Dairy Markets and Policy Update: Interpreting Mixed Price Signals

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Thesis: The Quiet Shift

- Dairy is in a supply-led adjustment.
- Incentives are misaligned.
- Mixed signals slow response and extend low-price periods.

USDA Final Rule: Dairy Margin Coverage (DMC) Revisions Under OBBB

- DMC is reauthorized through 2031, extending long-term margin protection for dairy operations.

- Beginning in 2026, all participants must establish a new production history based on the highest marketed milk production from 2021–2023.

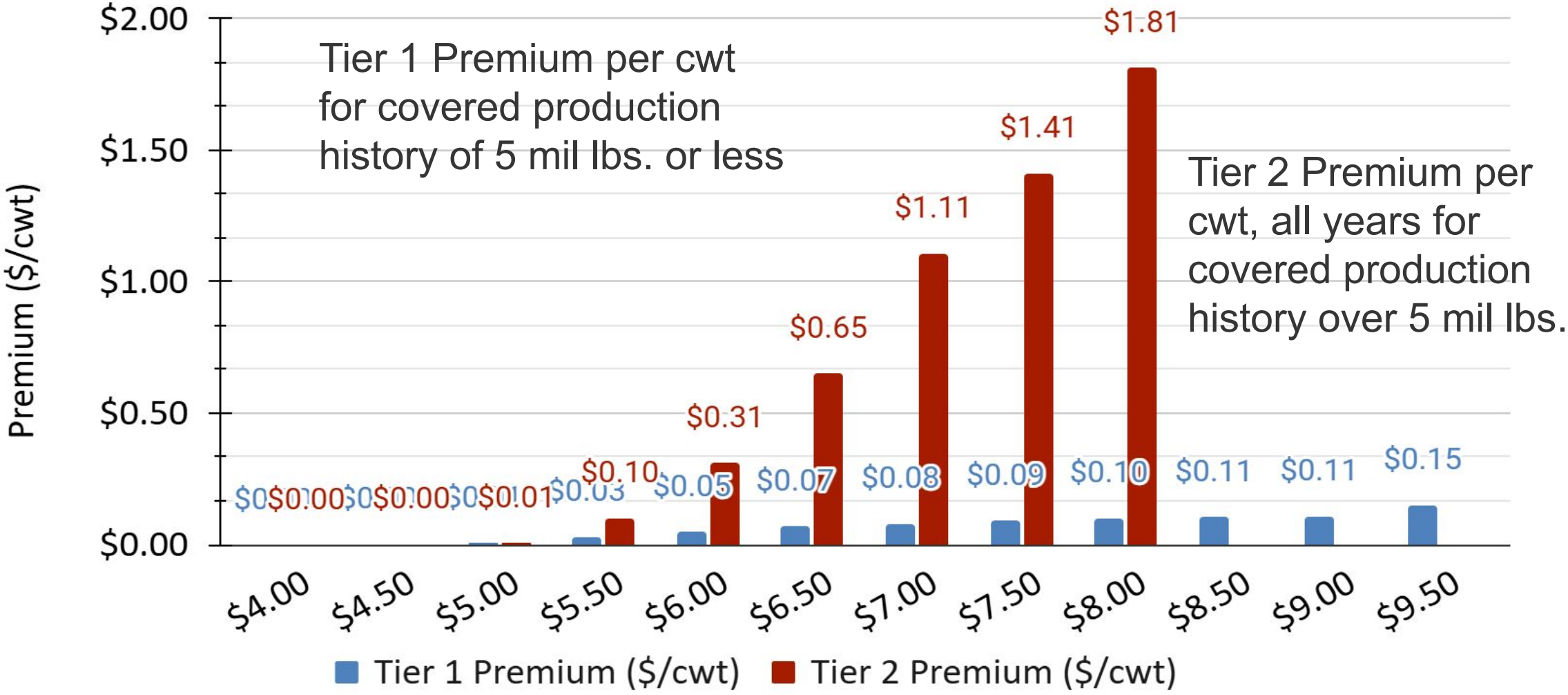
- The Tier 1 coverage limit increases from 5 to 6 million pounds, expanding lower-cost coverage for mid-sized dairies.

- Premium rates and coverage levels remain unchanged, including catastrophic and buy-up options.

- A six-year lock-in option (2026–2031) is reauthorized, offering a 25 percent premium discount for participating operations.

- The rule becomes effective January 12, 2026.

DMC Premium Rates per Hundredweight by Coverage Level as of January 2025

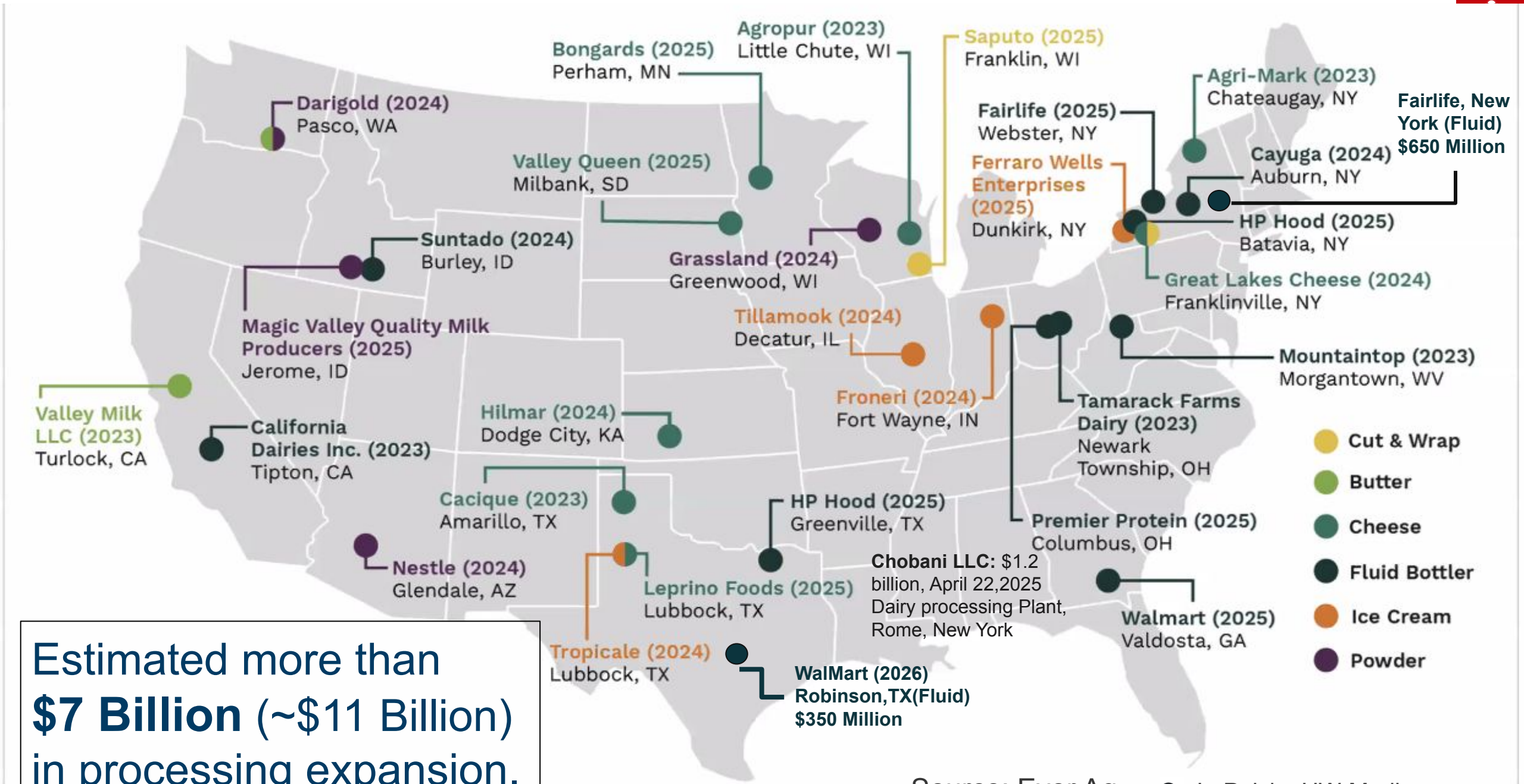


Mixed Signals

- Weak milk prices, continued processing-driven expansion
- Concentrated growth slows supply adjustment
- Rising components create phantom supply
- Beef values override milk-price signals
- Exports clear volume, not price
- Cheese weak/holding, whey strong
- Class III supported on fragile fundamentals

- Conflicting signals extend the cycle

What Changed?

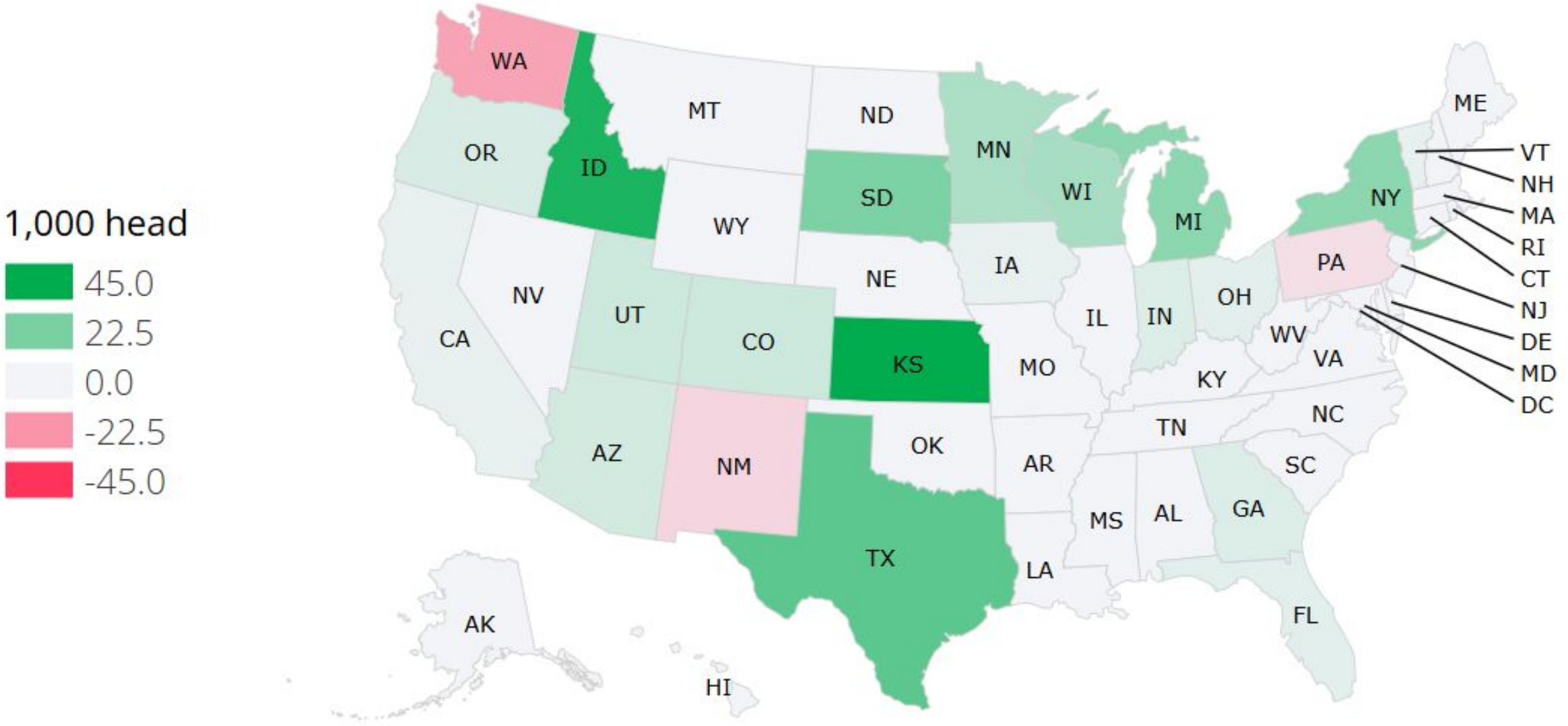


Estimated more than **$7 Billion** (~$11 Billion) in processing expansion.

Source: Ever.Ag

Cows Flow Where Processing Grows:

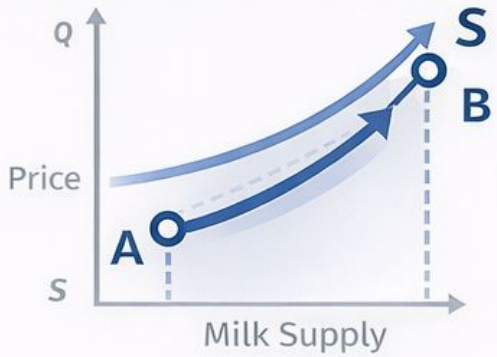
Milk Cows: Year-on-Year (as of Nov 2025)



Milk Supply Curve vs. Shift of the Supply Curve

Understanding supply adjustments in the U.S. dairy industry

Movement Along the Milk Supply Curve
(Short-run, Price-Driven)



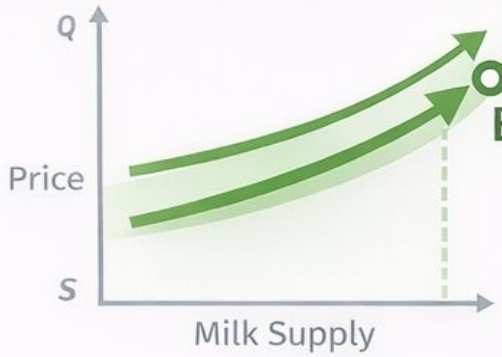
Movement Along the Supply Curve

- Triggered by changes in milk price
- Adjust output within existing herds and facilities
- Feed intensity changes, short-term culling/ dry-off decisions

Same curve, New quantity

Operational response, not structural change

Shift of the Milk Supply Curve
(Structural, Non-Price Change)



Shift of the Supply Curve

- Triggered by **capacity, cost, or policy** changes
- New plants drive demand and output higher at all prices
- Herd expansion or fixed investment in processing capacity

- **New plants** drive demand and output higher at all prices

New curve, New baseline

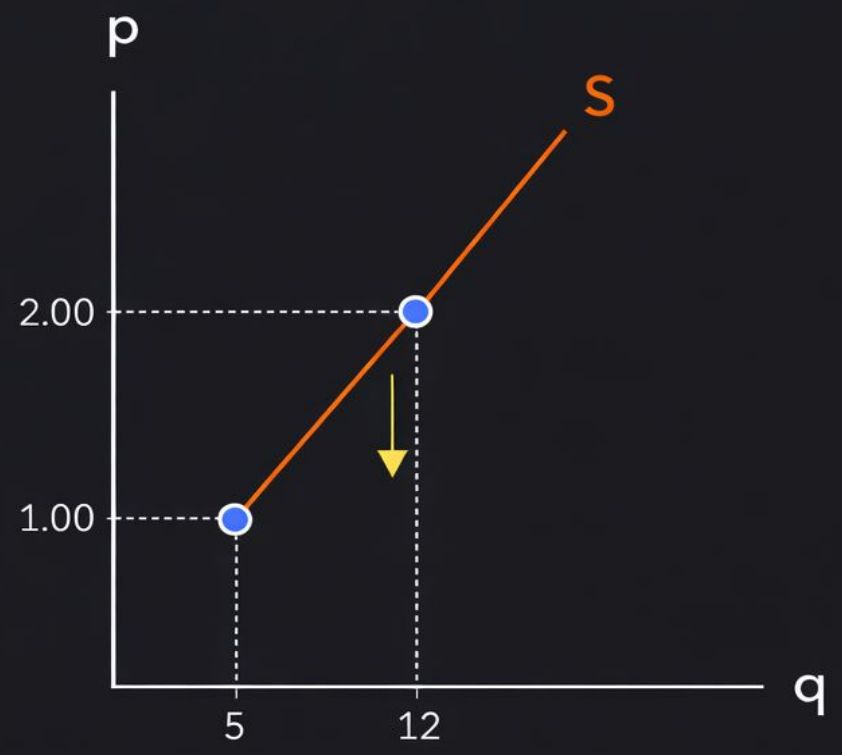
Persistent, structural change

Why This Distinction Matters

- When **new plants** open, it's a **shift**, not just a price-driven move **along**
- Persistent **capacity expansion** can delay rebalancing when margins fall
- Explains prolonged **low margins, persistent** overproduction, slower adjustment

