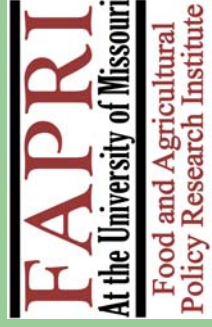


# Outlook for the Dairy Sector

2005 AAEE Livestock Outlook  
Session

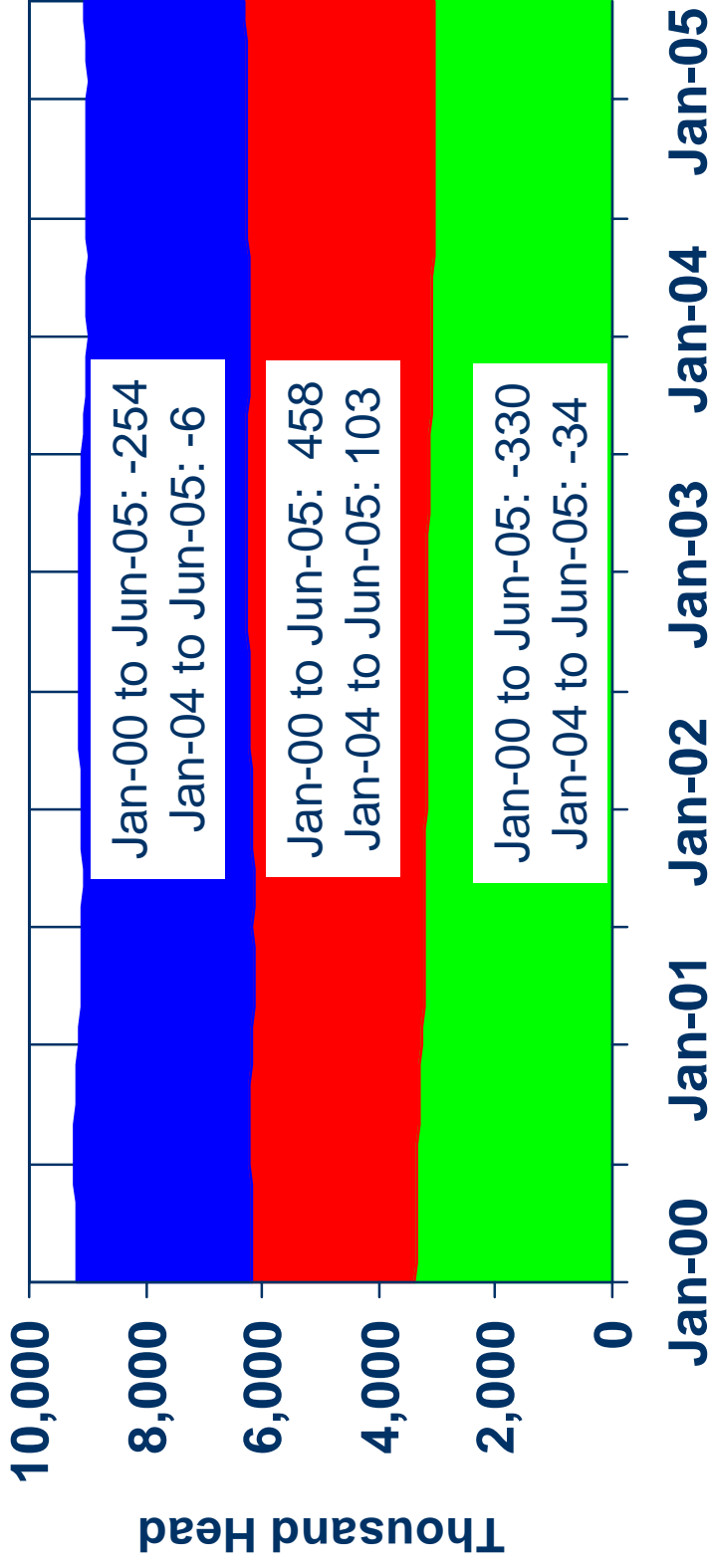
Scott Brown  
Food and Agricultural Policy  
Research Institute - FAPRI  
[www.fapri.missouri.edu](http://www.fapri.missouri.edu)



# Overview

- Assumptions
  - Feed costs remain near current levels
  - Economy grows in 2006 at a slower rate than 2005
- Supply side – Cows and Yields
- Volatility in the dairy industry
- Product demand
  - Domestic
  - International
  - Government
- Outlook for 2006

# Monthly U.S. Milk Cows



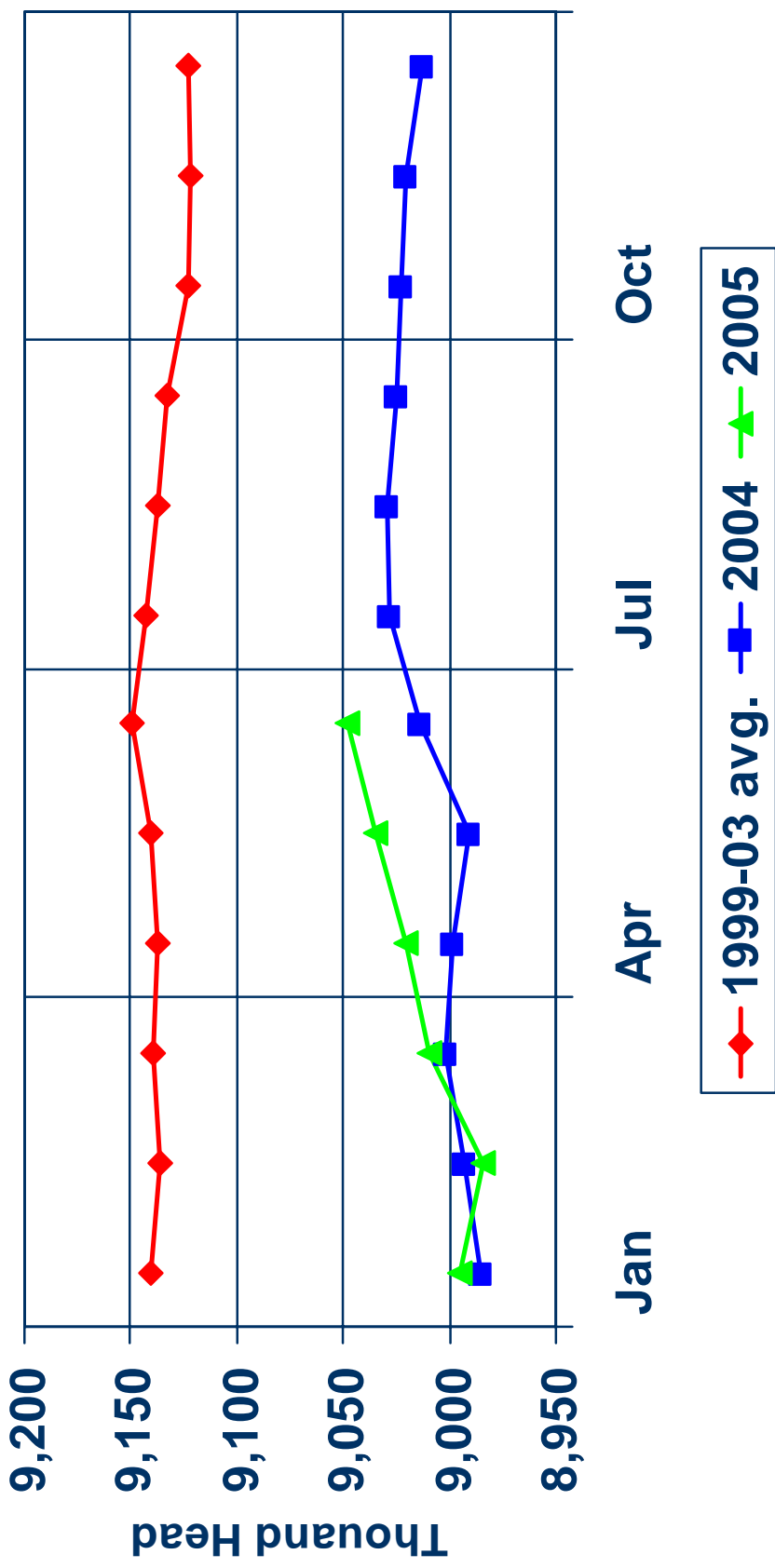
■ MN, NY, PA, VT, WI ■ AZ, CA, ID, NM, TX, WA ■ Everyone Else



