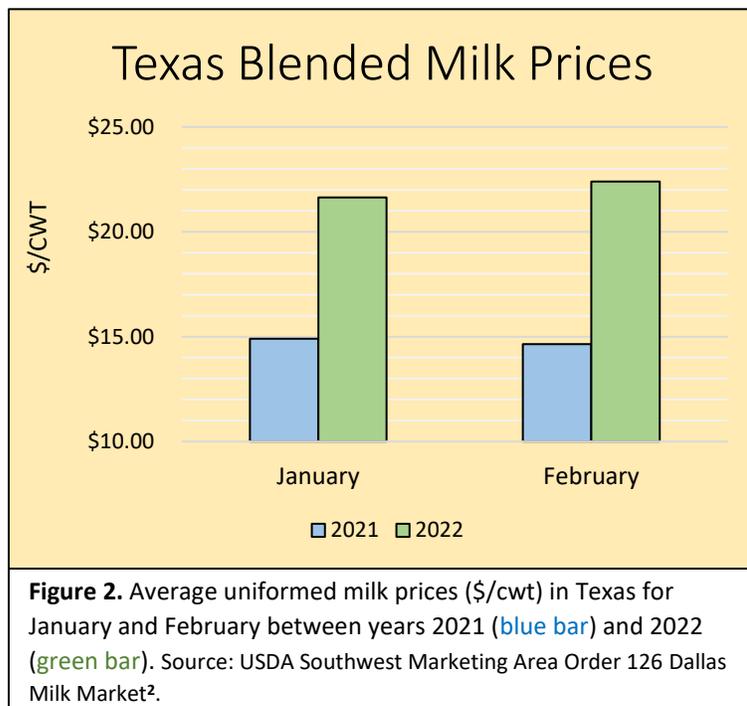
The predicted 227.2 billion pounds is only a 0.4% increase from 2021³. This expected slow growth in milk production can be attributed to the observed reduction in lactating dairy cows during 2021. The average number of milk cows for January to March 2021 was 9.46 million and for October to December was 9.38 million cows⁴. This means the number of dairy cows in the U.S. fell by 75,000 in 2021⁴. Additionally, the ratio of replacement heifers that will calve to lactating dairy cows in 2021 was 47.5%. This means that there is approximately one heifer for every 2.1 lactating dairy cows in the country³. The decline in number of milk cows may continue throughout this year; however, the expected 1.3% growth in milk production/cow will ultimately be the reason for the 0.4% increase in milk produced for the U.S. during 2022³.

Regarding 2022 milk exports, there may be a slight increase from 2021. The USDA's Agricultural Marketing Service Dairy Program Grading Service Branch indicated that 62,000 new export certificates were issued in 2021³, a 13% increase over 2020. That number could have been even higher in 2021 if the pandemic had not increased costs and delayed shipping. Given the inflation and increased shipping costs we're now seeing, this year's increase in milk exports may not be as high as it could be.

Increased Cost of Production

Although milk prices appear promising this year, the input costs to produce milk are also increasing. Elevated costs of items such as fuel, fertilizer, feed and labor will affect the degree of profitability and producer's margins. Feed prices will greatly influence management decisions and purchases.

Feed prices have increased noticeably since last year. The prices of a few feedstuffs such as alfalfa, corn, sorghum and soybean meal are significantly higher for February 2022 compared with 2021⁵. There has been an increase of \$43/ton for alfalfa, \$1.36/bushel for corn, \$0.80/cwt for sorghum grain and \$2.10/bushel for soybean meal³. These increases in crop prices could



continue and be further exacerbated by weather conditions and issues that reduce crop yield and quality.

Conclusion

The outlook for the dairy industry appears to be strong with the increase in milk prices predicted for 2022. However, the economic benefit that will be seen by dairy producers is still questionable as inflation has increased input costs and overall costs of production. Nevertheless, the milk market outlook appears strong and optimistic, and this year could be the year of recovery from the previous two years' pandemic effects.

References

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- ⁵ USDA Agricultural Prices by National Agricultural Statistic Services, Agricultural Statistics Board. March 31, 2022. Accessed at: https://www.nass.usda.gov/Publications/Todays_Reports/reports/agpr0322.pdf.