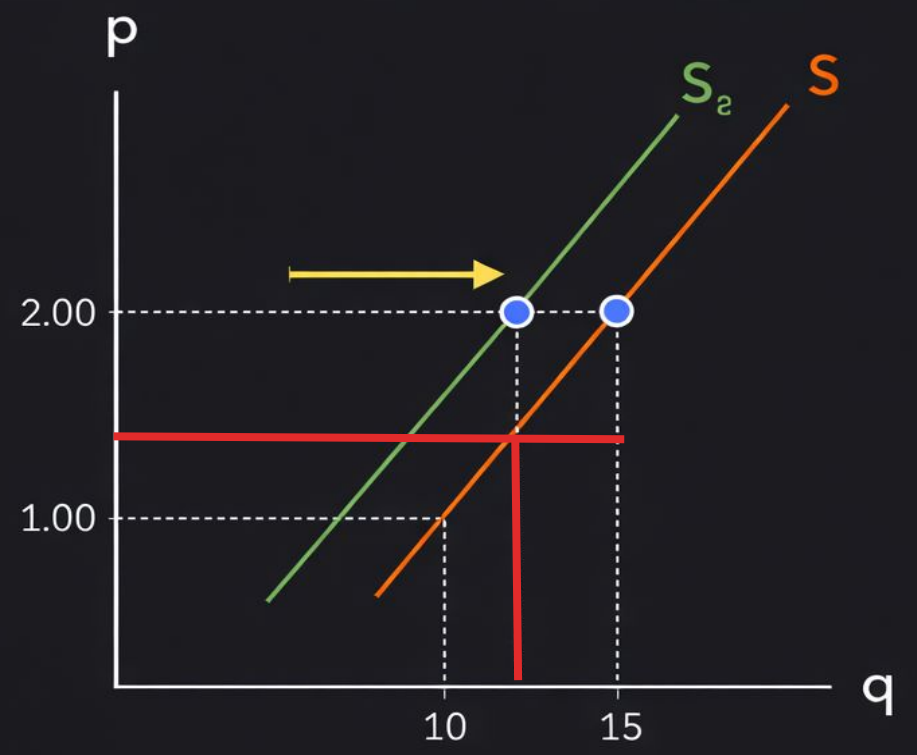
Change in Quantity vs Supply

Change in **quantity supplied**



Only the price changes

Change in supply

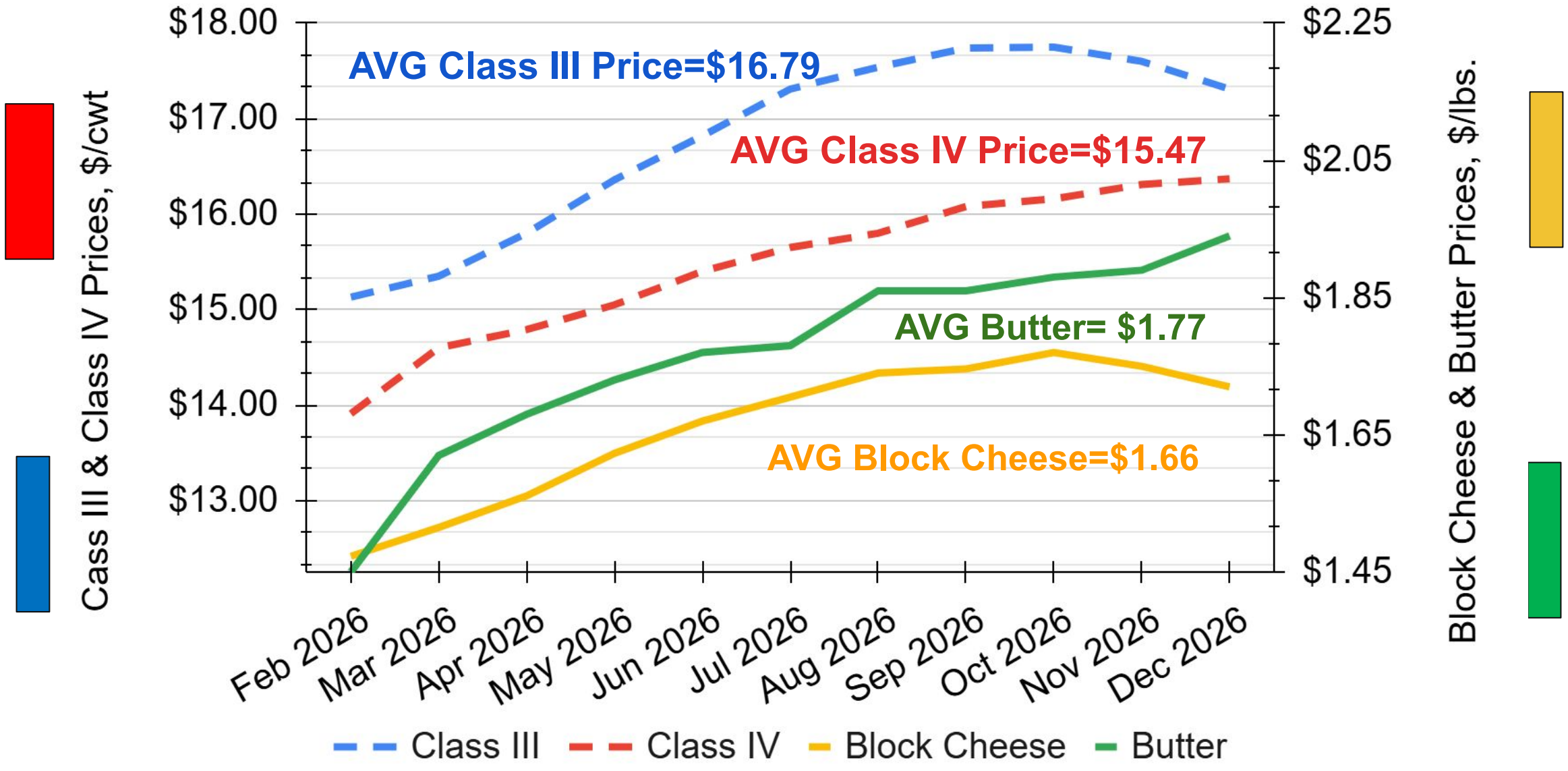


Entire curve shifts left or right

Milk Supply Adjustment in Dairy Markets

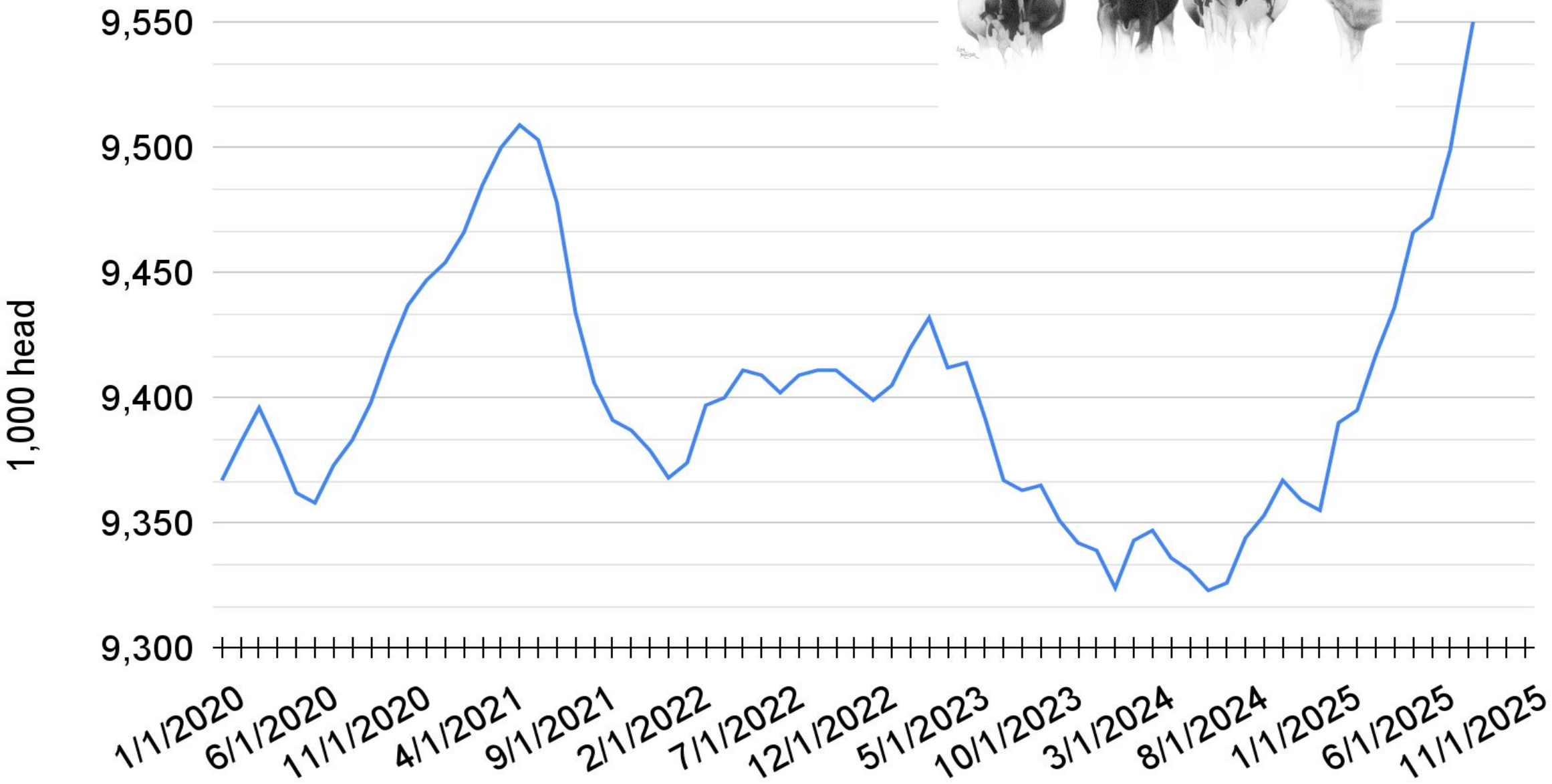
Dimension	Movement Along Supply	Shift in Supply
Trigger	Milk price changes	Structural or cost changes
Producer response	Adjust output within existing herds and facilities	Change herd size, capacity, or productivity
Time horizon	Short run	Medium to long run
Persistence	Temporary and reversible	Persistent and slow to reverse
Market implication	Quantity adjusts, structure unchanged	New production baseline established