Cows Removed  
Oct 03 - 32,724  
Feb 05 - 50,478

# Monthly U.S. Cows

Cows  
2005 - 9,032  
2006 - 9,051



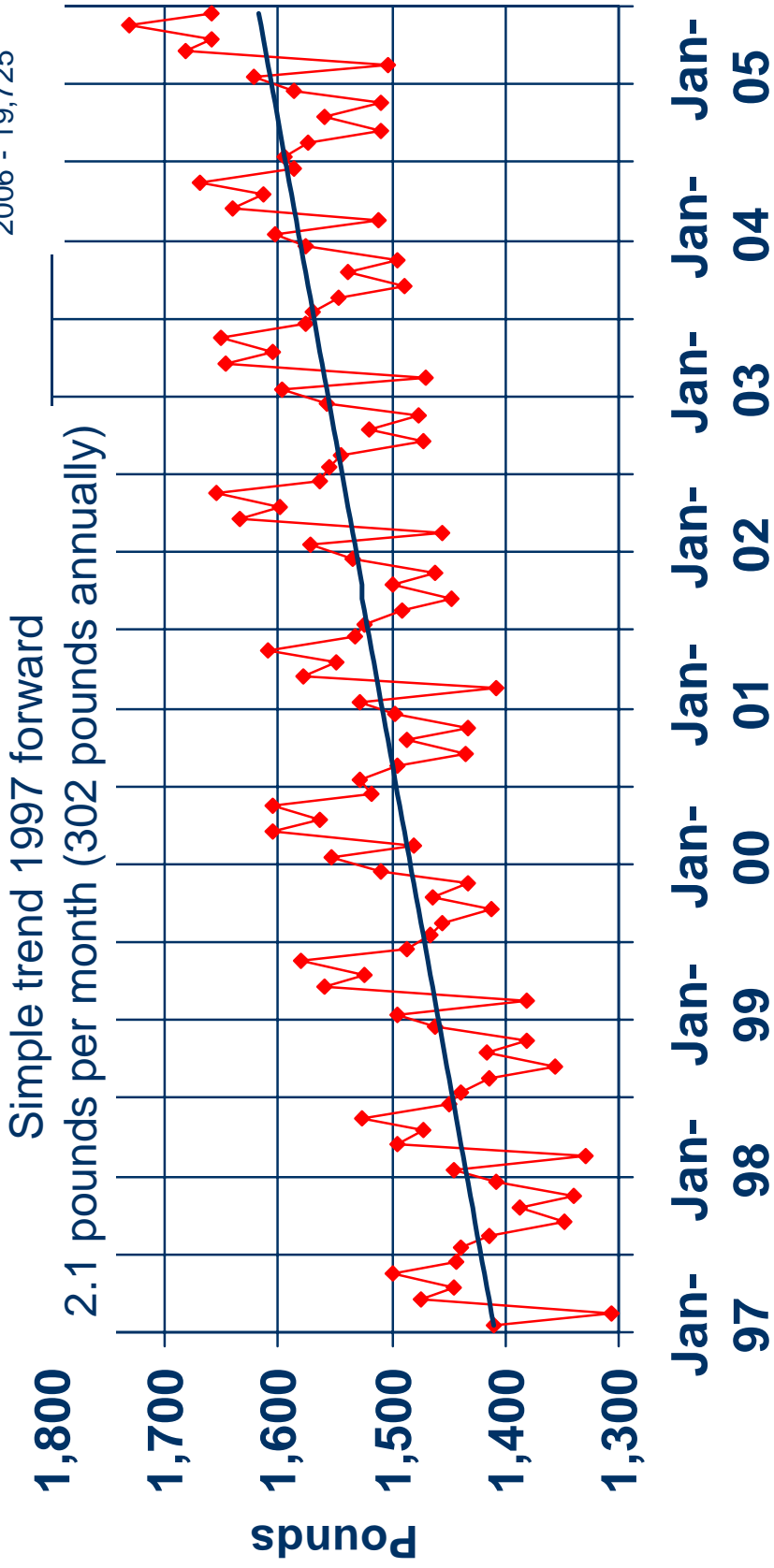
# Monthly U.S. Milk per Cow

Change in 2005 relative to 2004

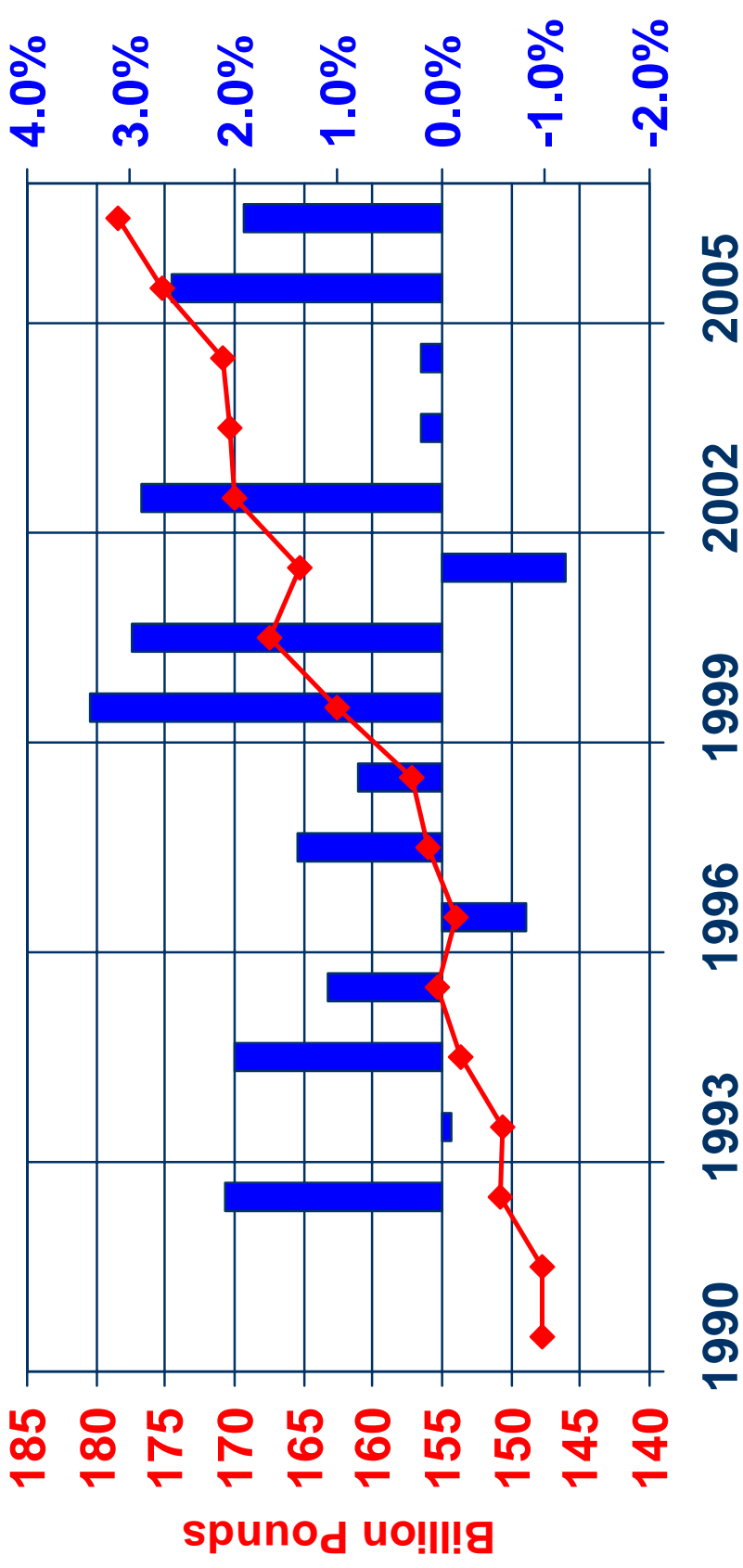
Jan	19
Feb	-9
Mar	43
Apr	46
May	62
Jun	74

Annual Milk Per Cow

2004 - 18,957
2005 - 19,400
2006 - 19,725

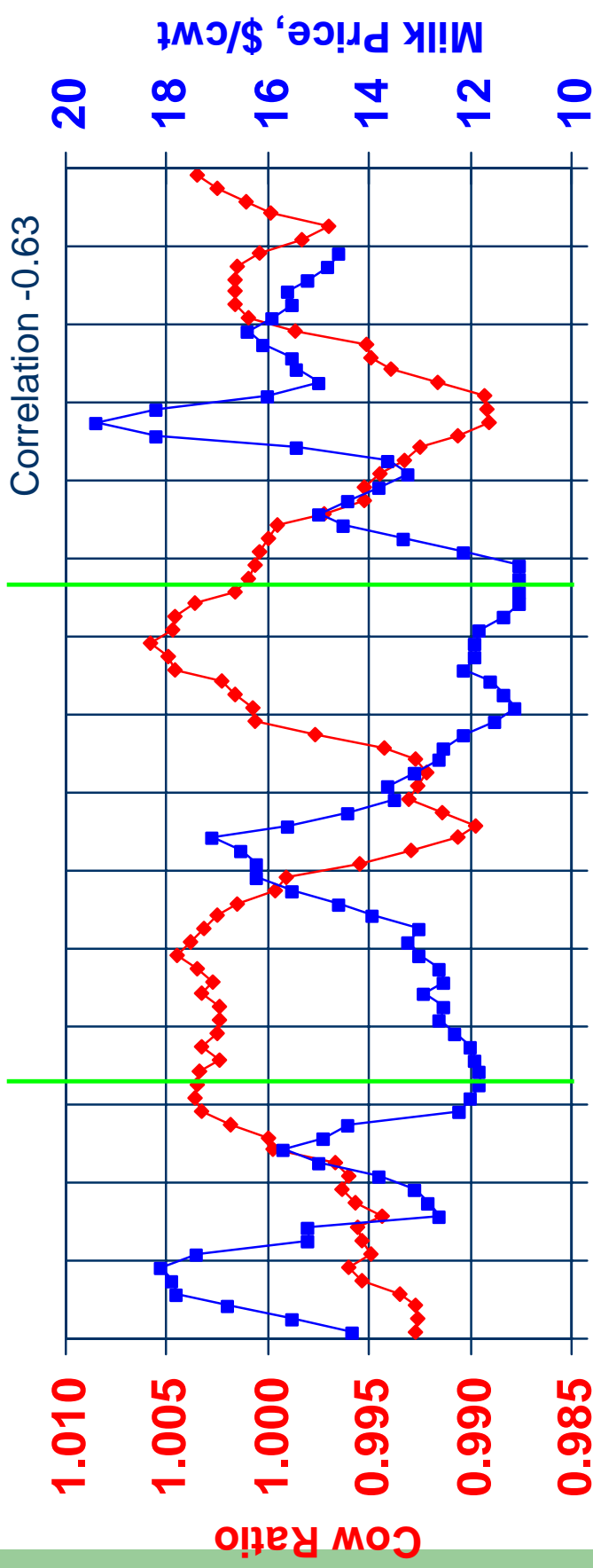


# U.S. Milk Production



# Dairy Volatility

Price Bottoms  
 July 1997 \$12.10  
 Feb 2000 \$11.80 32 months  
 April 2003 \$11.00 38 months

