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Make Milk More Valuable

We have been consistently bombarded for the past several months with a very pessimistic outlook for milk prices in 2018. Most farmers I talk to feel like they have very limited control on the prices they receive for their milk. Is it possible to increase the value of the milk we produce? Are we producing what the market is telling us is more valuable or are we continuing to just produce pounds of milk and continue to take the price we can get? I believe a very important lesson for 2017 has been that we can make more money by increasing butter fat. The global market is telling us that the butterfat has more value than the liquid fraction.

In January of 2000, multiple component pricing began being used for over 90% of the federal order milk production. This component system of marketing and price determination allows dairy farmers to react to component market signals to increase the value of the milk they are producing. This requires strict observation and a willingness to occasionally make management decisions contrary to historical operation of the farm. If we examine the milk market from 2000 to 2014, protein has been priced significantly higher than butterfat. During this time it made perfect sense to focus on pounds of milk and pounds of protein with little regard to butterfat. Beginning in 2013, the trend began to shift and by the end of that year, butterfat was worth almost twice as much as protein. Butterfat has continued to have increased value over protein through 2017. In July of 2017, butterfat was two and a half times more valuable than protein. The market signal is clear, produce more butterfat. This market signal is not only in the U.S. but is reflective of the world market as well.

What is driving the butterfat market? In 2014, an article appeared in the *Annals of Internal Medicine* that shocked the healthy food obsessed public. For decades, medical professionals have told us that the consumption of saturated fats increased the risk of cardiopulmonary disease and overall human health. This information is why many doctors told patients to stop eating eggs and that if you had to drink milk, then drink only skim. And by all means, stop eating butter. This dietary restriction would lead to a longer healthier life. The article in 2014 could find no evidence that consuming less saturated fat doesn't actually lower a person's risk of heart disease! There was widespread panic across many in the nutrition profession. The fact is that all fats are not bad and concentrating too much on eliminating fat from our diet has led to them being replaced in many families with sugars and simple carbohydrate foods that are actually worse than eating fat! It did not take long for new recommendations to be moderately distributed. The message was that it is ok to eat eggs and drink whole milk and that the initial advice was flawed. Now it is common to see statements on menus touting the use of real butter in food preparation. McDonald's has begun using butter in all areas where they previously used artificial substitutes. This change by one fast food franchise had a significant impact on butter use and other franchises have quickly followed suit in the U.S., which has continued to drive the demand for butterfat. The simple economics are that if demand is increased, price will follow until production catches up to demand. Worldwide demand for butterfat has been mirroring the demand in

the U.S. Cheese production also utilizes milk fat and in the U.S. the cheese industry continues to realize a 3-4% increase annually. Another factor driving butter fat is that after the 2014 article, whole milk consumption has increased. In 2017, whole milk purchase in the U.S. increased 2.1 percent compared to 2016. If whole milk is being used in families then there is less available to be used for the butter churn that removes supply and supports a higher price.

What does this mean for a nutritionist and someone that is in an advisory role for a dairy producer? Let's look at producing what has the most value in the market and focus our diets and management strategies toward that goal. It is very likely that in 2018, a focus on more butterfat versus protein or even just pounds will have a significant impact on the bottom line.