Current Future Price, CME

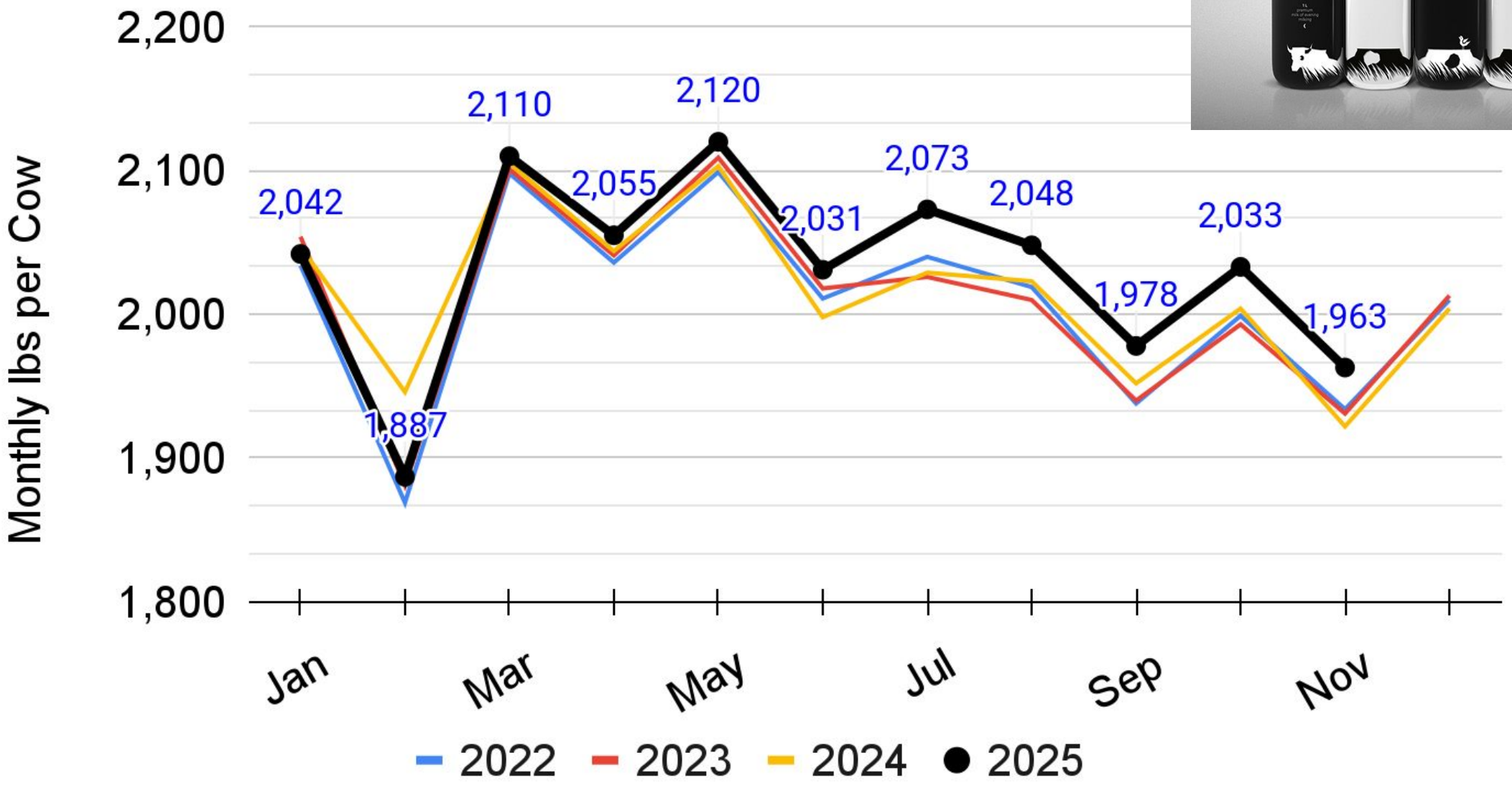


What the market is doing - Phantom Supply

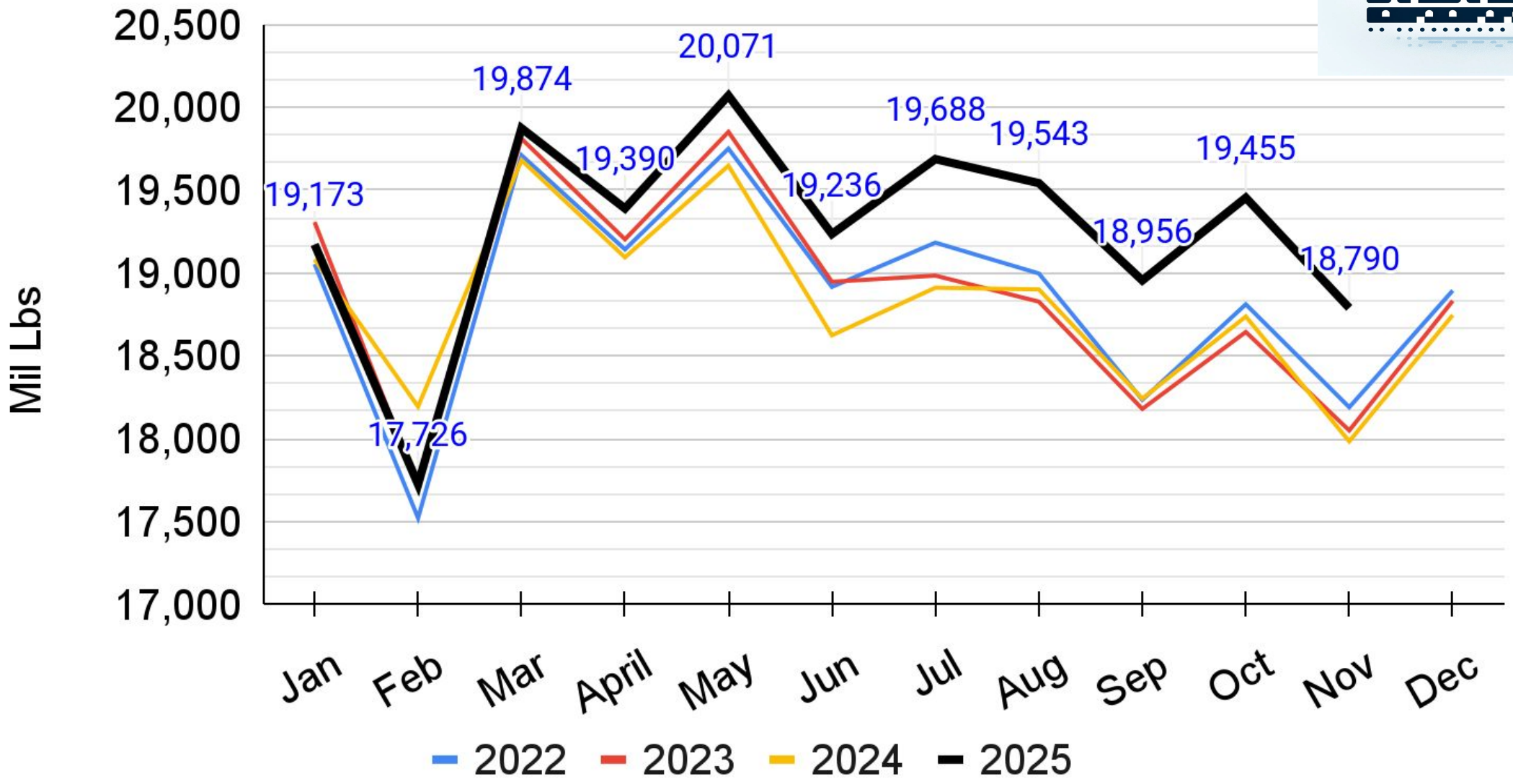
Milk Cows- As of November 2025



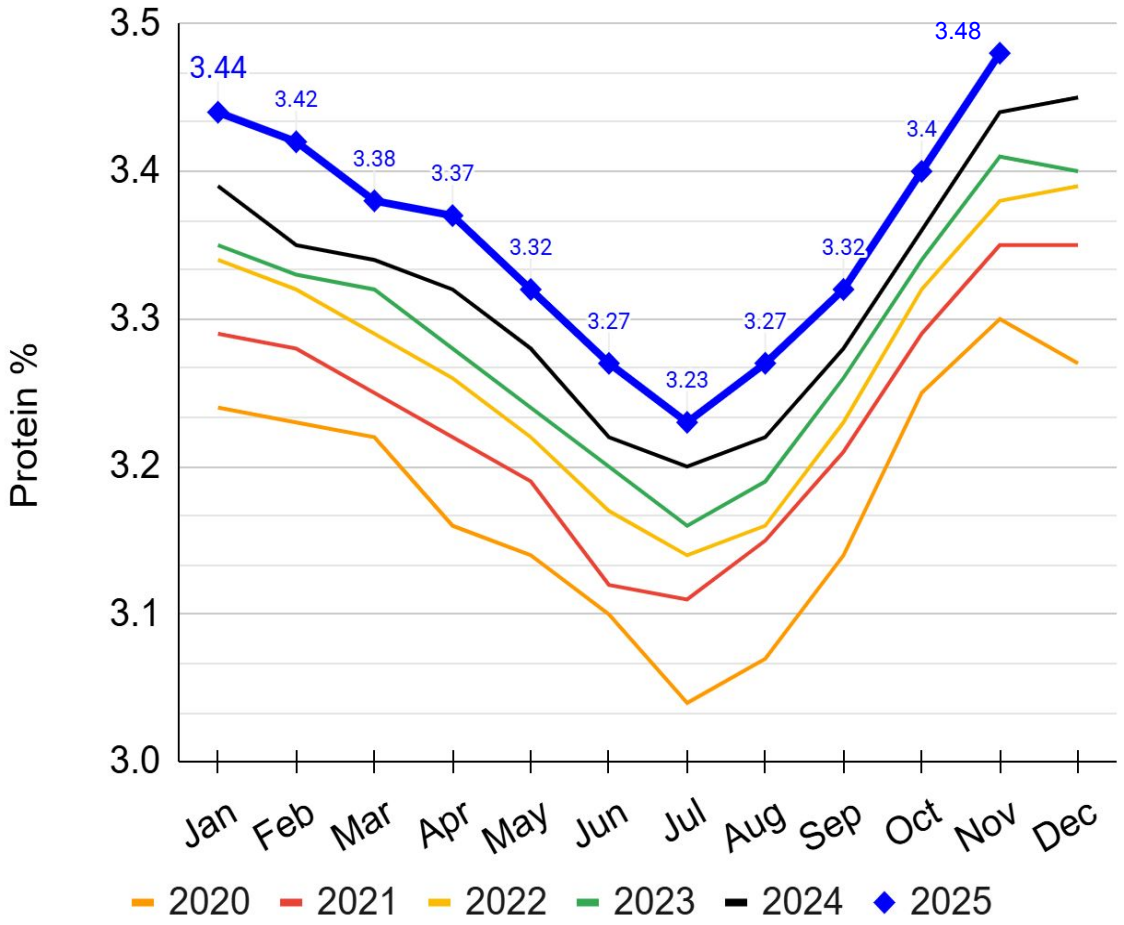
Milk Production Per Cow



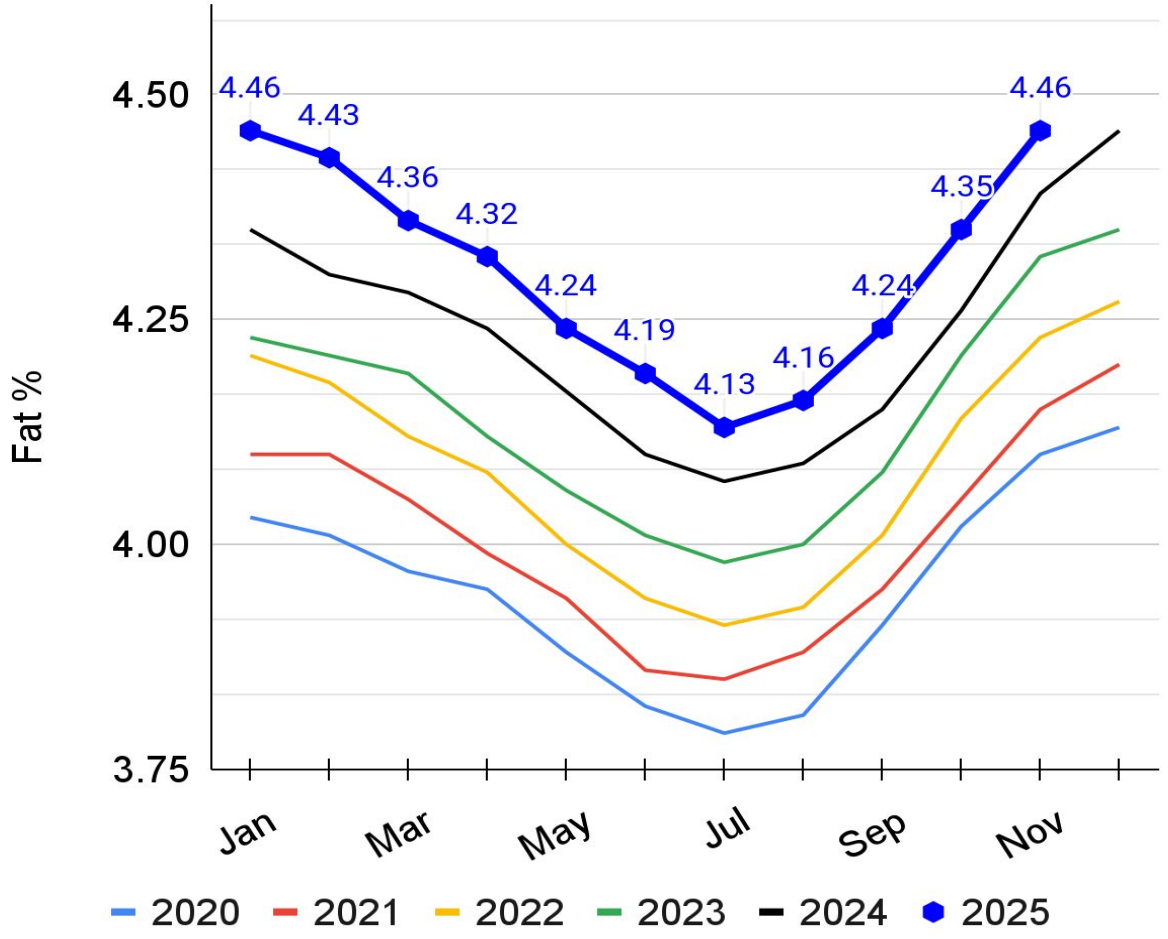
US Milk Production: Year over Year



US All Milk Protein Test,%

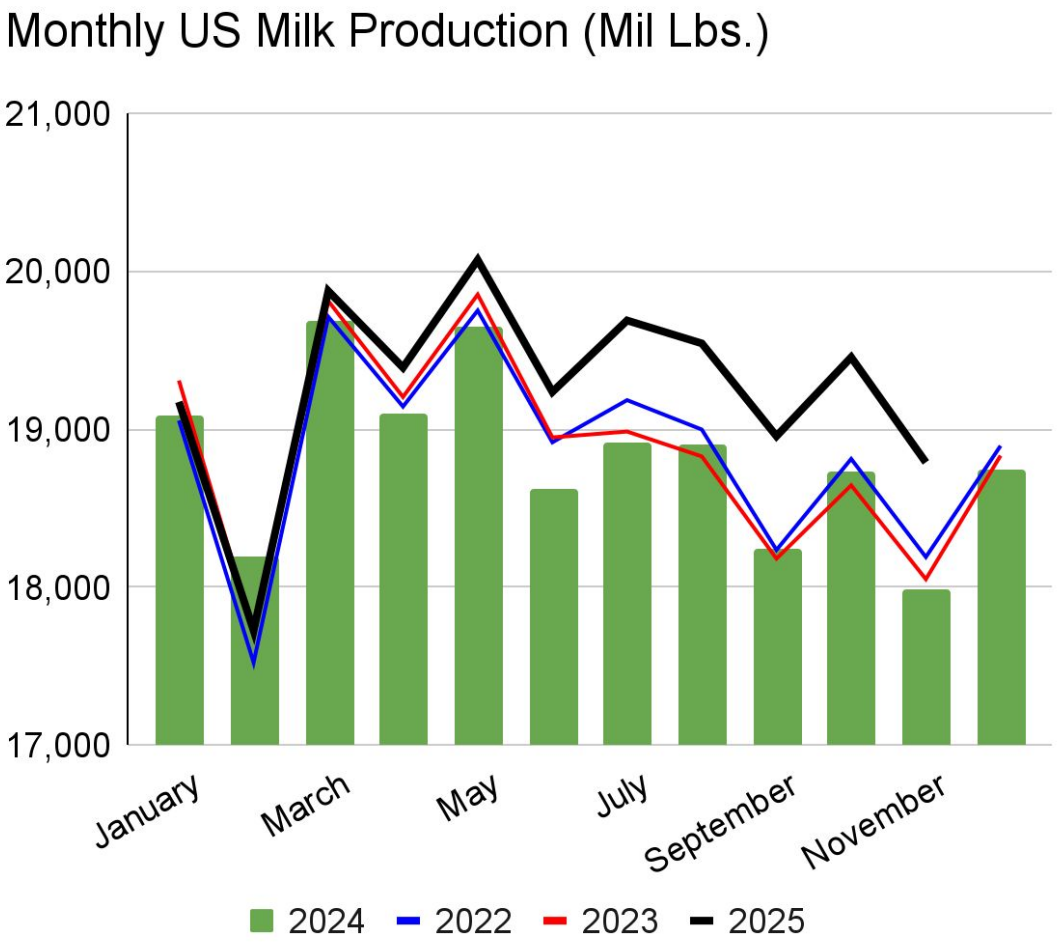


US All Milk Fat Test %

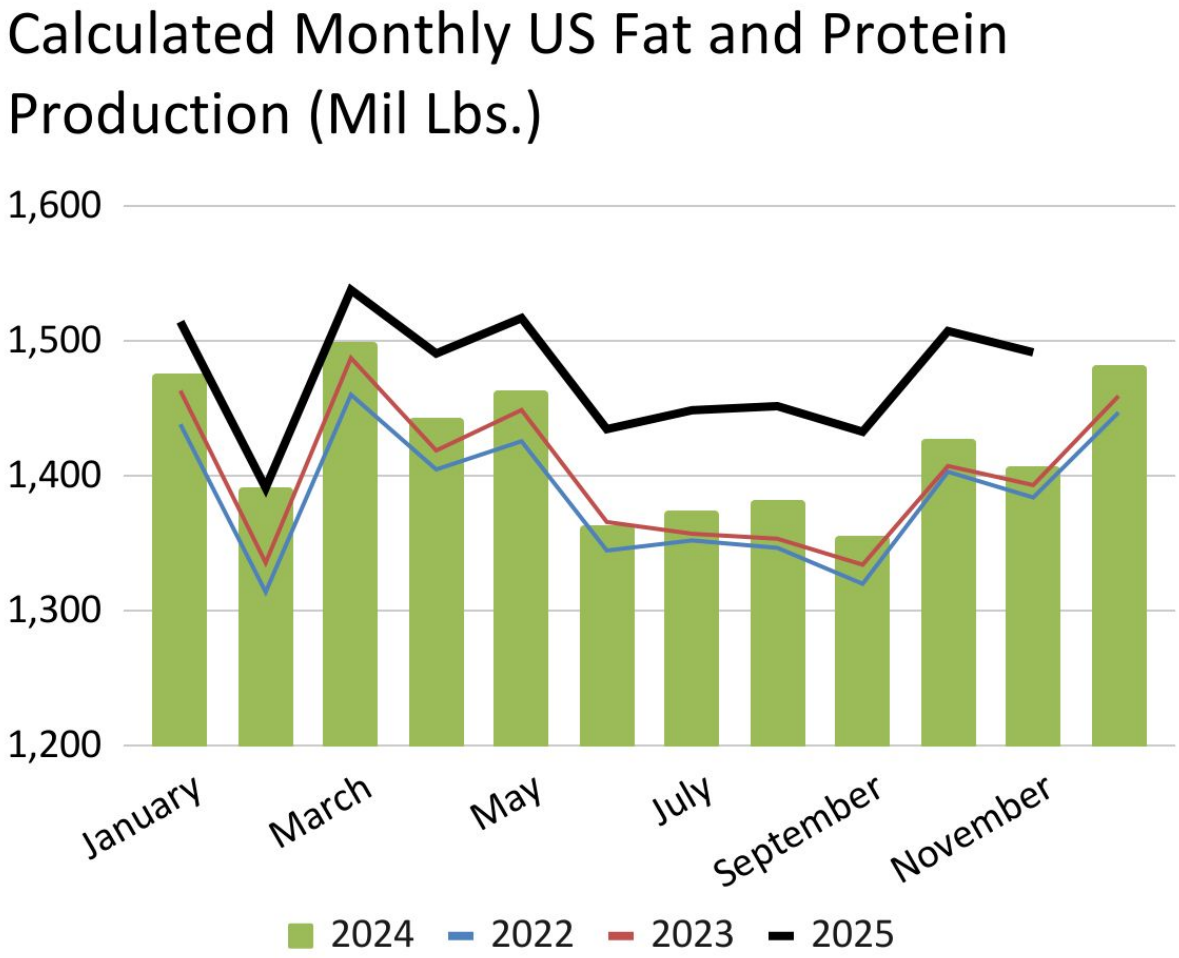


Source: USDA NASS, UDM-Bozic Milk Production © : L. Polzin, UW-Madison

2025 YTD = 2.26% (as of Nov)
Change in Milk Production



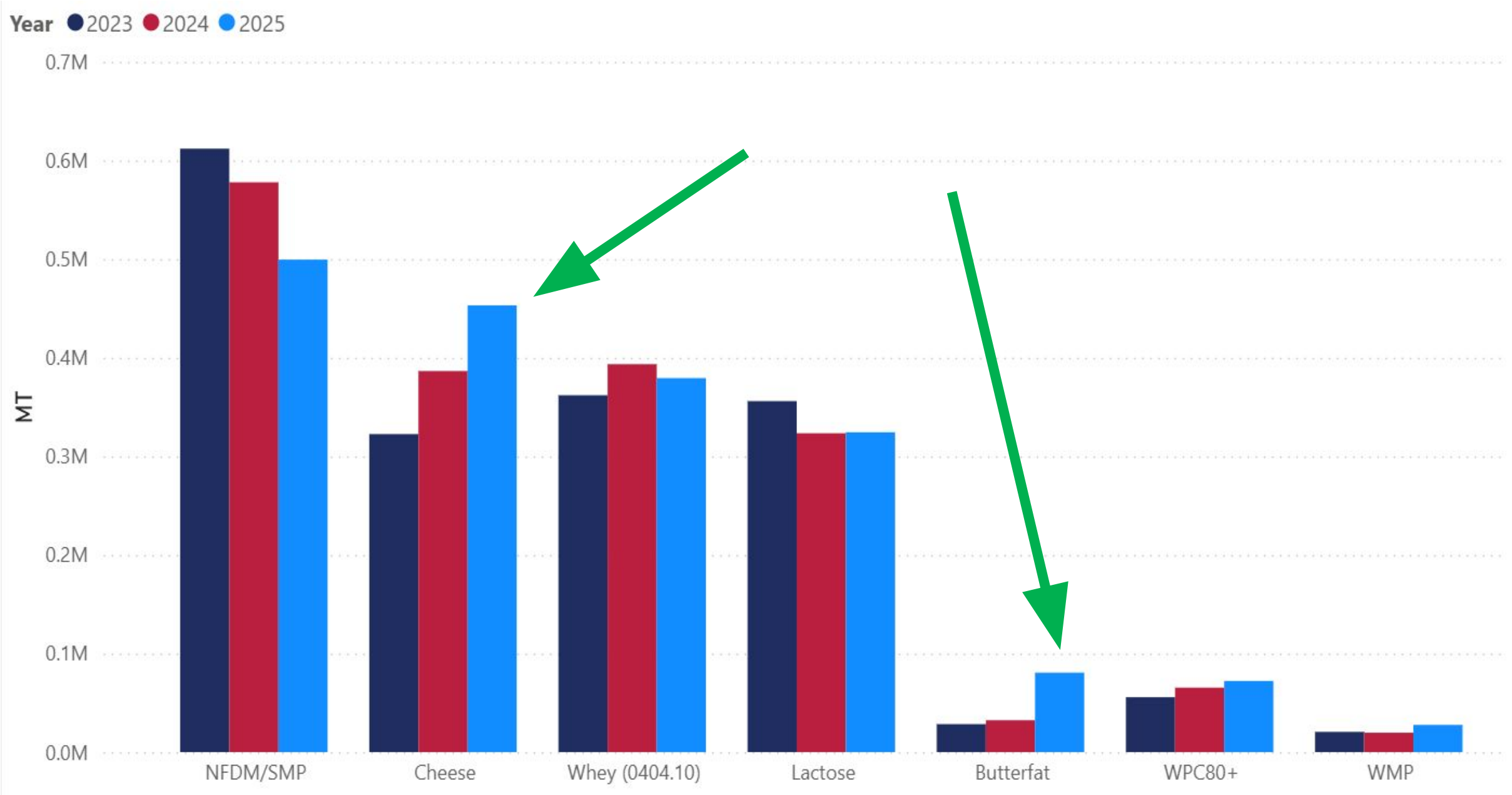
2025 YTD = 4.07% (as of Nov)
Change in Solids Production



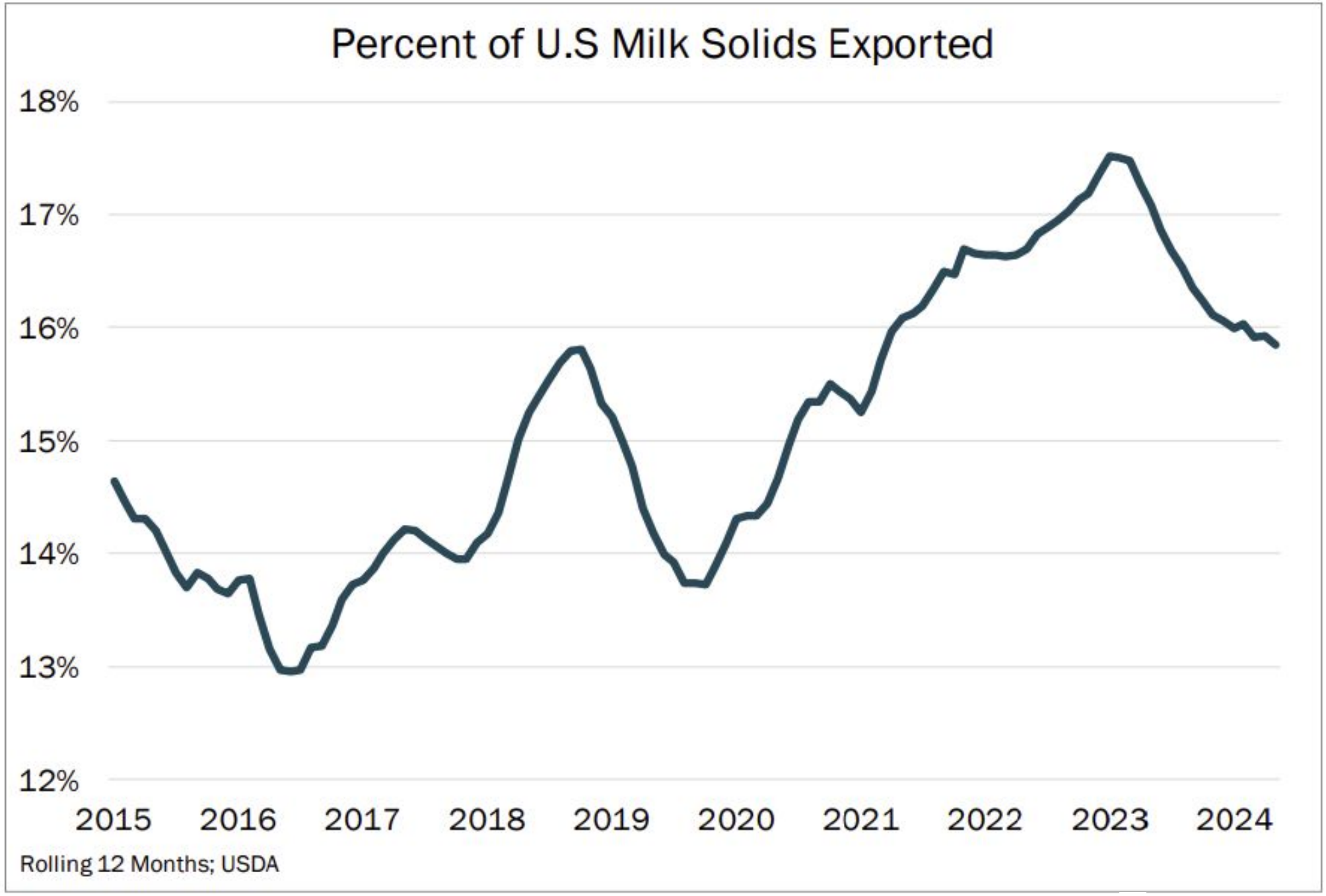
Source: USDA National Agricultural Statistics Service (NASS), Milk Production Report

Where is this milk going?

U.S Total Dairy Exports YTD



Source: https://www.usdec.org/economics-and-data/usdec-data-hub

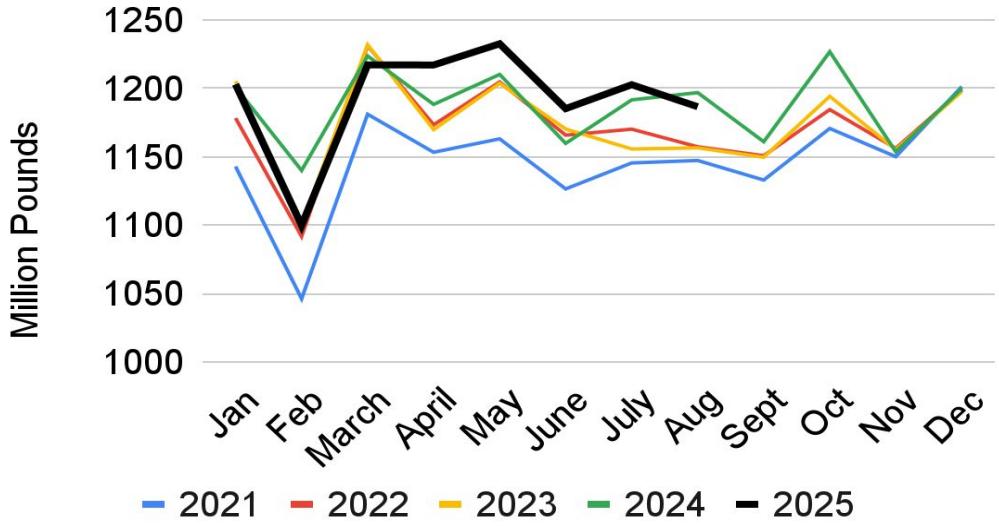


US Product Export Share

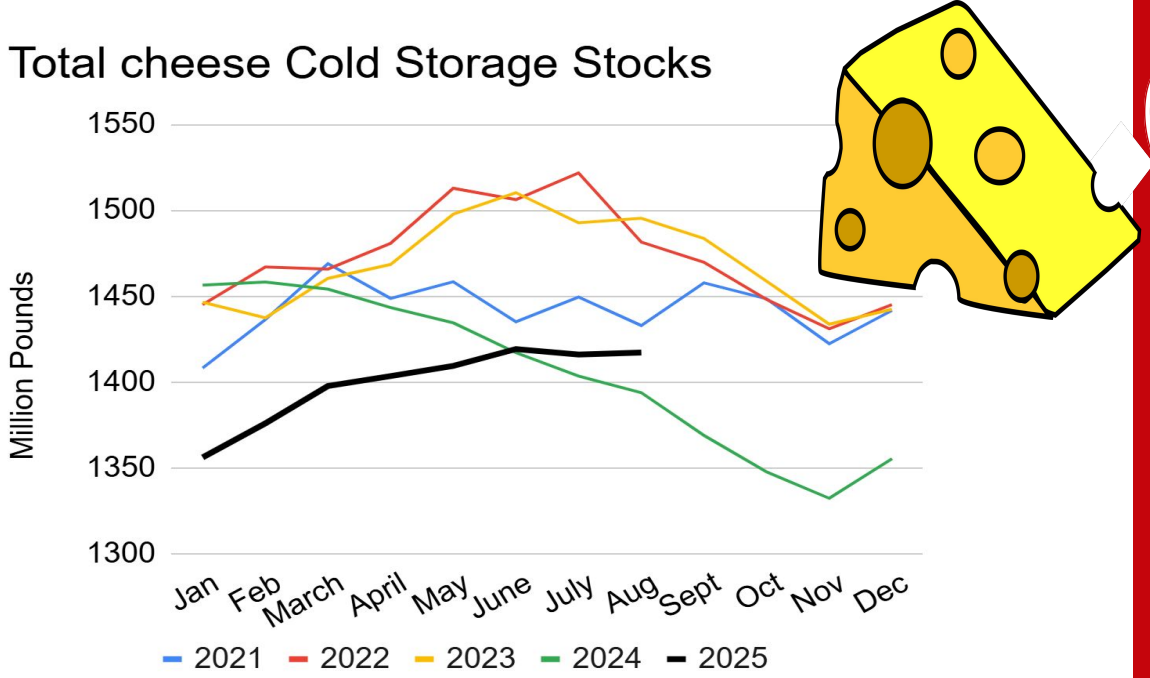
Product	Share of Production Exported (%)	US Share of World Trade (%)
Cheese	6	16
Butter	2	
NFD/SMP	71	37
Whey Products	50	36
Lactose	74	