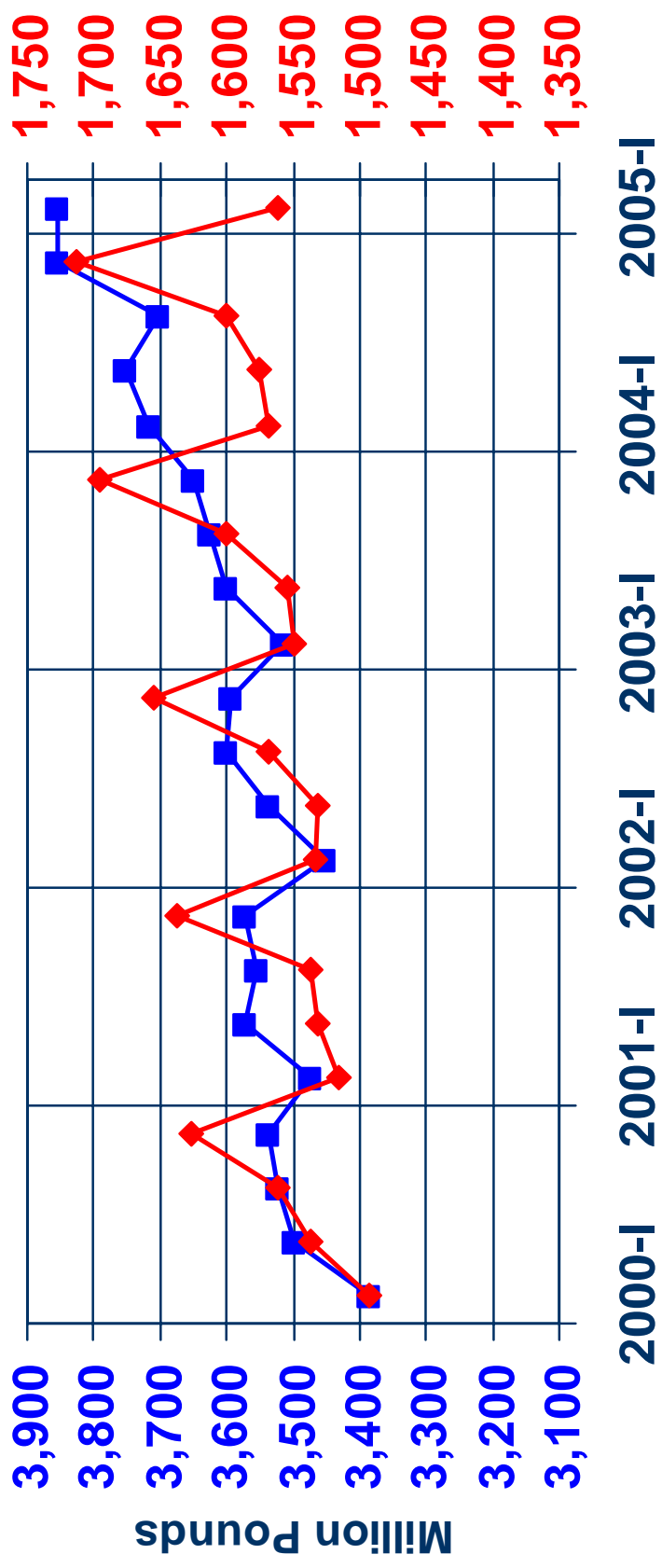


Jan-98 Jan-99 Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05

◆ Cows/Ave Cows (-1 to -12)    ■ All Milk Price (+6 months)