Source: L. Polzin, UW-Madison

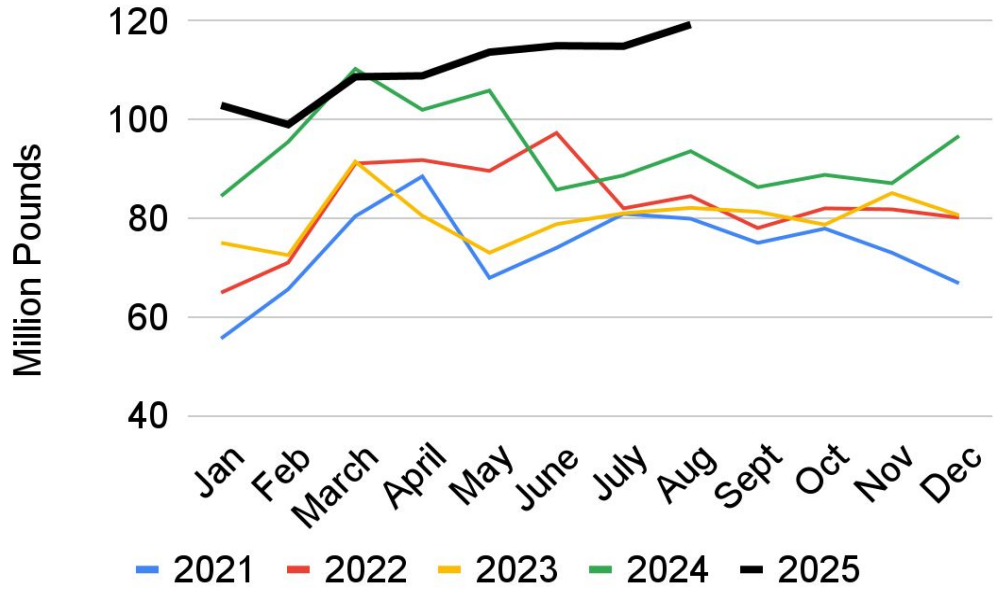
Total Cheese Production



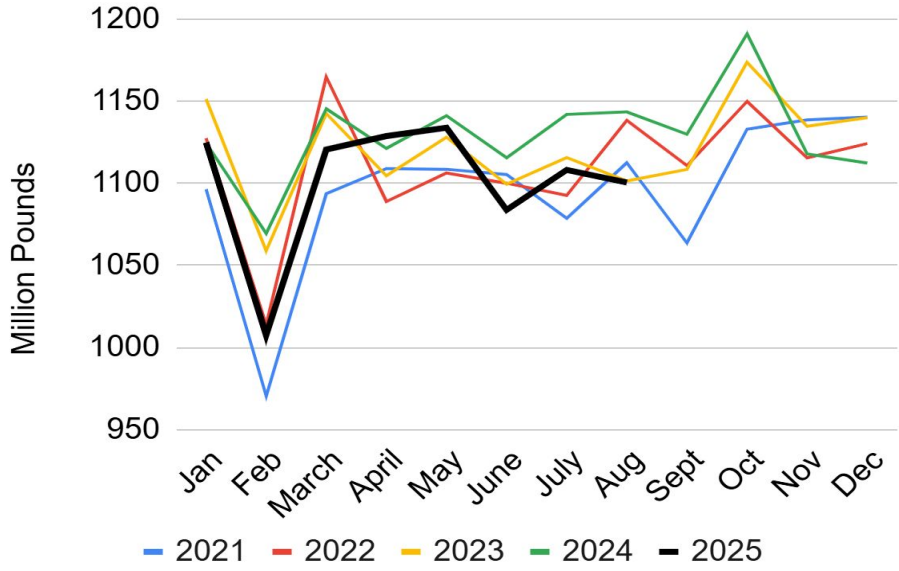
Total cheese Cold Storage Stocks



Total Cheese Exports

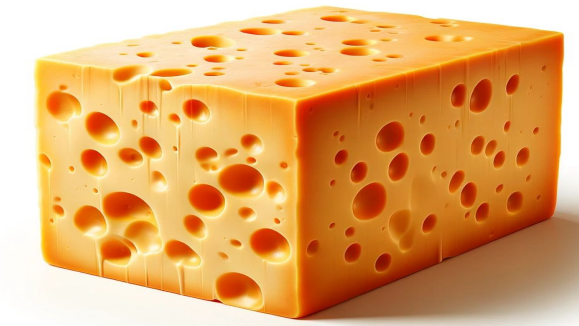


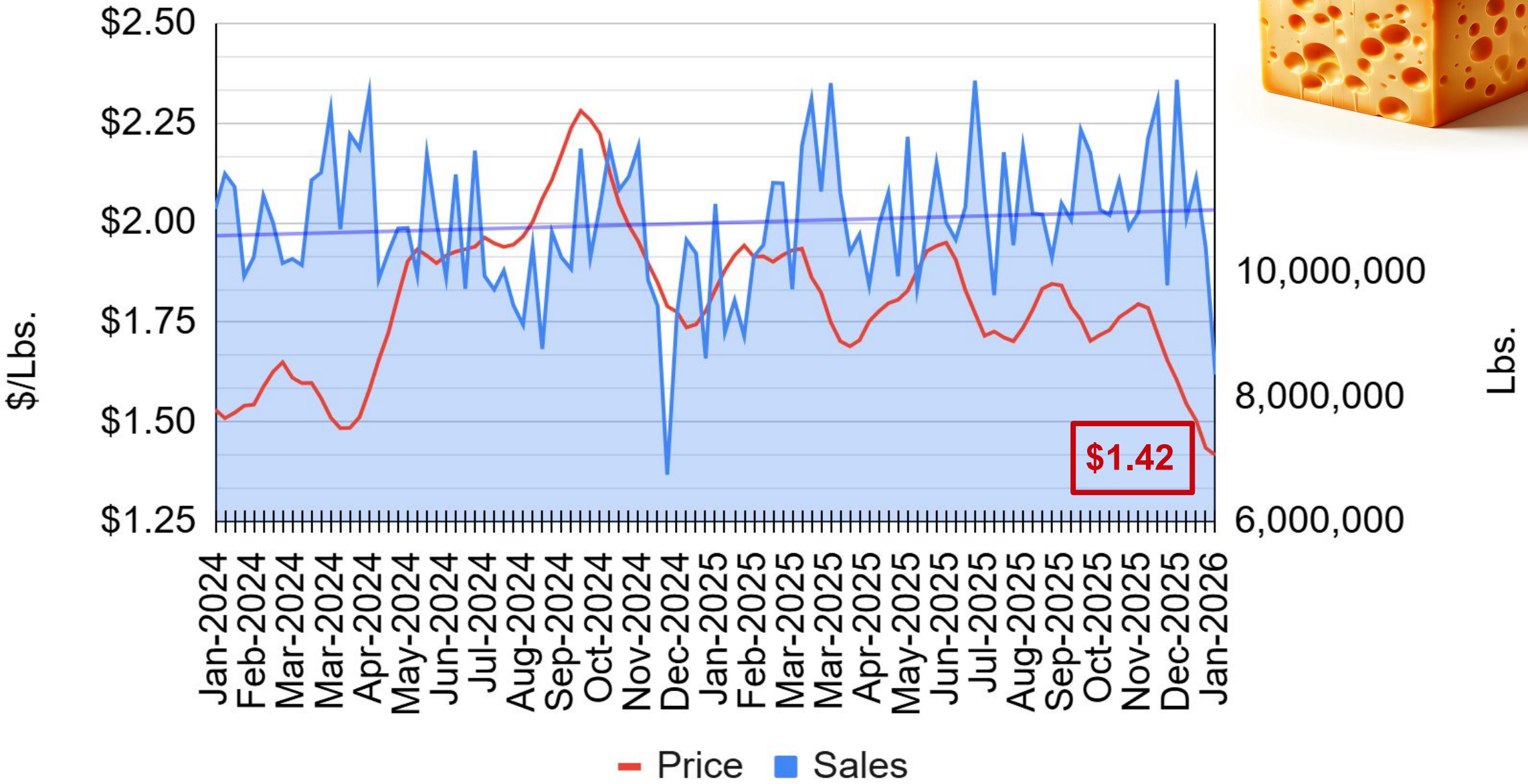
Total Cheese Domestic Disappearence



USDA Agricultural Marketing Service (AMS) Dairy Market News

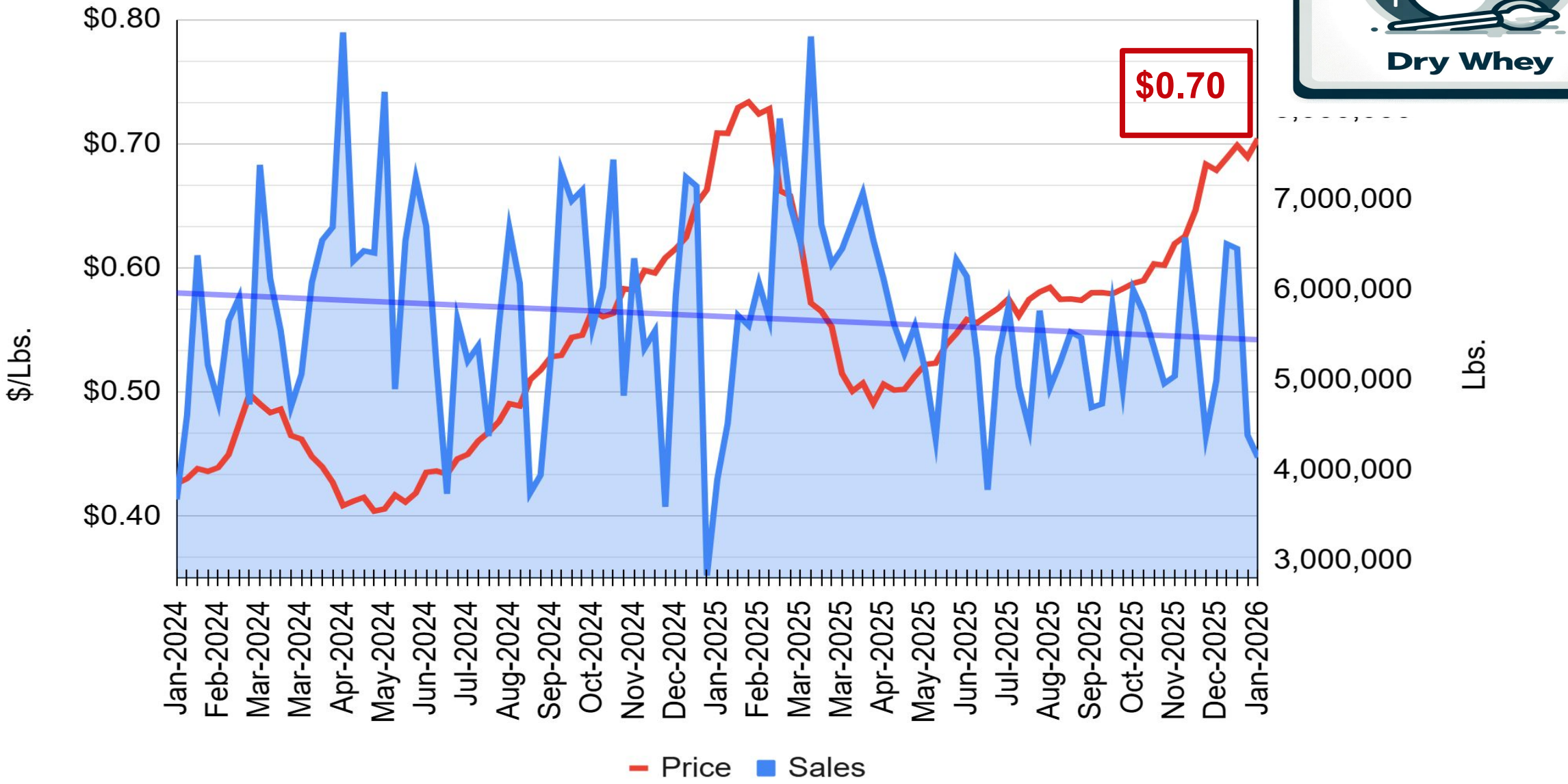
NDPSR 40# Cheddar Cheese Price and Sales





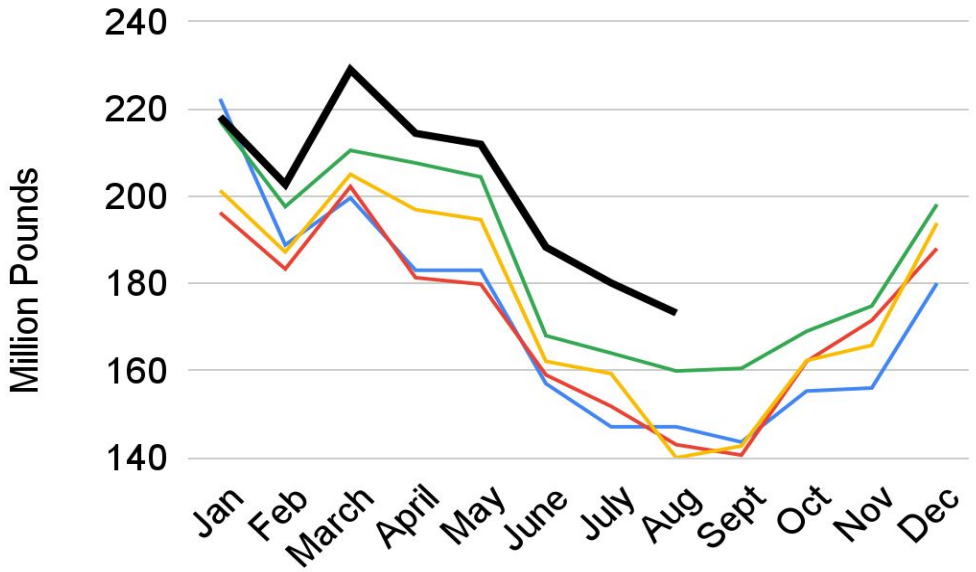
Source: NDPSR, © : L. Polzin, UW-Madison

NDPSR Dry Whey: Prices and Sales

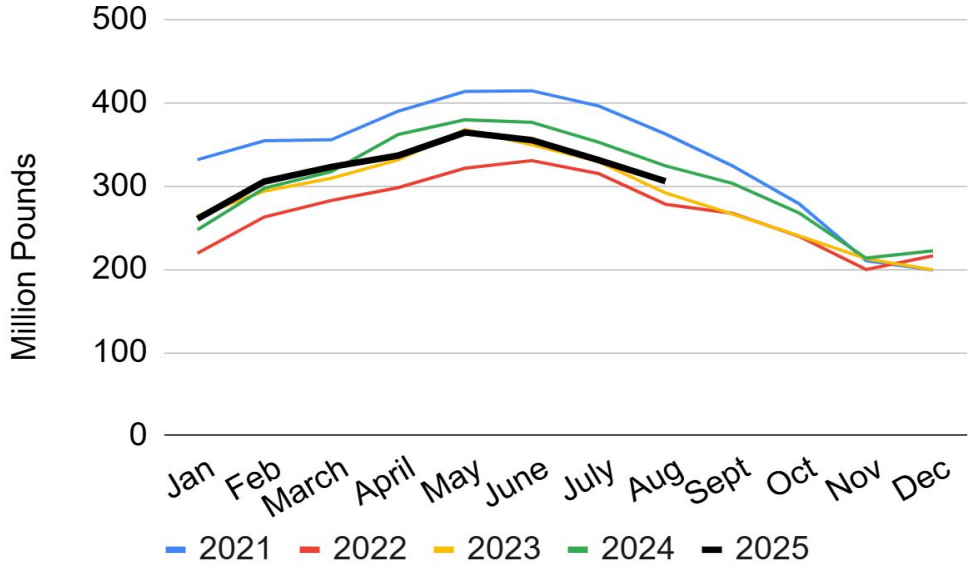


Source: NDPSR, © : L. Polzin, UW-Madison

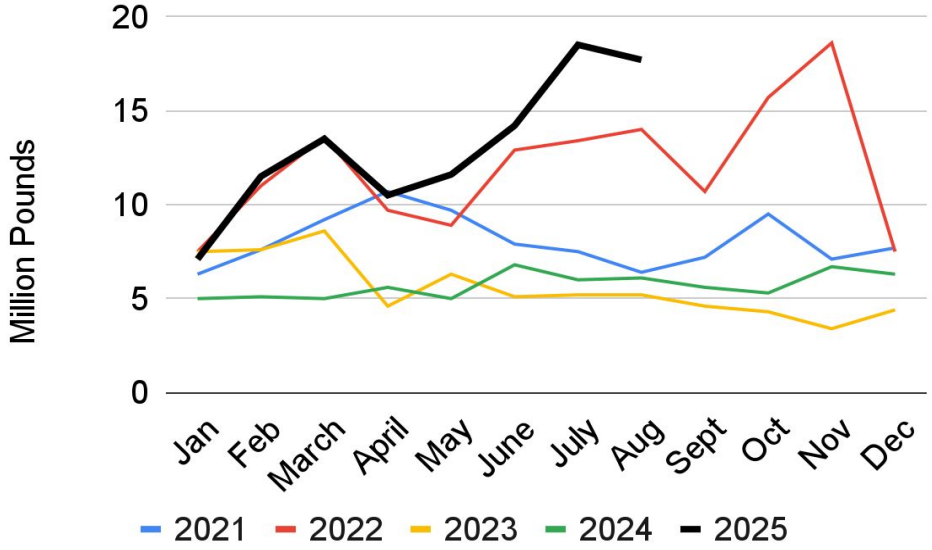
Butter Production



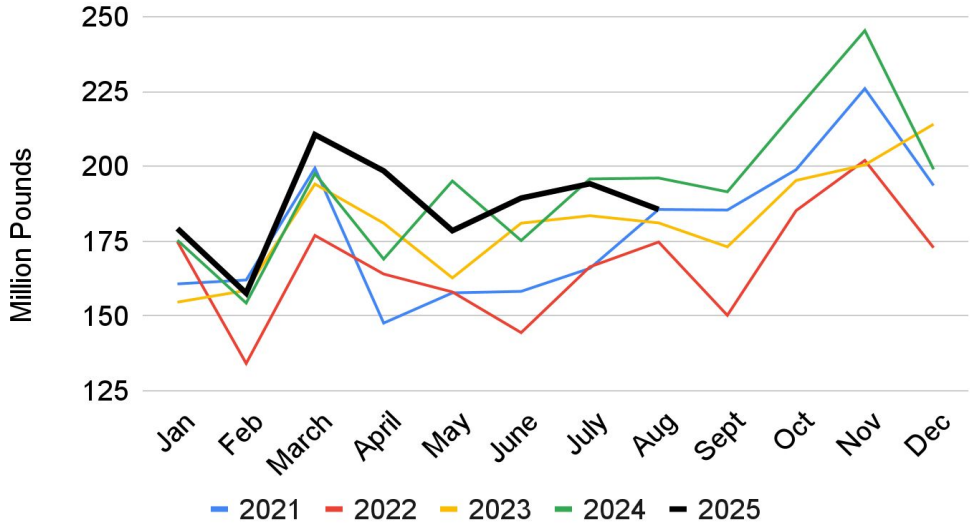
Butter Cold Storage Stocks



Butter Exports

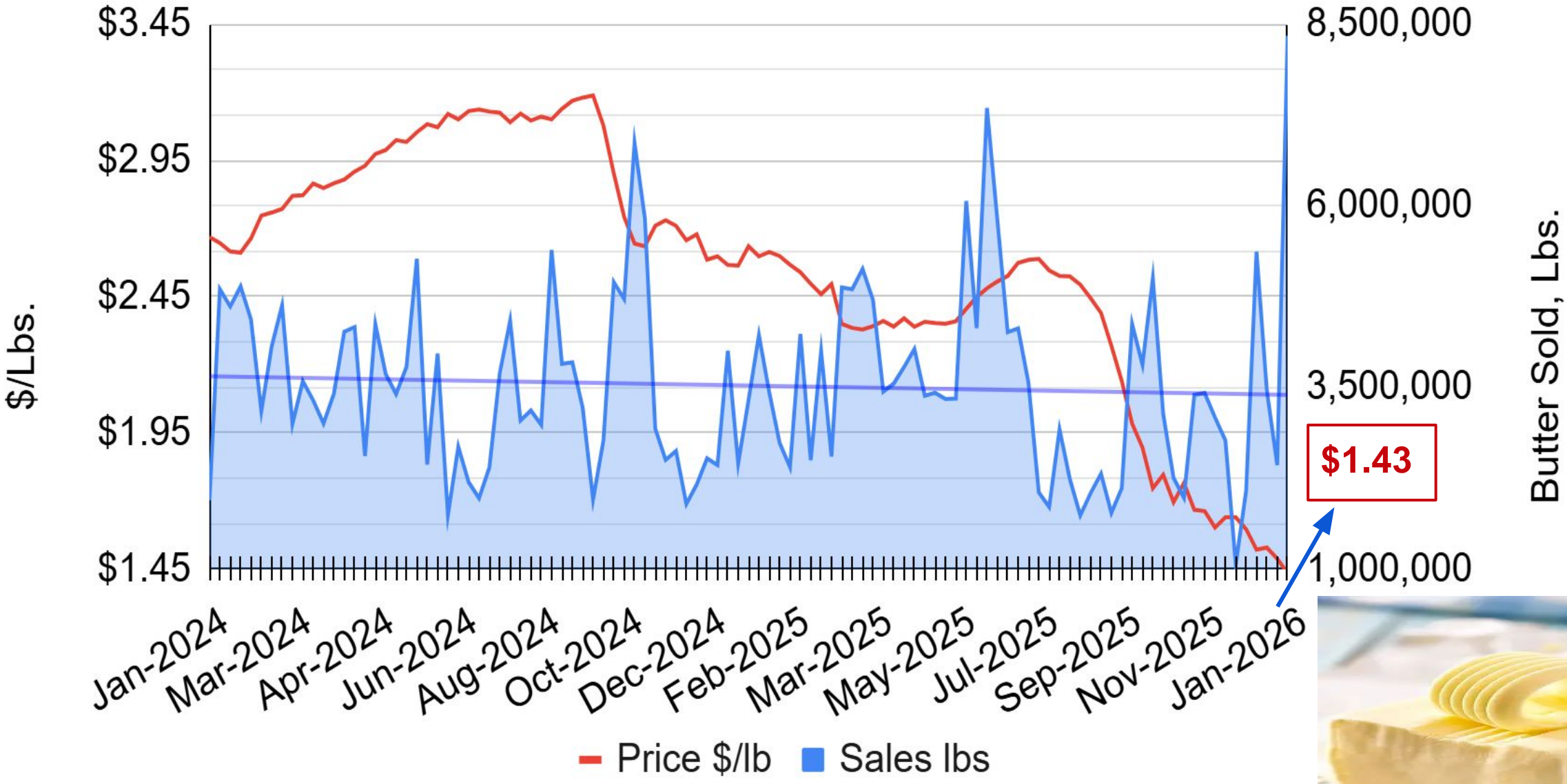


Butter Domestic Disappearence



Source: USDA, ERS © : L. Polzin, UW-Madison

NDPSR Butter: Price and Sales



Source: NDPSR, © : L. Polzin, UW-Madison

NDPSR Nonfat Dry Milk: Prices and Sales

$/Lbs.

$1.50
$1.40
$1.30
$1.20
$1.10

Sales, Million Lbs.

30
25
20
15
10
5

$1.17

Jan-2024 Feb-2024 Mar-2024 Mar-2024 Apr-2024 May-2024 Jun-2024 Jul-2024 Aug-2024 Sep-2024 Oct-2024 Nov-2024 Dec-2024 Jan-2025 Feb-2025 Mar-2025 Mar-2025 Apr-2025 May-2025 Jun-2025 Jul-2025 Aug-2025 Sep-2025 Oct-2025 Nov-2025 Dec-2025 Jan-2026

Price $/lb Sales lbs

Source: NDPSR, © : L. Polzin, UW-Madison

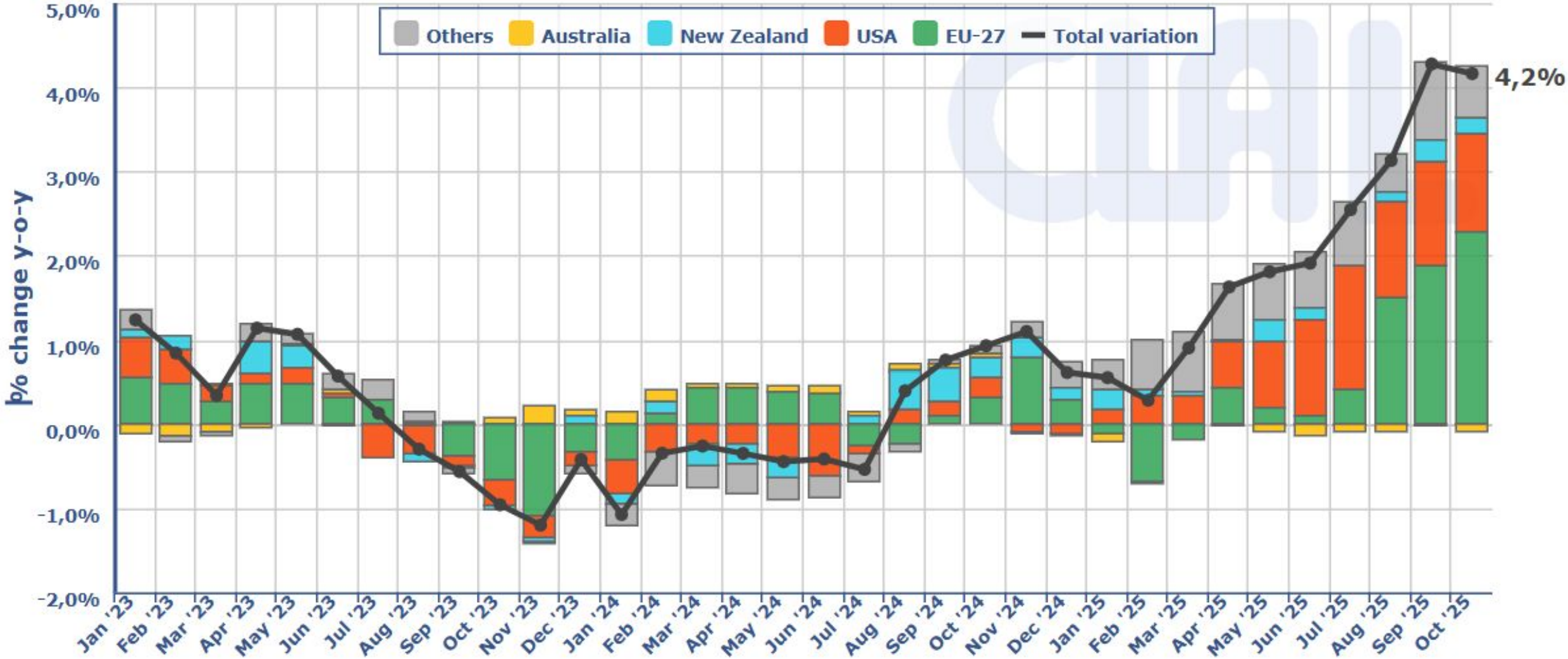
World - Global Supply Variation in the Key Exporters of Dairy Products

% change y-o-y subdivided by the contribution of each Player

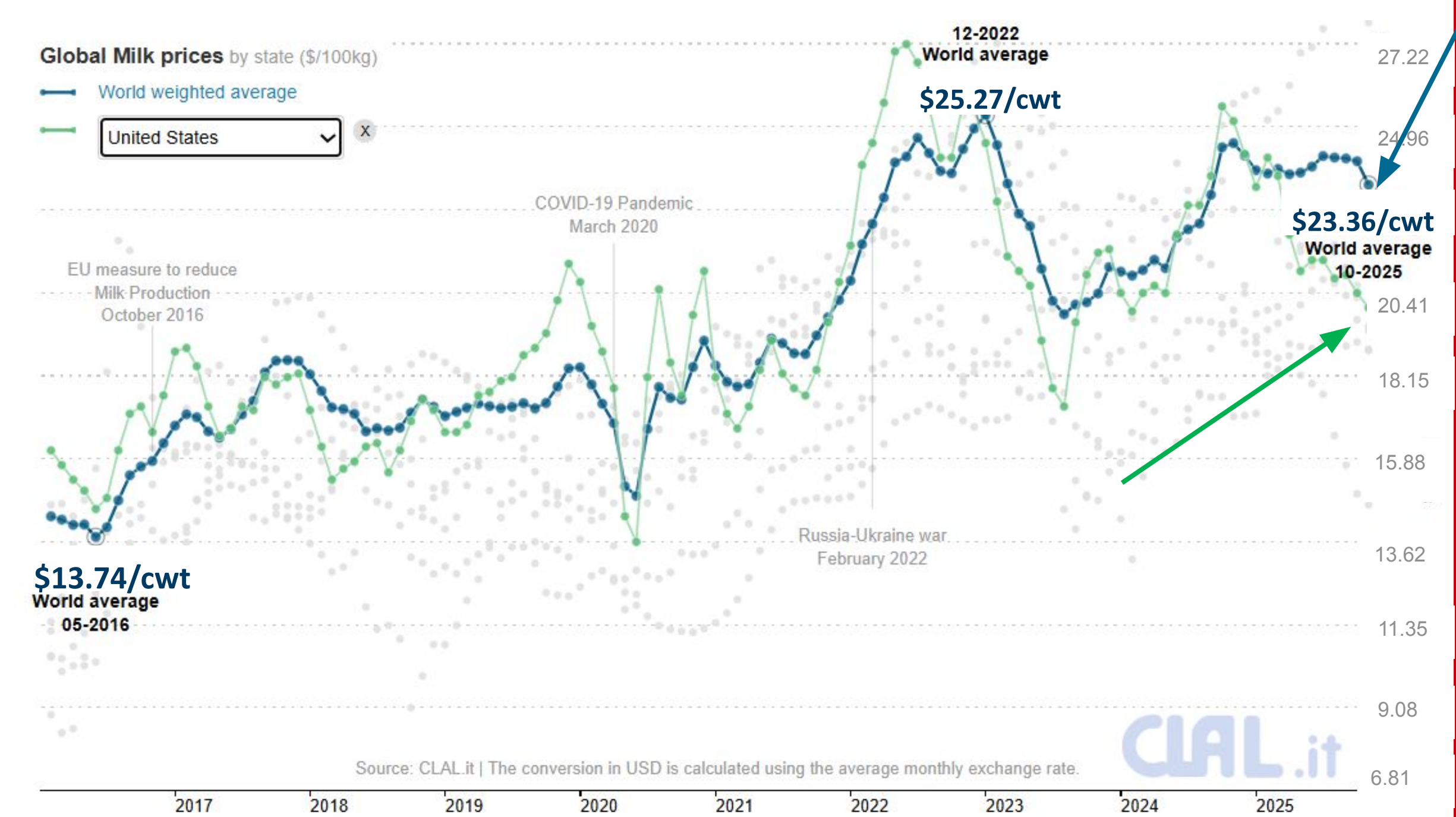
Players considered: EU-27, USA, New Zealand, Australia, Others: Argentina, Belarus, Chile, Uruguay

The month of February for the leap year is calculated on 28 days

Processed by CLAL

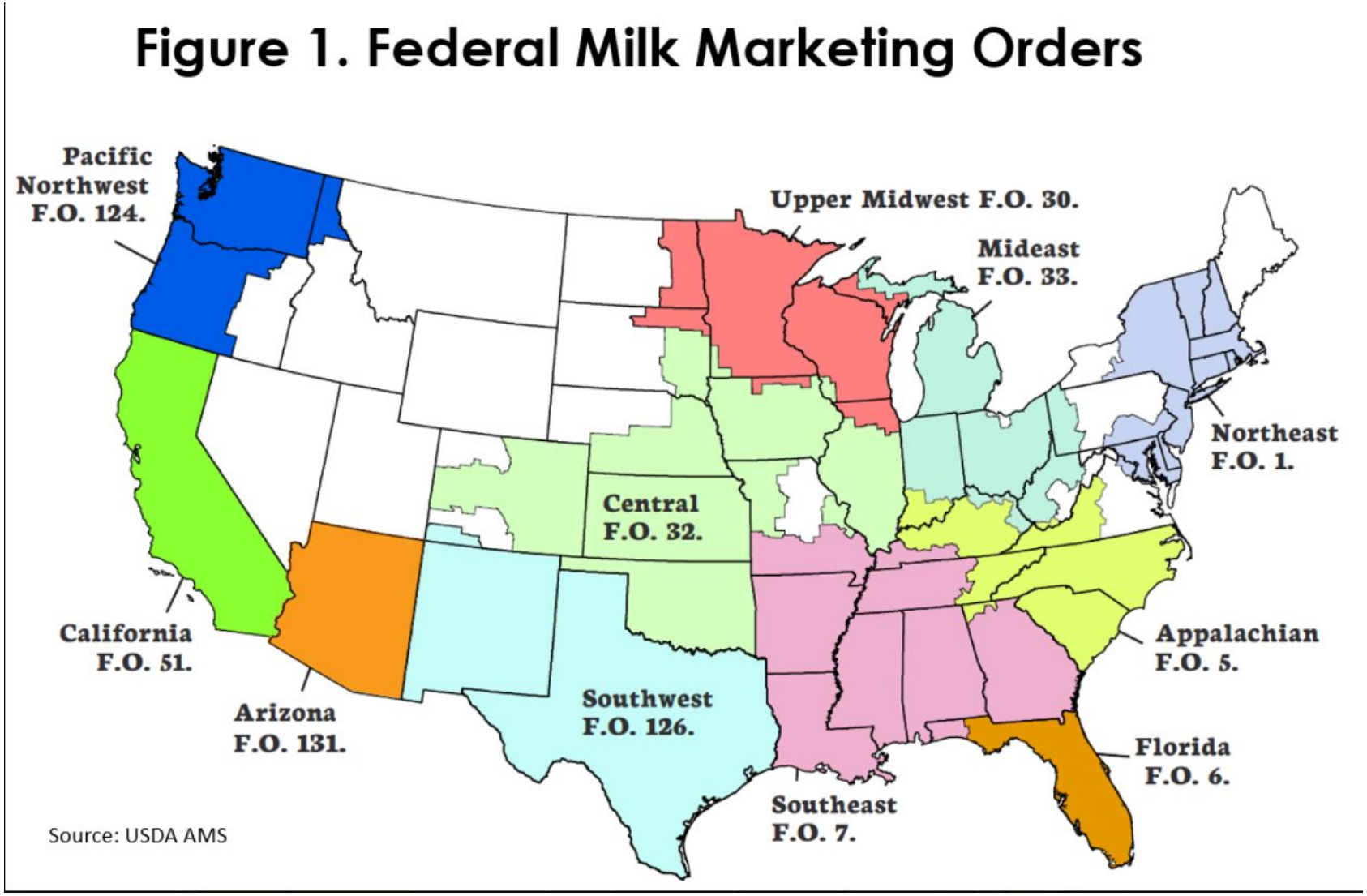


Source: CLAL, © : L. Polzin, UW-Madison



Source: CLAL, © : L. Polzin, UW-Madison

Why FMMO Changes are a Market Signal - Not a Policy Sidebar



Not all farm milk is priced based on Federal Milk Marketing Orders

Not all farm milk sold in marketing areas

Milk buyers other than Class I in a regulated area can choose not to be regulated

Why Federal Milk Marketing Order Hearings?

Make Allowances were a key issue

- Processors (and some cooperatives) argued that make allowances did not reflect current costs of making products
- Make allowances in our current pricing formulas account for the costs of transforming milk into dairy products

<u>Symptoms of a problem:</u>

De-pooling (less pooling)

Declines in premiums

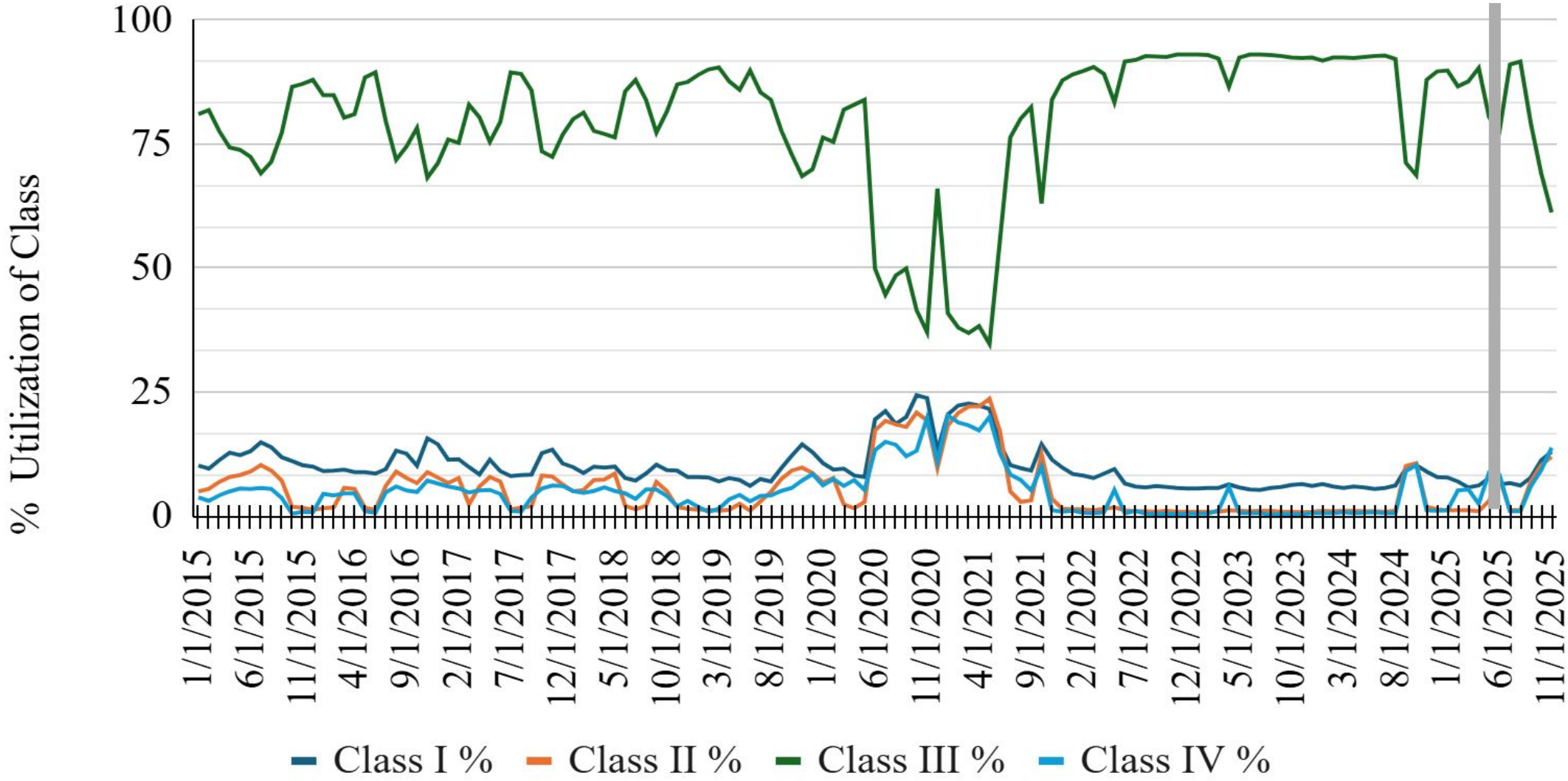
Cooperative ‘re-blending’

Negative PPDs

Source: L. Polzin, UW-Madison

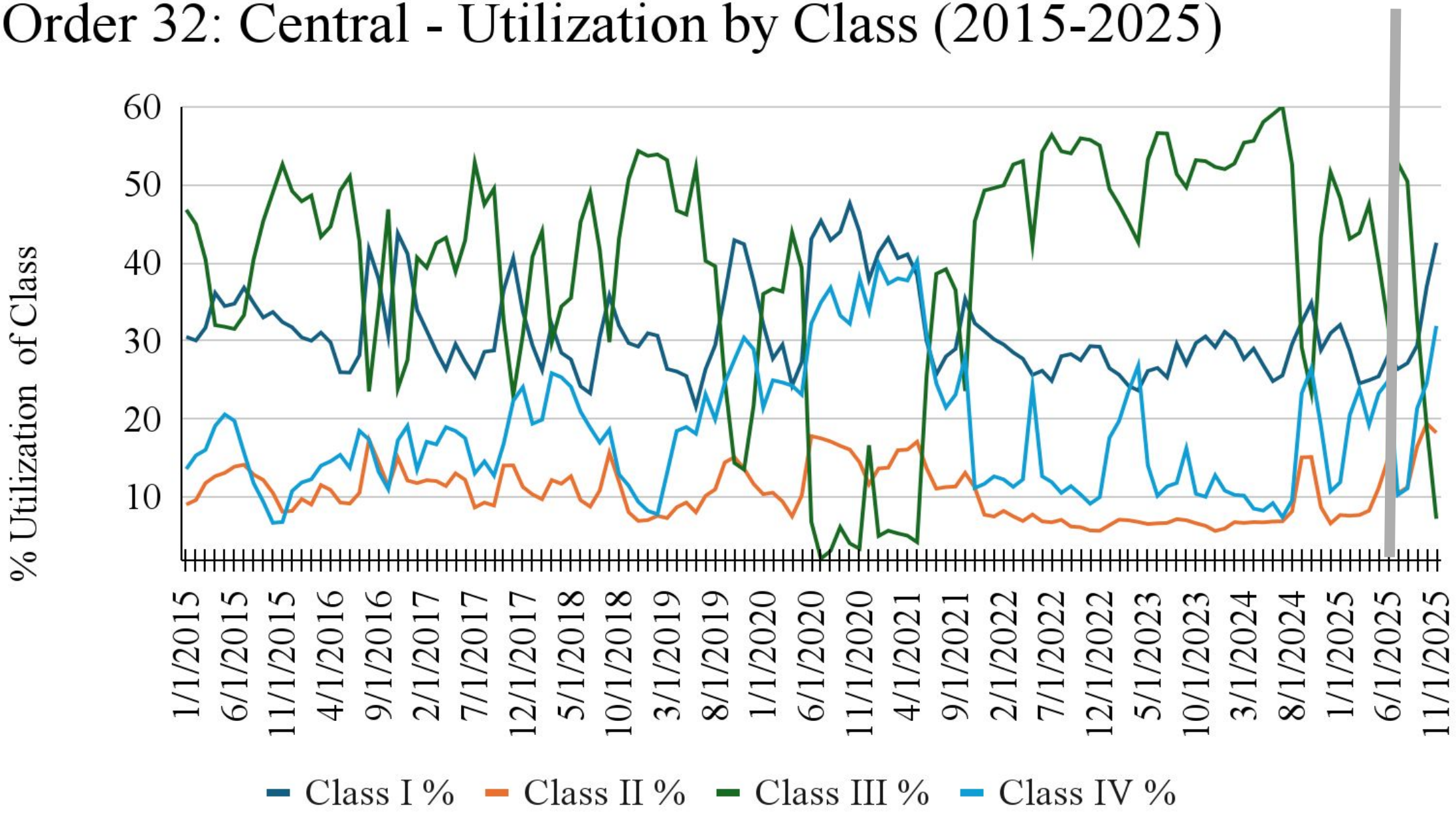
Utilization

Order 30: Upper Midwest - Utilization by Class (2015-2025)



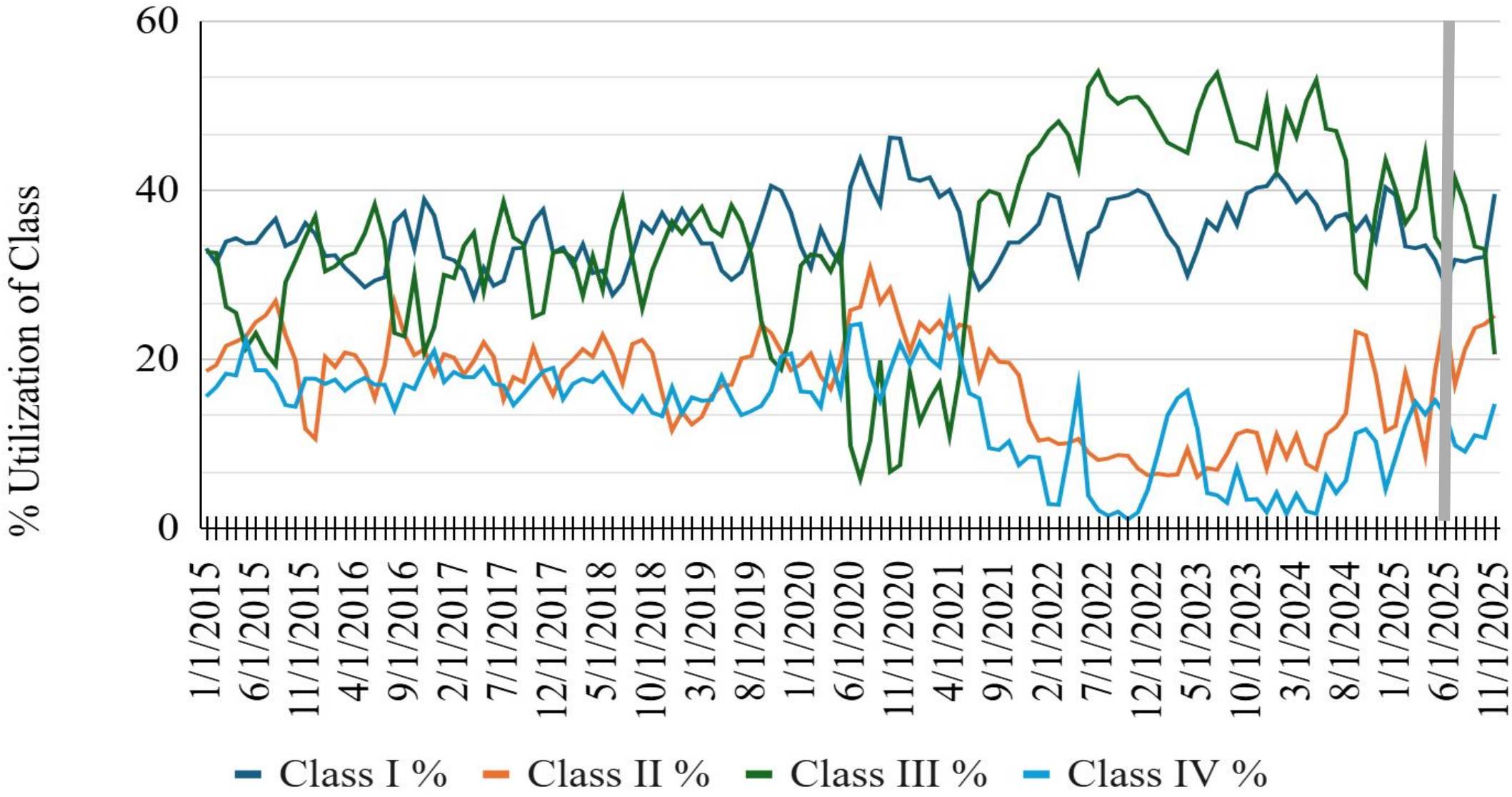
Source: UDM, FMMA 30 Computation Of Producer Price Differential Monthly © : L. Polzin, UW-Madison