CPI for Dairy  
 Annual 2003 – 167.9  
 June 2004 – 188.8  
 May 2005 – 183.3

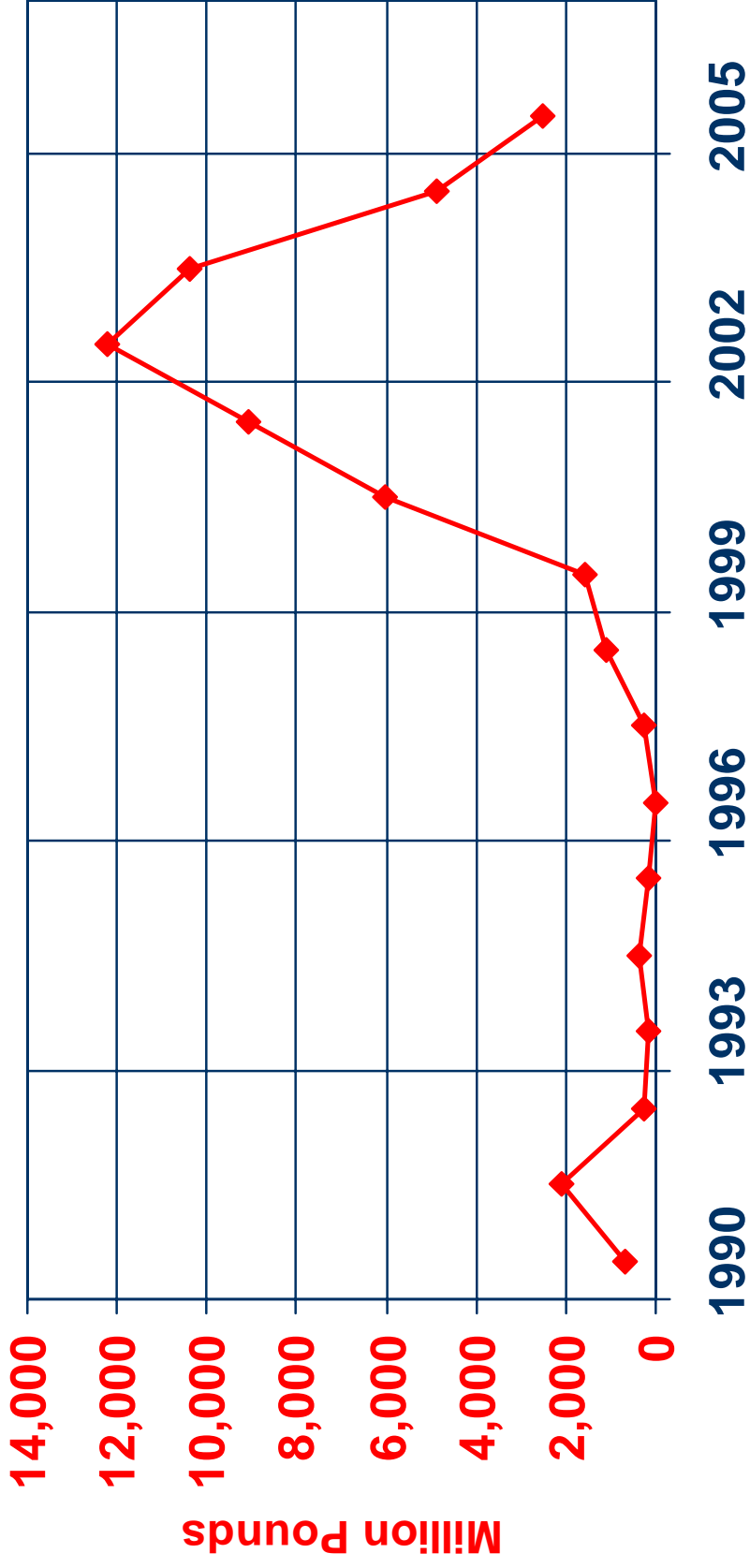
# Milk Use



■ Skim Solids ◆ Milk Fat

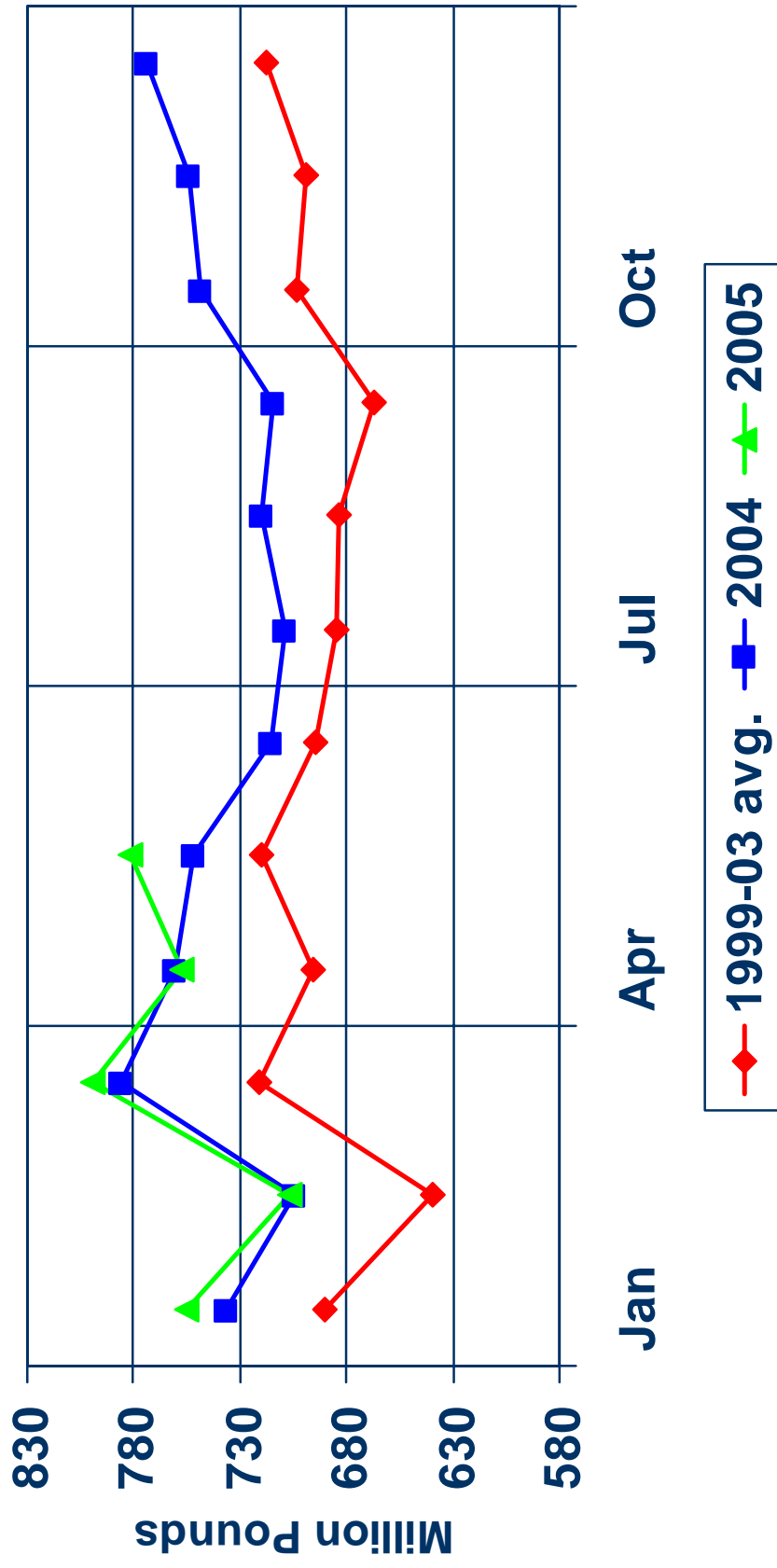