Order 32: Central - Utilization by Class (2015-2025)



Source: UDM, FMMA 32 Computation Of Producer Price Differential Monthly © : L. Polzin, UW-Madison

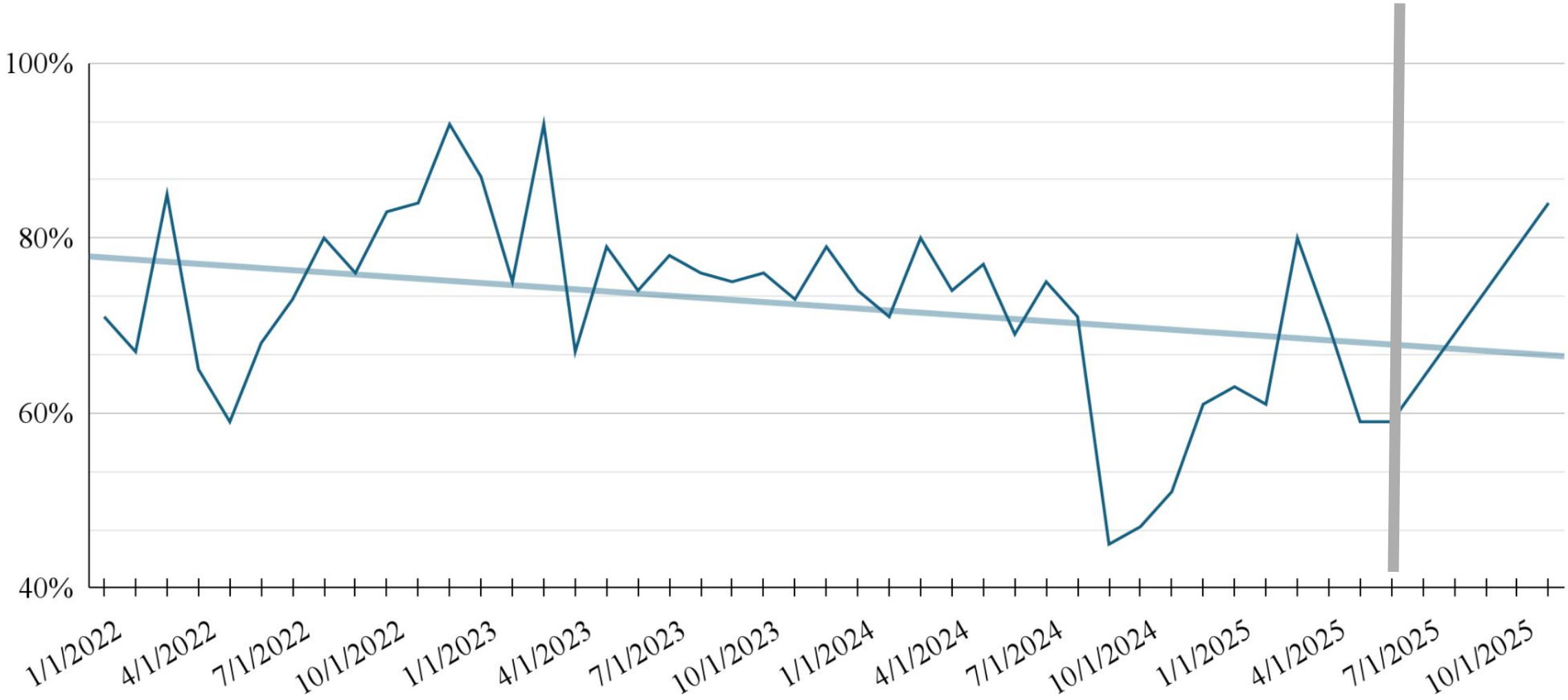
Order 33:Mideast - Utilization by Class (2015 - 2025)



Source: UDM, FMMA 33 Computation Of Producer Price Differential Monthly © : L. Polzin, UW-Madison

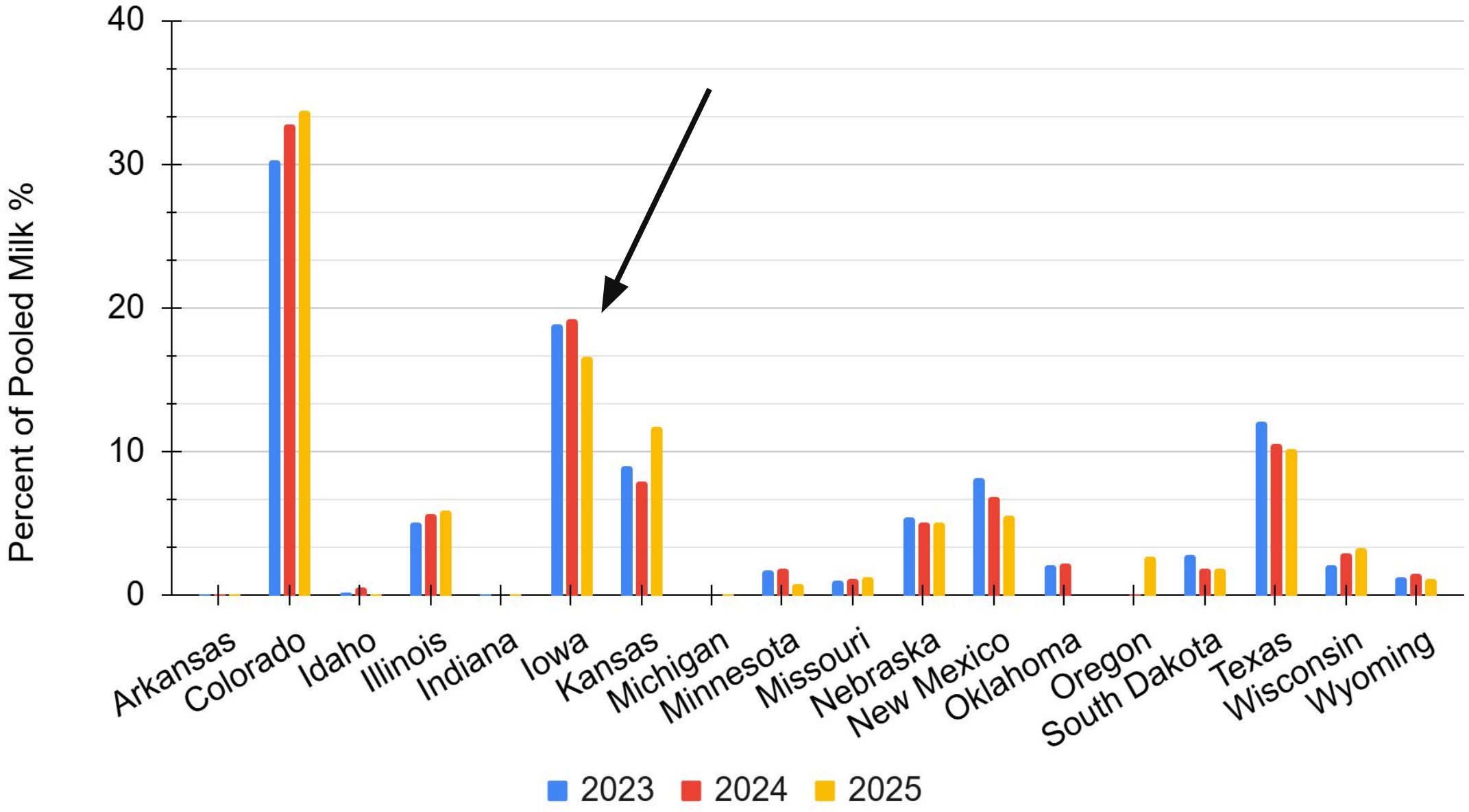
Symptom: De-pooling

Percentage of WI and MN Milk Pooled on Order 30, 2022-2025



source: UDM-FMMO Receipts of Milk and Cream Producer Milk Total Pounds FMMO 30 Upper Midwest © : L. Polzin, UW-Madison

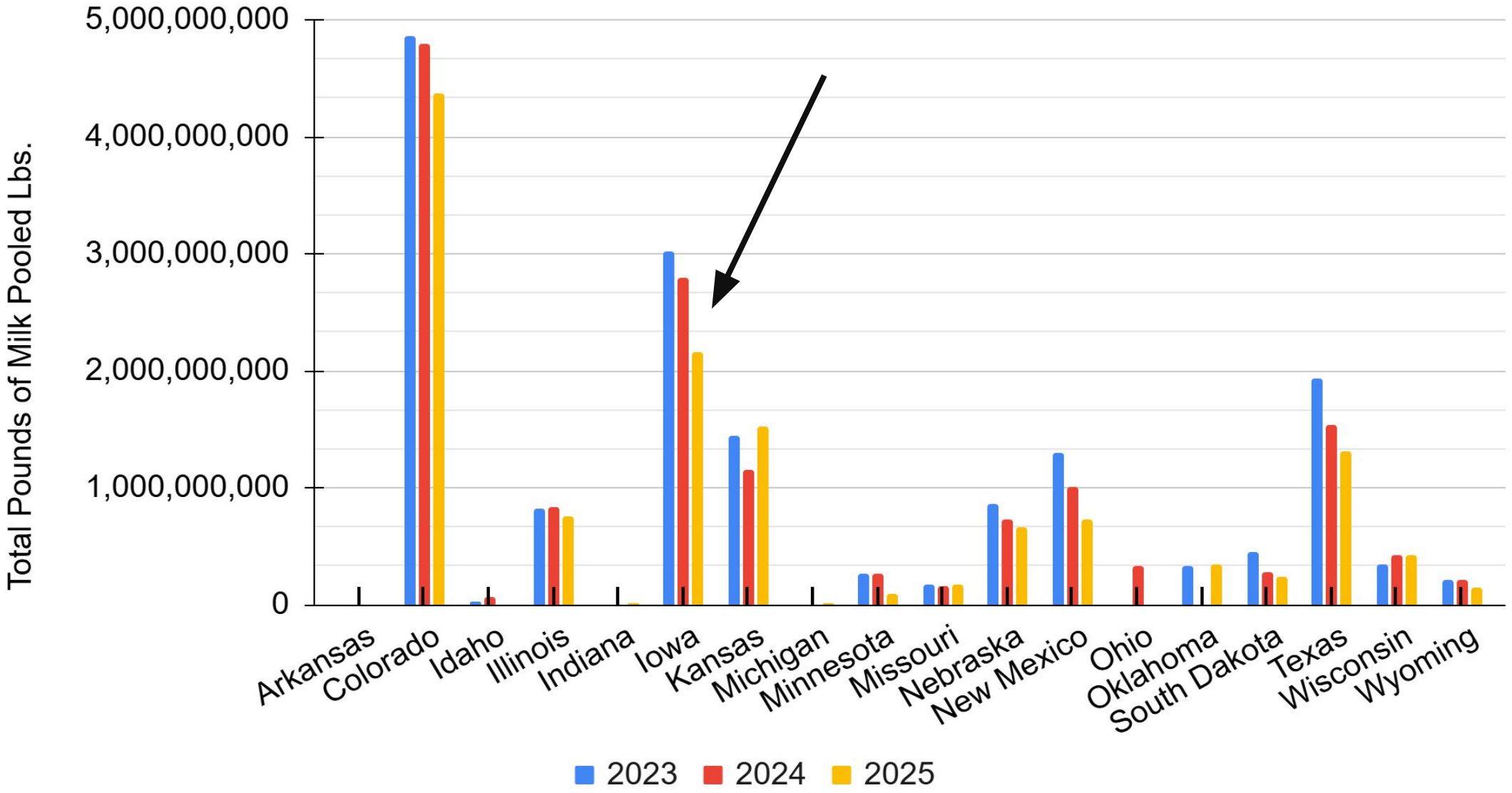
FMMO 32 (Central) — Percent of Producer Milk Pooled by State



source: USDA-POUNDS OF MILK MARKETED BY PRODUCERS, BY STATE FMMO Central 32

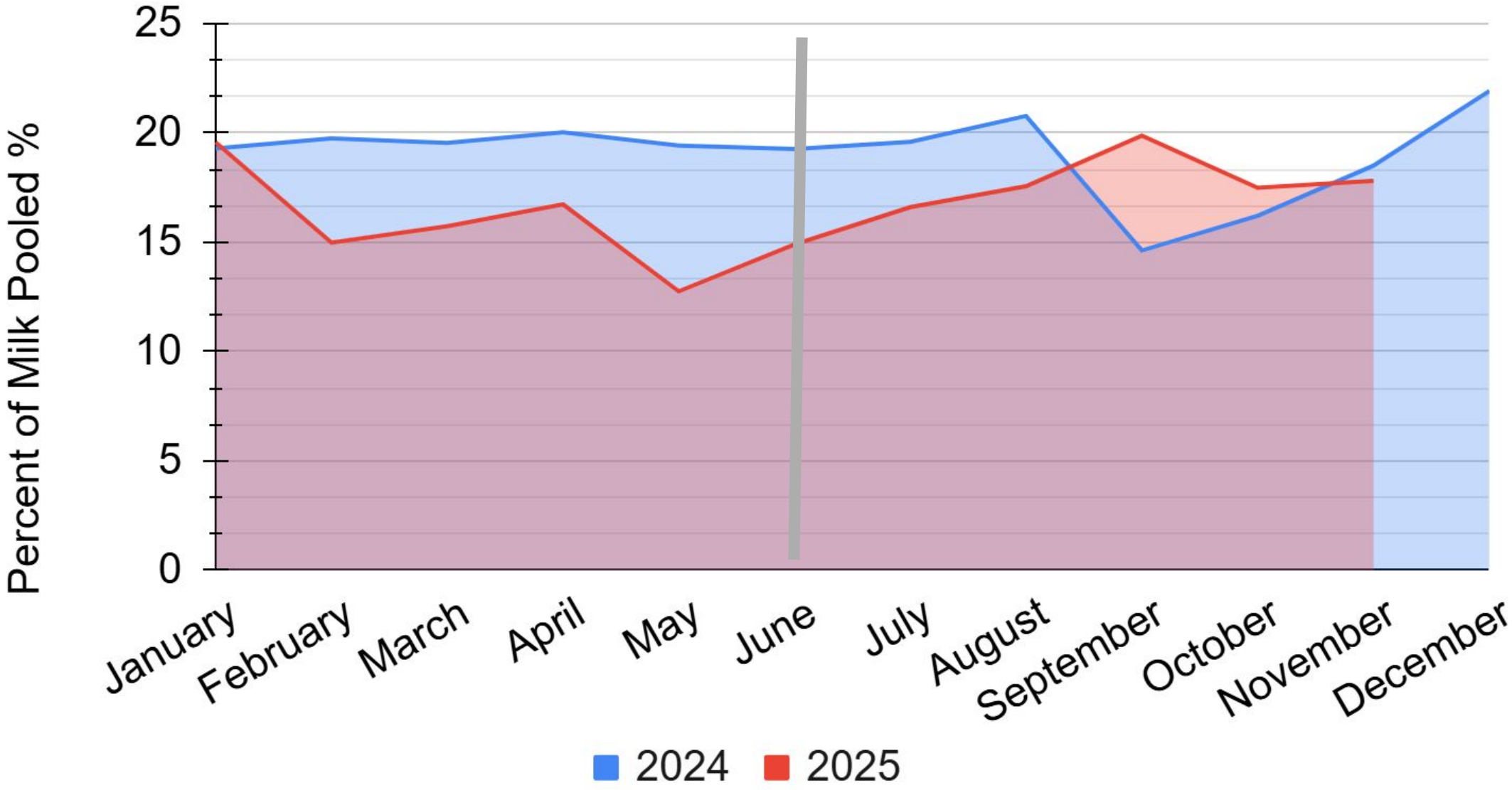
L. Polzin, UW-Madison

FMMO 32 (Central) — Pounds of Milk Pooled by State



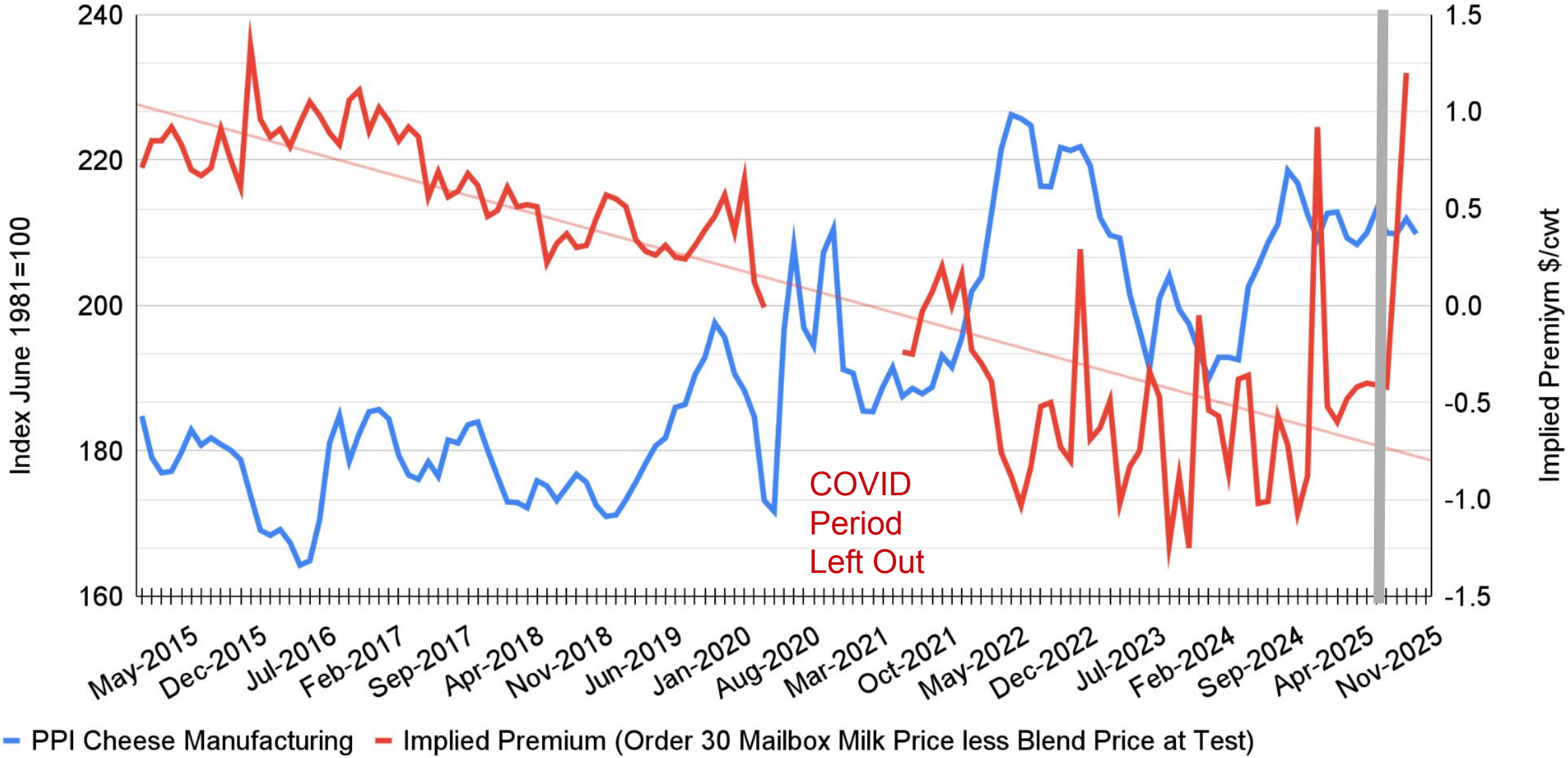
source: USDA-POUNDS OF MILK MARKETED BY PRODUCERS, BY STATE FMMO Central 32

Iowa: Monthly share of FMMO 32 (%)



Symptom: Decline in Premiums

PPI Cheese Manufacturing and Implied Premium, Order 30



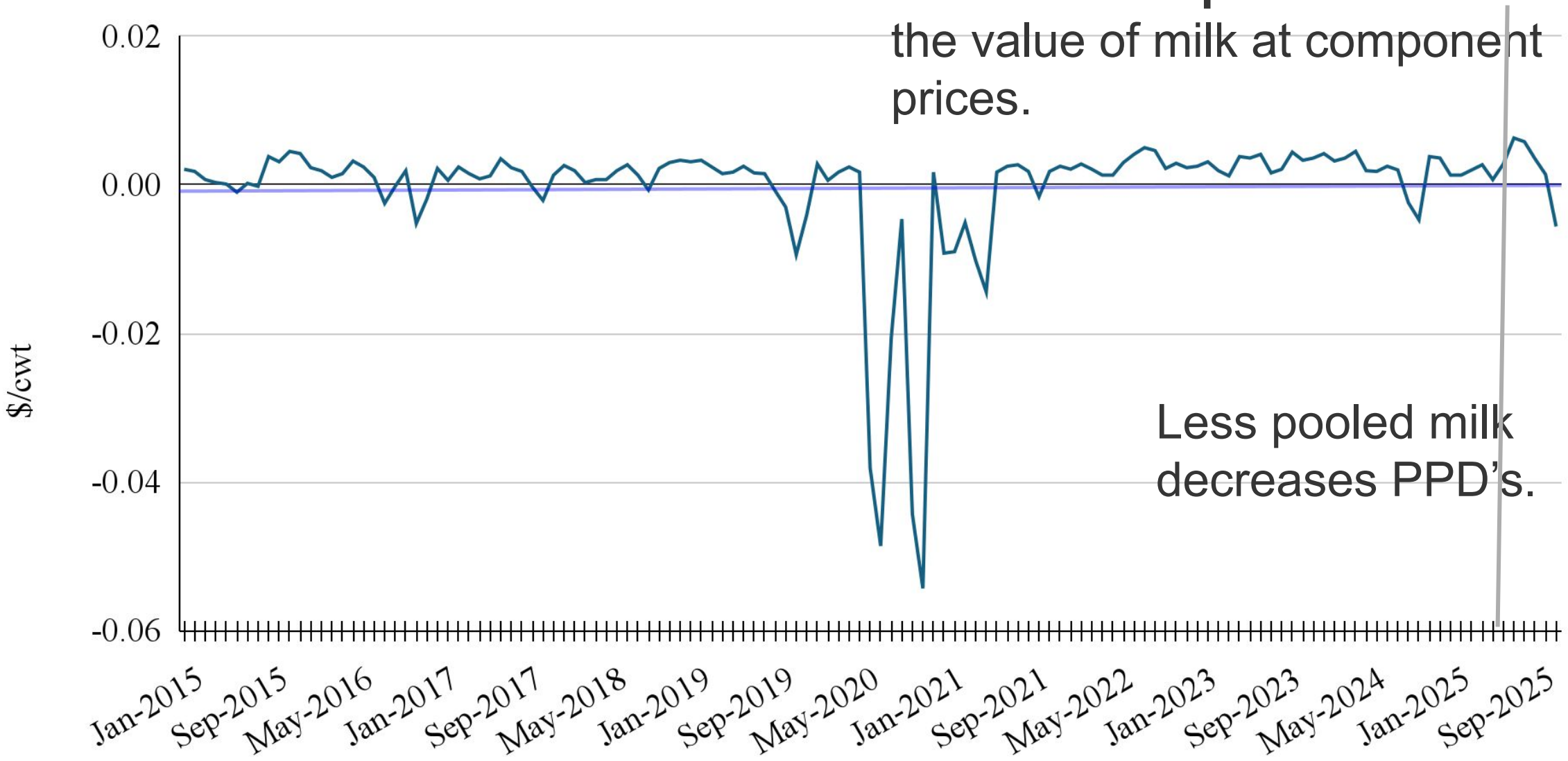
PPI for Cheese Manufacturing from US Bureau of Labor Statistics (includes milk cost)
Implied premium is Order 30 Mailbox Milk Price less Blend Price at Test

Source:UDM-FMMO Statistical Uniform Price At Average Pool Component Tests FMMO 30 Upper Midwest, ©L. Polzin, UW-Madison

Symptom: Negative PPD’s

Order 30 PPD Values, 2015-2025

PPD's distribute the difference between **total pool revenue** and the value of milk at component prices.

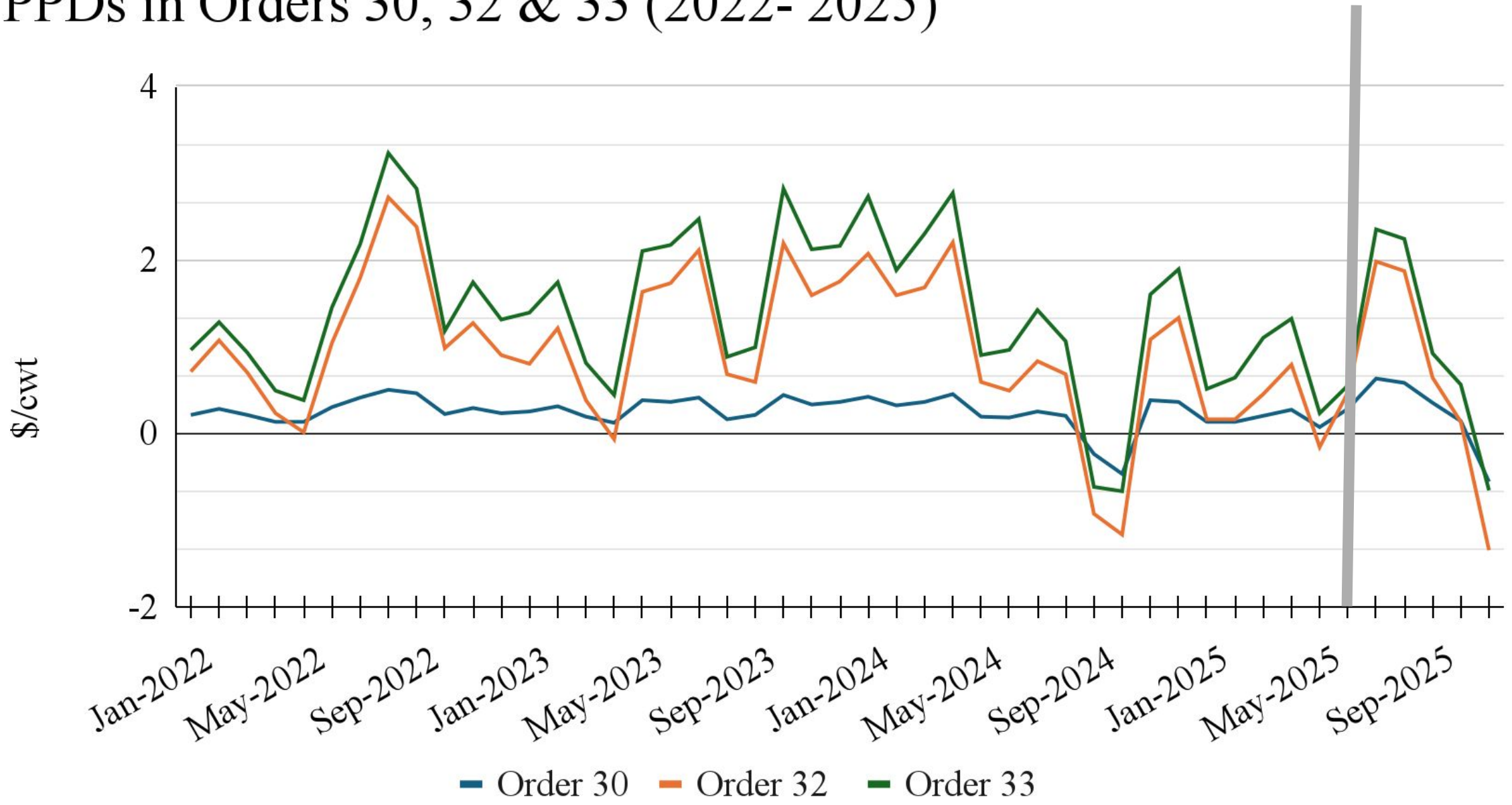


Less pooled milk decreases PPD's.

PPD = Uniform Price/cwt - Class III component value/cwt

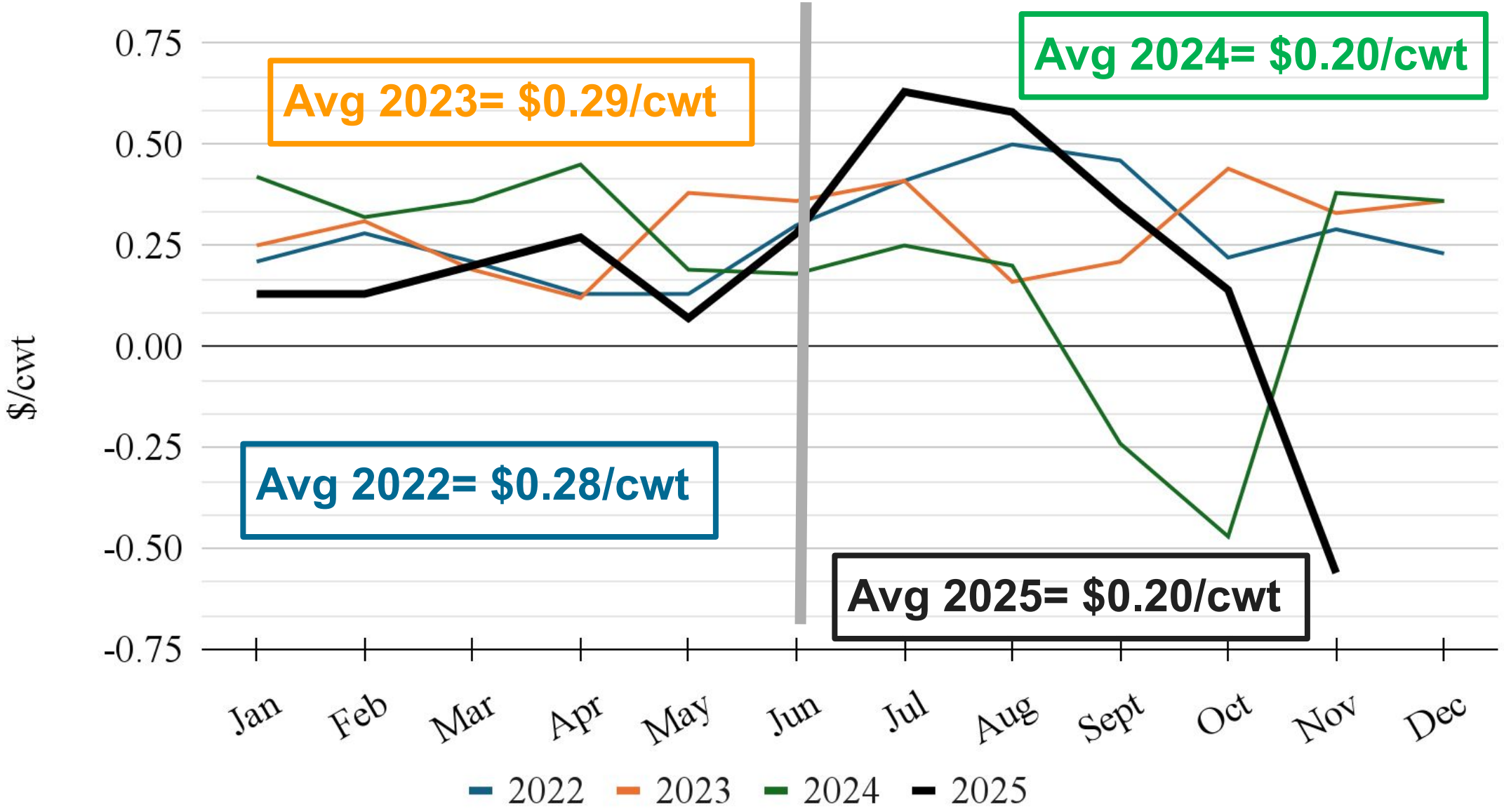
Source: UDM, © : L. Polzin, UW-Madison

PPDs in Orders 30, 32 & 33 (2022- 2025)



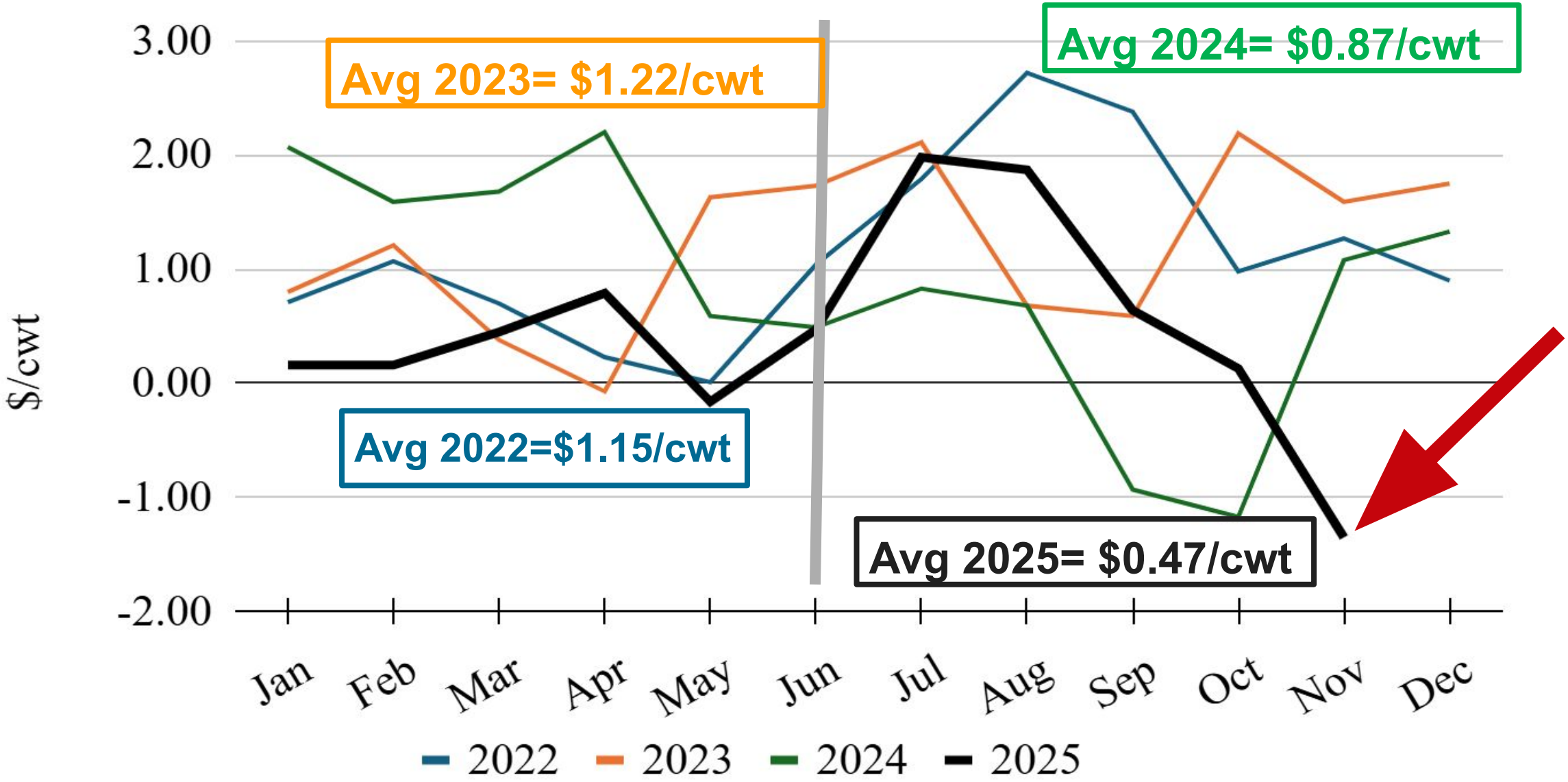
Source: UDM, © : L. Polzin, UW-Madison

AVG Order 30: Upper Midwest - PPD Values (2022- 2025)



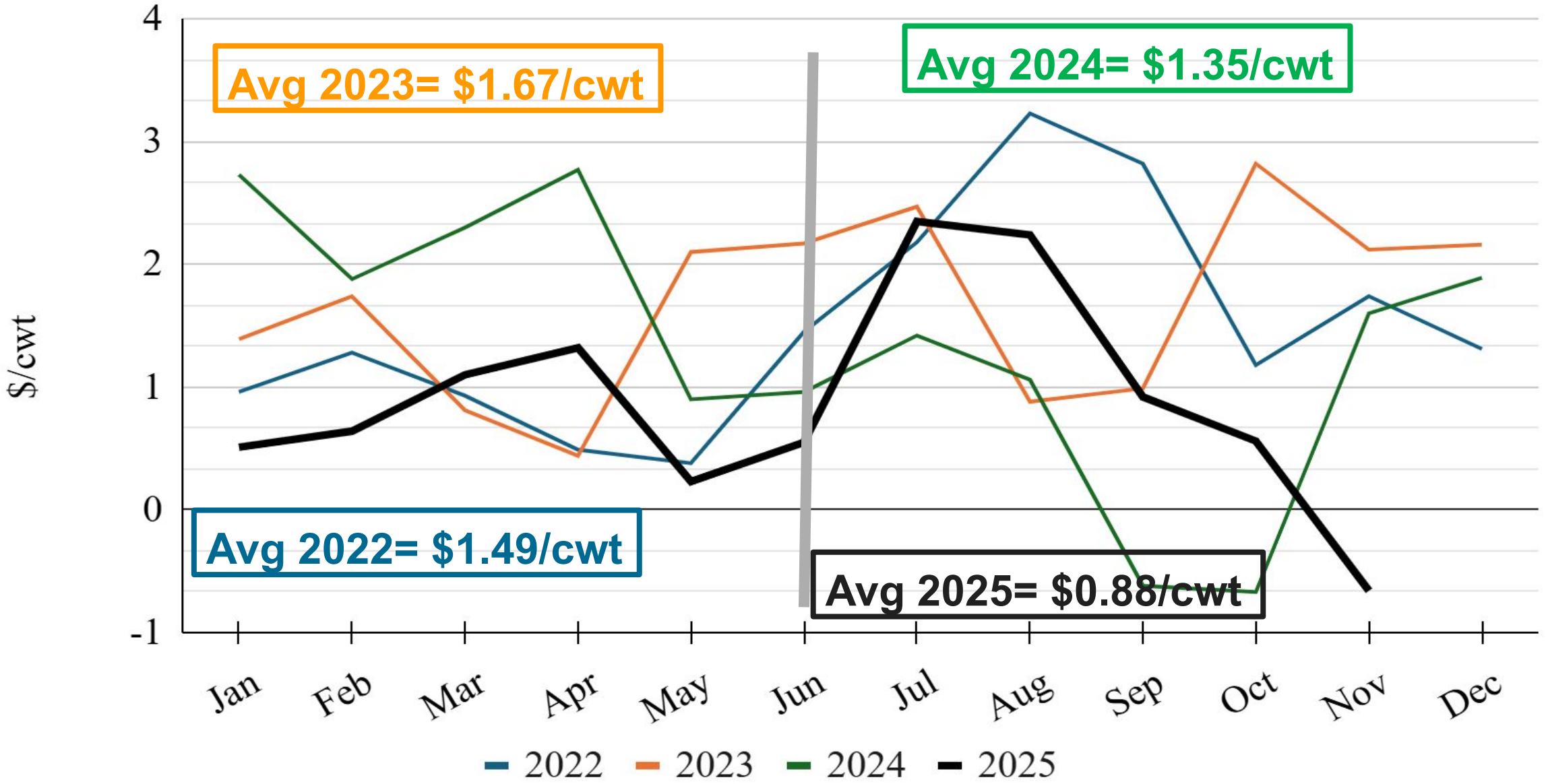
Source: UDM-Source: FMMO_Producer_Price_Differential__FMMO_30_Upper_Midwest, , © : L. Polzin, UW-Madison

AVG Order 32: Central - PPD (2022-2025)



Source: UDM-Source: FMMO_Producer_Price_Differential__FMMO_32_Upper_Midwest, , © : L. Polzin, UW-Madison

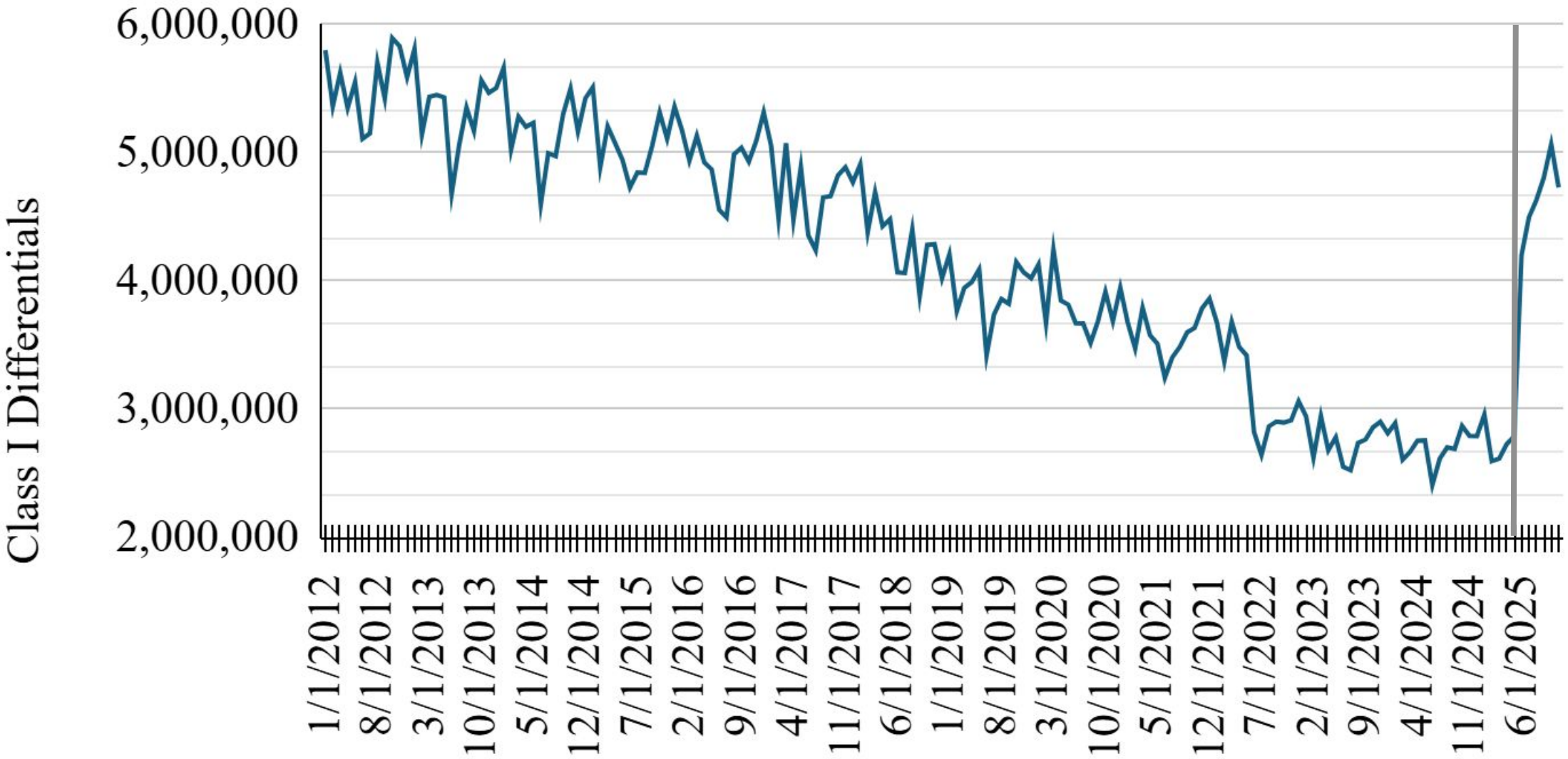
AVG Order 33: Mideast - PPD Values (2022 - 2025)