# U.S. Government Stocks of Dairy Products (Skim Solids Milk Equi. Basis)

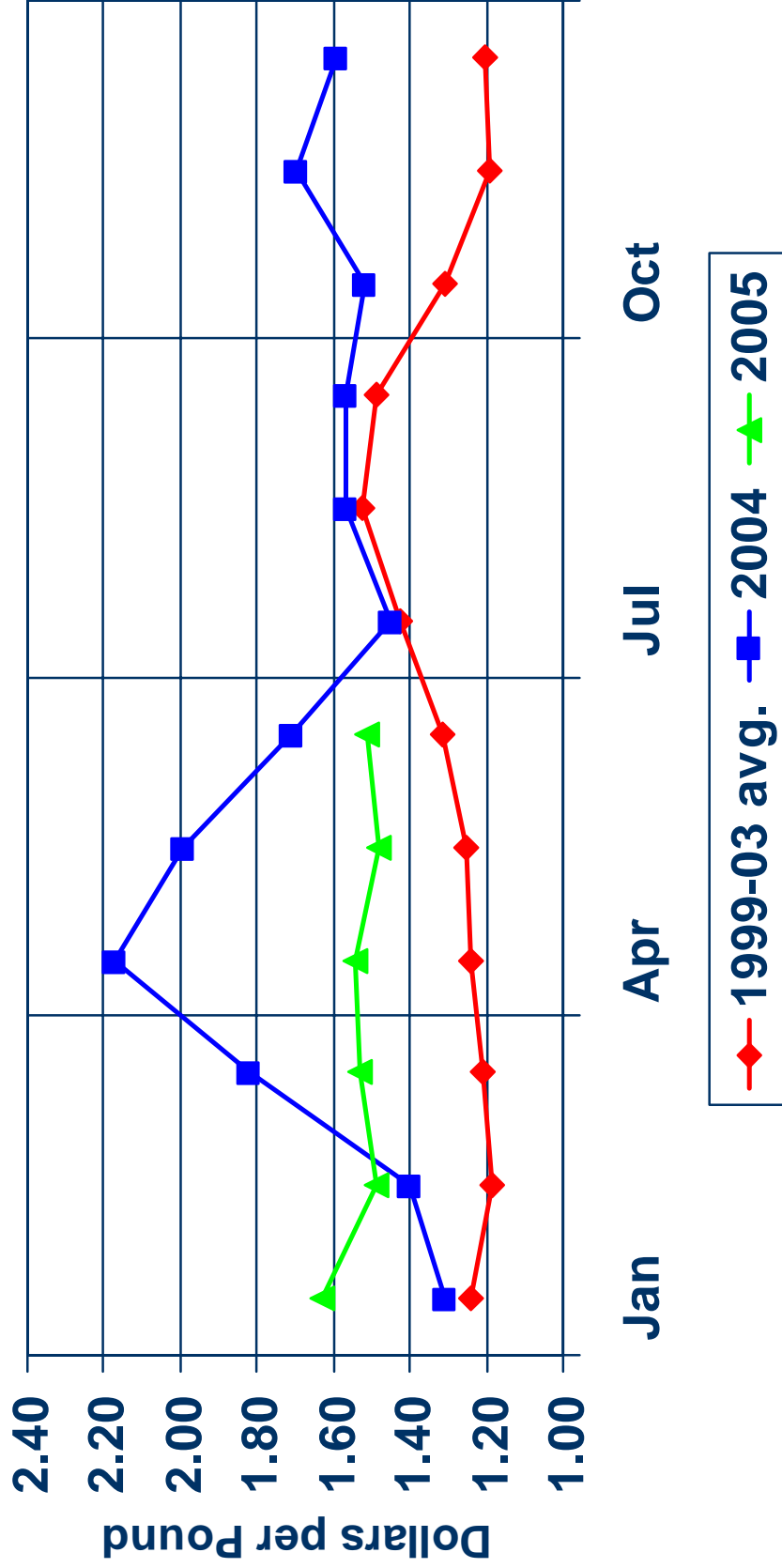


Cheese Stocks  
June 30, 2004 - 842.0  
Dec 31, 2004 - 705.8  
June 30, 2005 - 815.6