Source: UDM-Source: FMMO_Producer_Price_Differential__FMMO_33_Upper_Midwest, , © : L. Polzin, UW-Madison

Class I Differential

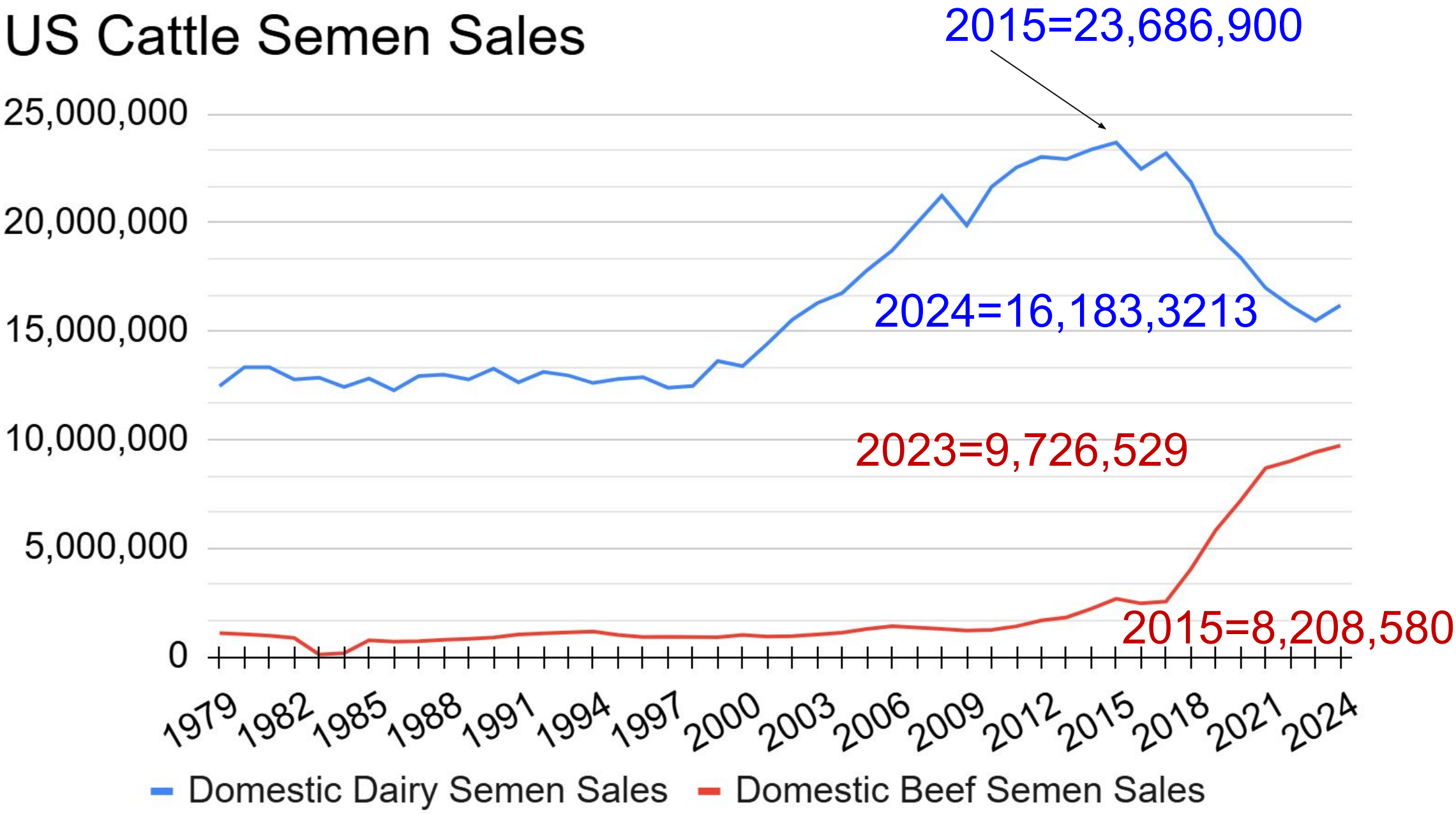
FMMO 30: Handlers Value of Class I Differentials



Source: FMMO 30, Upper Midwest, © : L. Polzin, UW-Madison

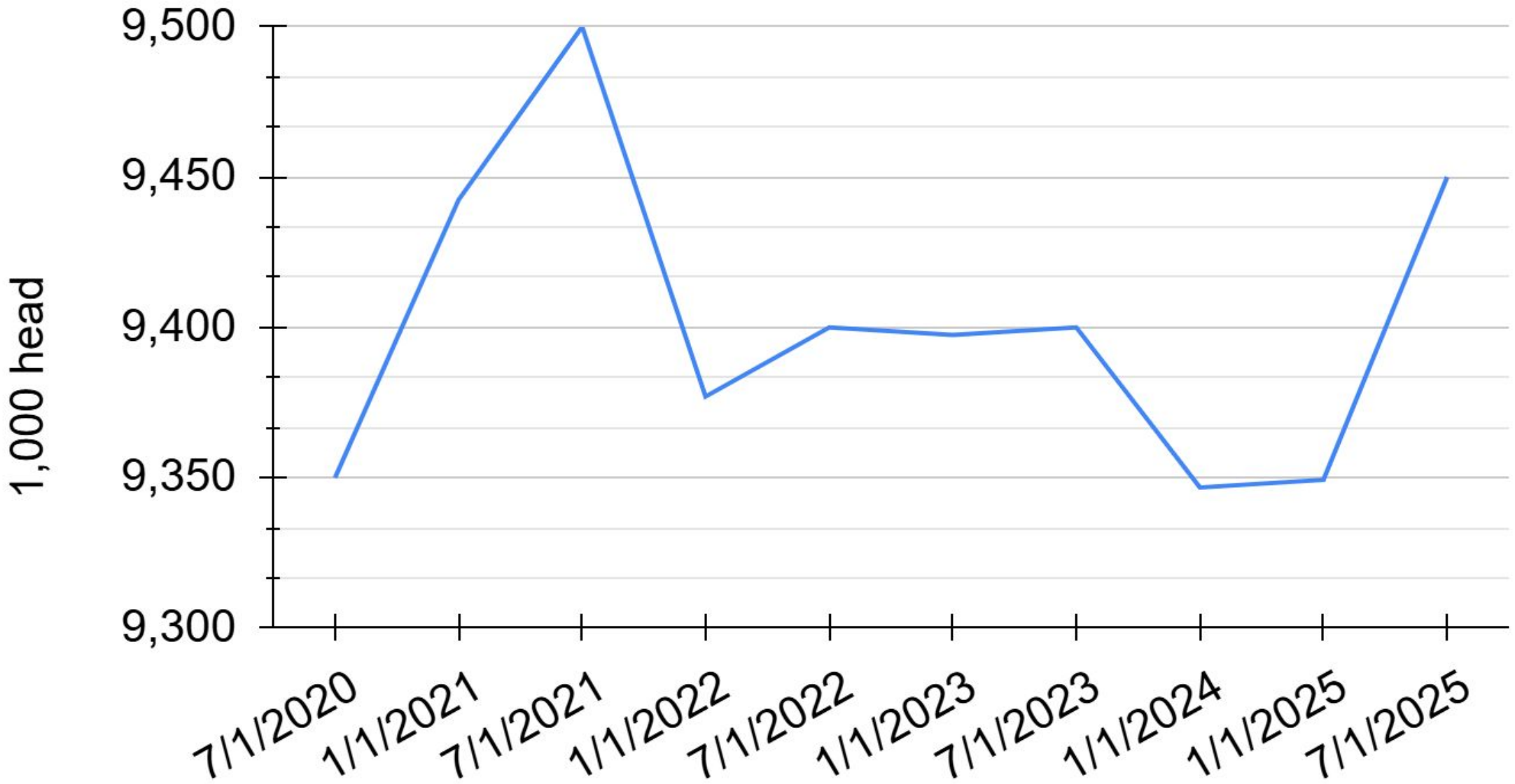
Beef Prices Overriding Milk Signals?

US Cattle Semen Sales



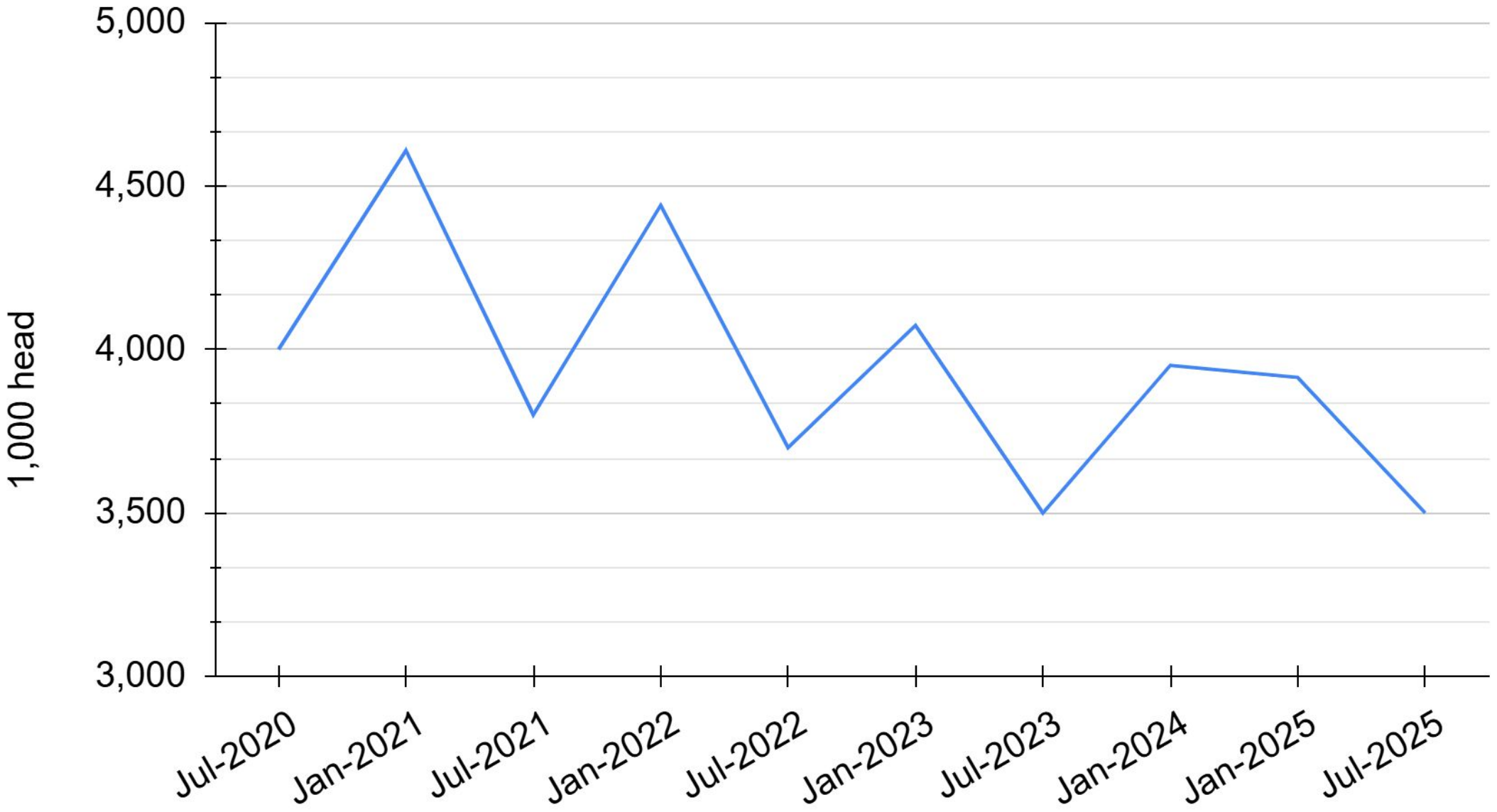
Source: National Association of Animal Breeders (NAAB), Semen Sales Report

Cows And Heifers That Have Calved, Milk Cows

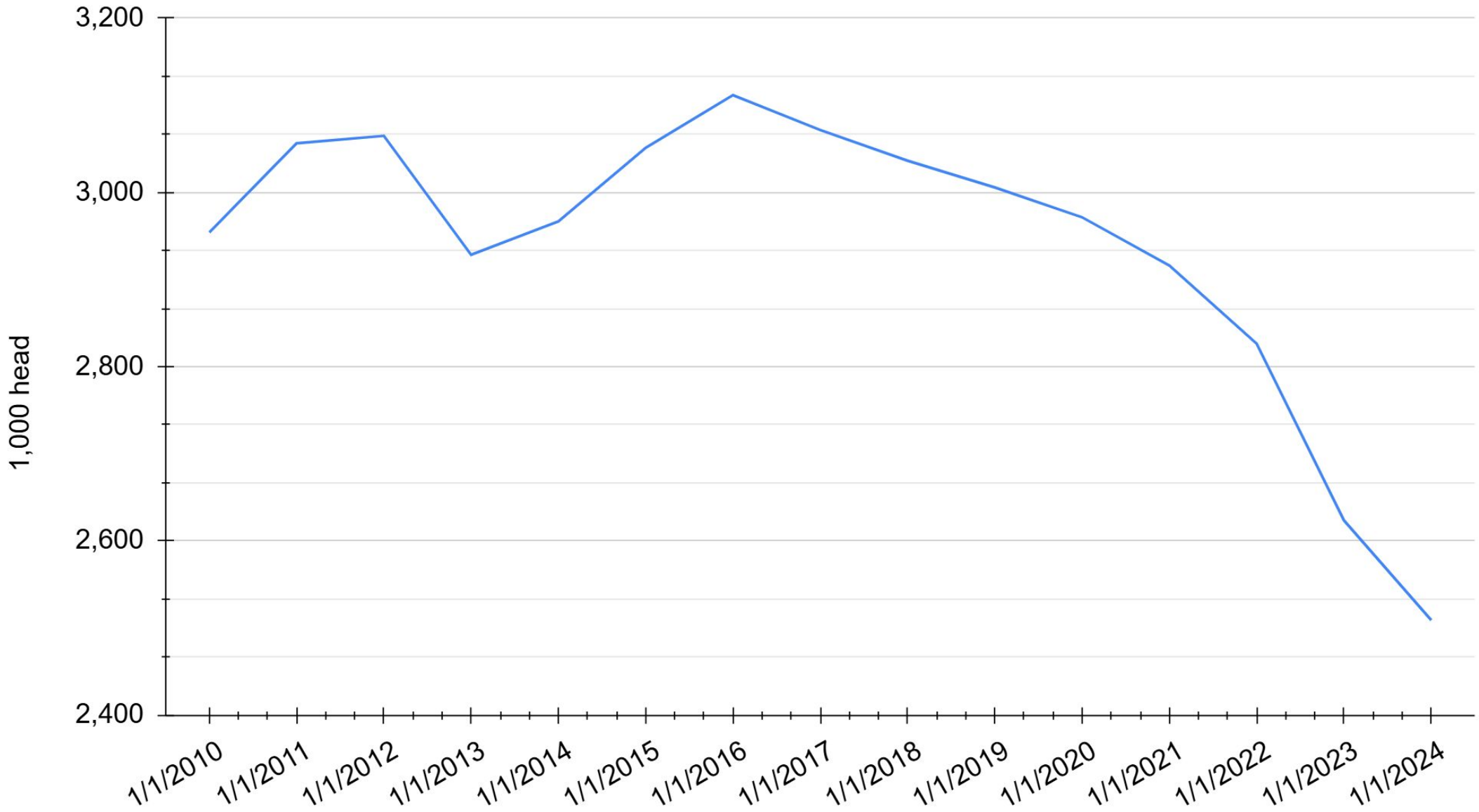


Source: United States Department of Agriculture, National Agricultural Statistics Service

Heifers 500 Pounds And Over, For Milk Cow Replacement



Heifers 500 Pounds And Over, For Milk Cow Replacement, Expected to Calve



How long do supply-side shifts take to Normalize?

What “New Normal” Typically Looks Like

Historically, markets do not return to prior peak profitability. Instead, they settle into:

Lower average prices than the expansion phase

Greater intra-year volatility

Wider dispersion of outcomes across producers

Profitability driven more by cost control, timing, and risk management than by price level

Only after this phase does a more durable recovery emerge.

Dairy Farm Profitability by Year

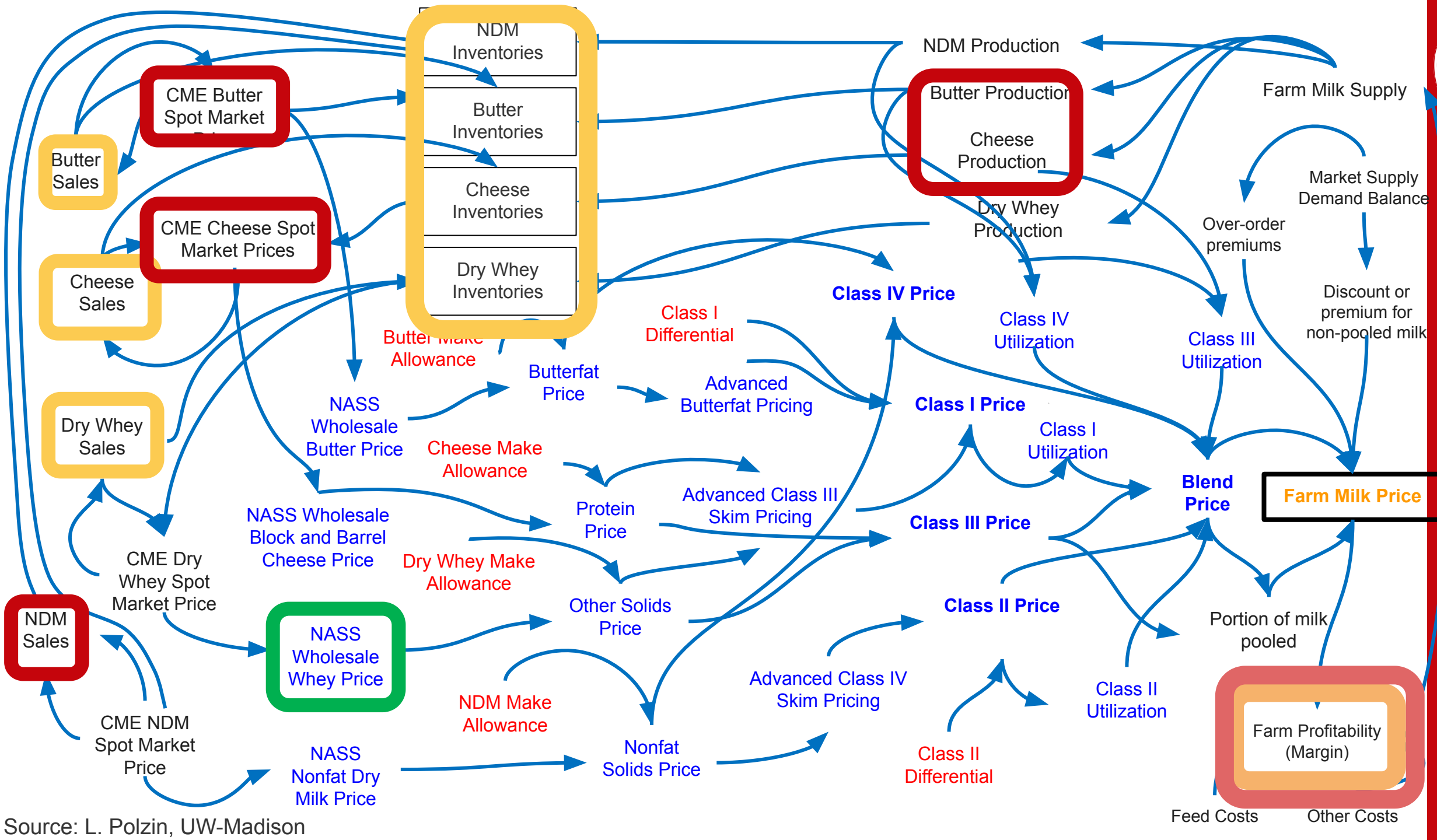
Profit Category	Years	Average ROA	Dairy farm exits
Good: 8 years	2001, 04, 07, 10, 11, 13, 14, 22	10.9%	-2.8%
Average: 6 years	2005, 08, 12, 17, 19, 20	6.4%	-4.0%
Poor: 9 years	2000, 02, 03, 06, 09, 15, 16, 18, 21	1.4%	-4.7%

Source: C. Wolf, Cornell

Supply and Demand Factors: 2000-2022

Farm Profit	Milk Price	Milk Supply	Exports	End Stocks
	$/cwt	% change YoY		
Good	19.57	0.95	31.58	-1.98
Average	17.78	1.76	7.36	6.25
Poor	14.60	2.01	1.41	9.66

Source: C. Wolf, Cornell



Source: L. Polzin, UW-Madison

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For more Information:https://go.wisc.edu/dairymarkets


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