# Cheese Production

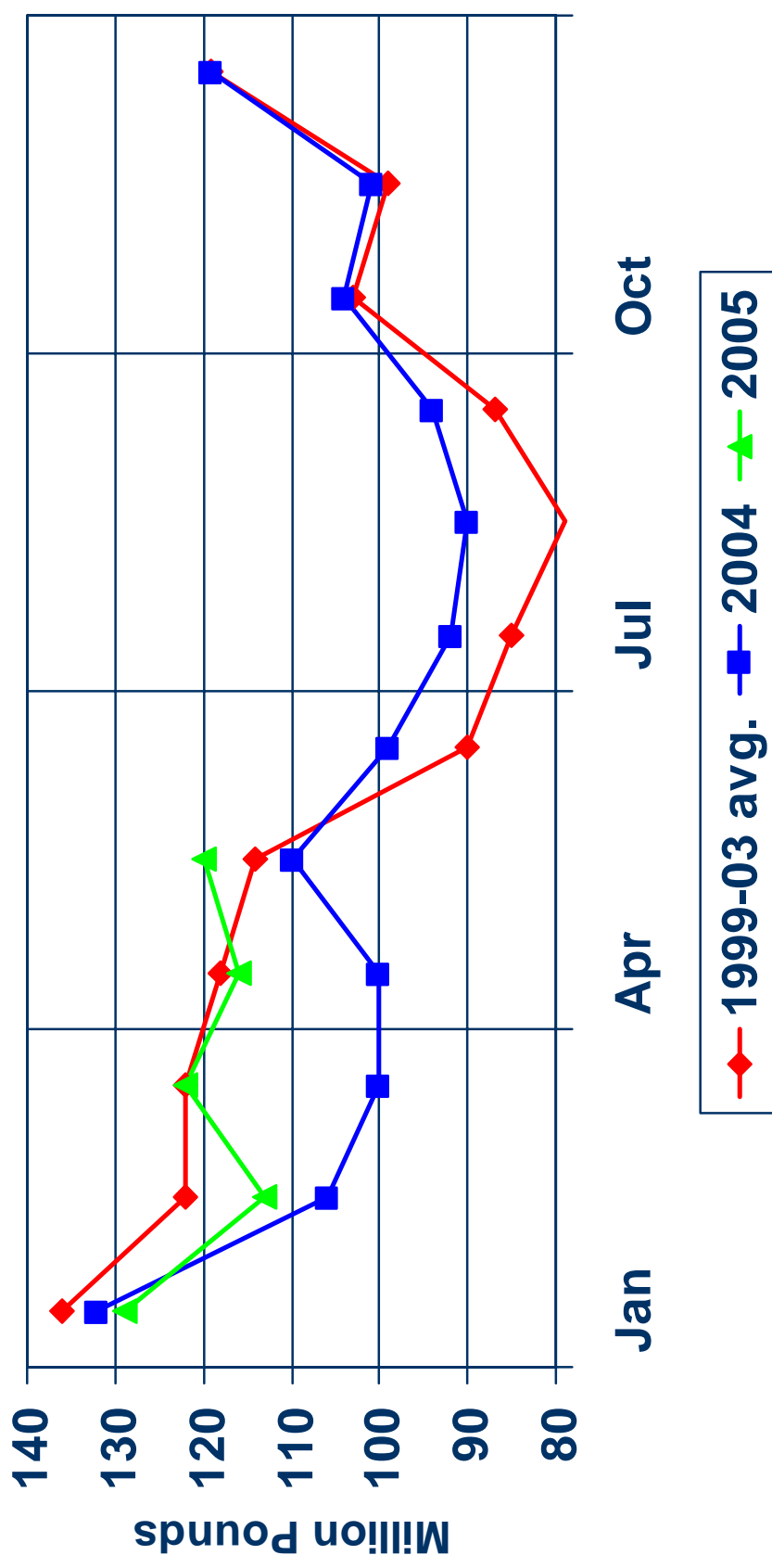


# Wholesale Cheese Price

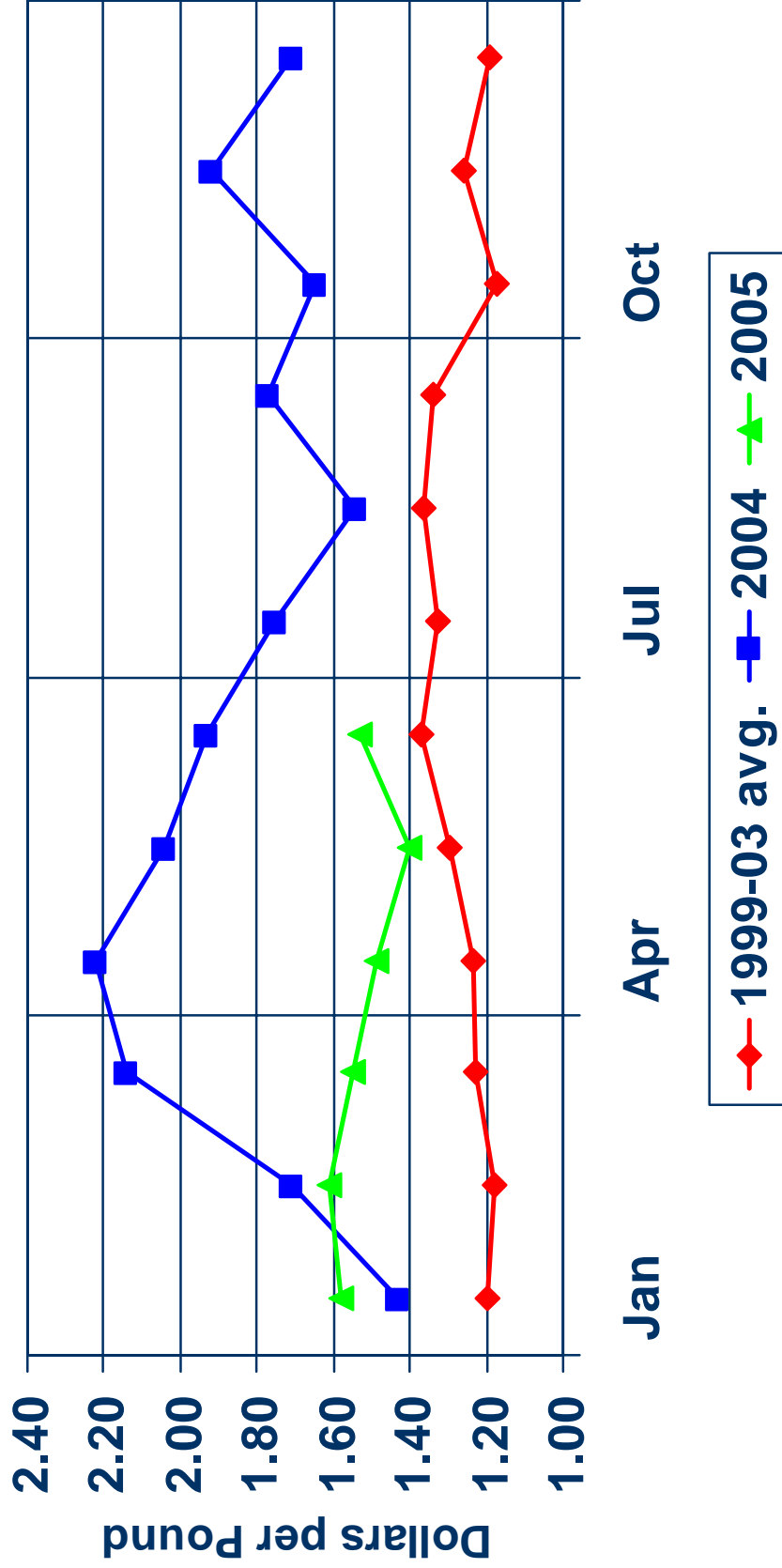


Butter Stocks  
June 30, 2003 – 301.4  
Dec 31, 2004 – 45.0  
June 30, 2005 – 188.2

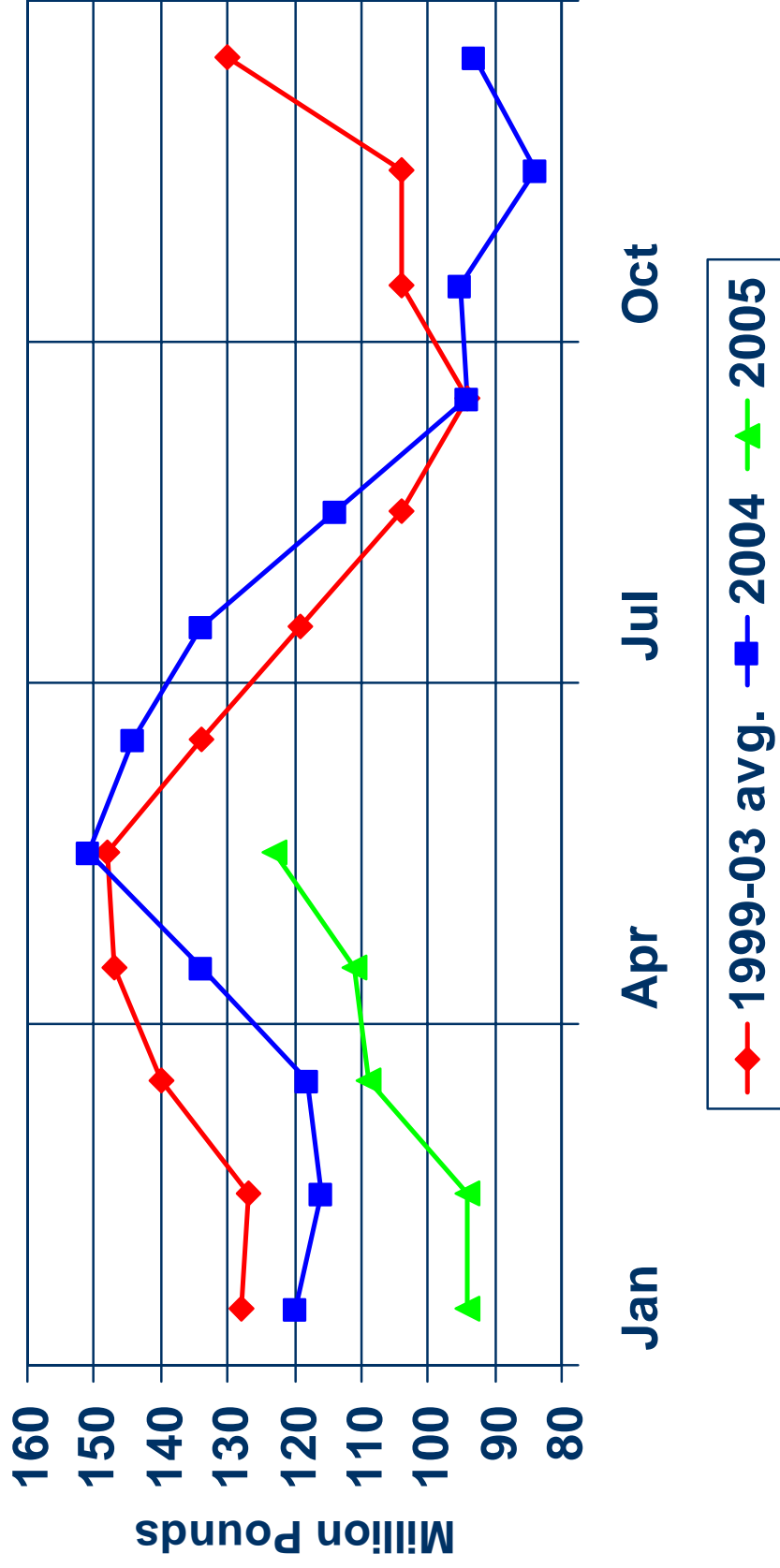
# Butter Production



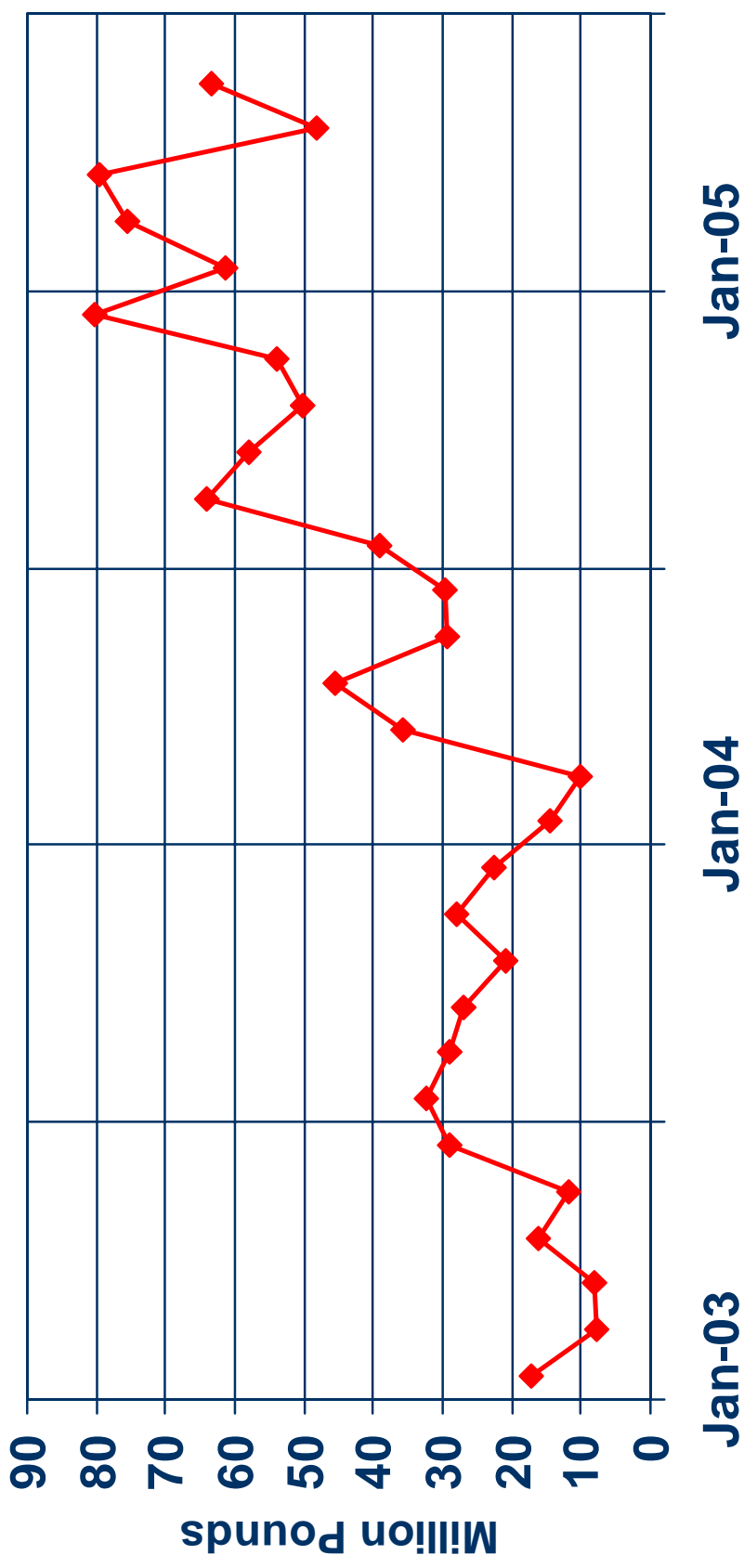
# Wholesale Butter Price



# Nonfat Dry Milk Production

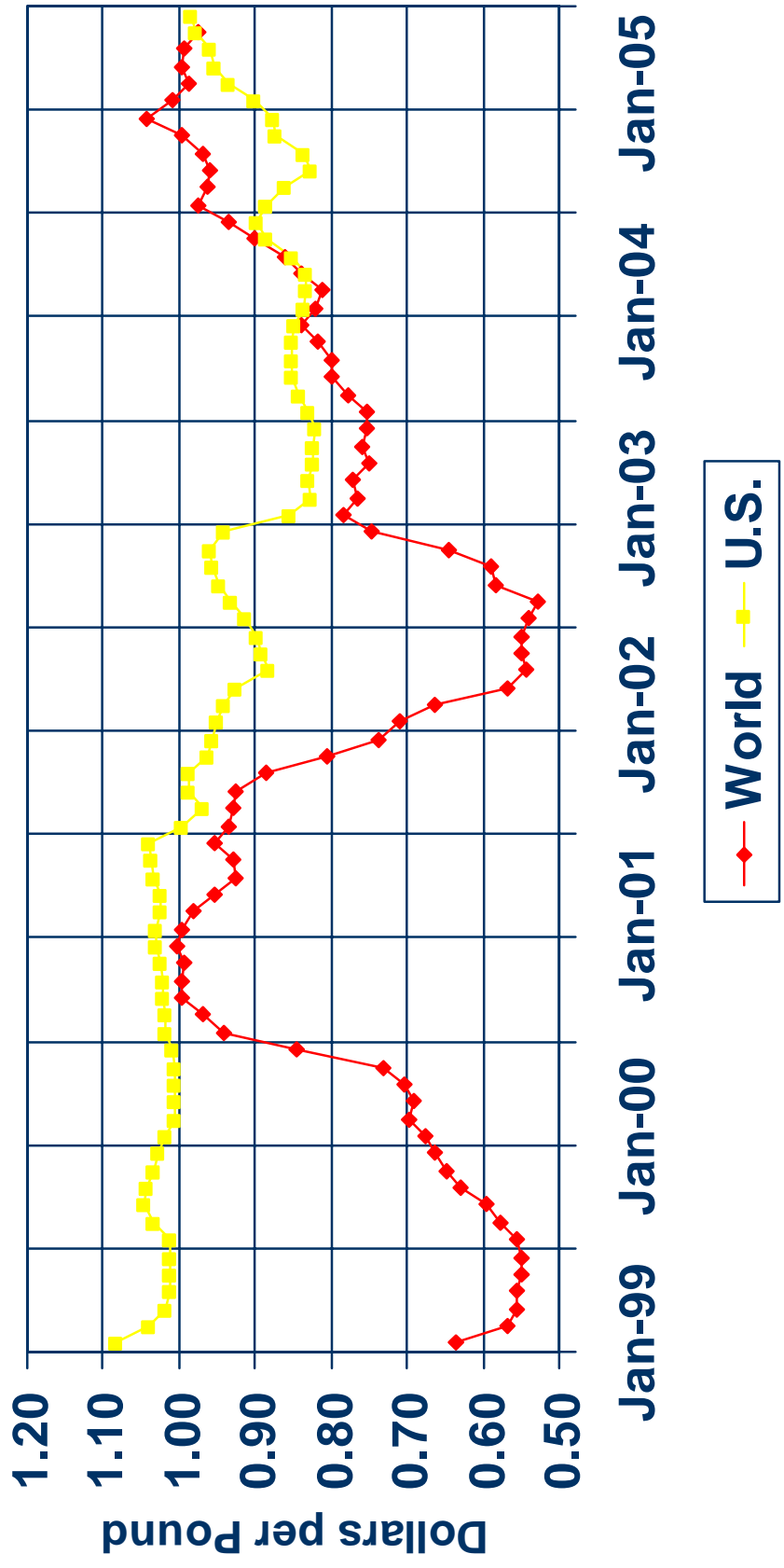


# Monthly U.S. Nonfat Dry Milk Exports



World Export Picture  
NZ 2001-2003 +100, 2004 Flat  
AU Fallen 80 since 2000 peak of  
253  
Over 1/2 of global SMP imports in  
ROW

# Monthly Nonfat Dry Milk Prices





# July 2005 Milk Forecast

## U.S. Dairy Forecast

	2004				2005				2006						
	I	II	III	IV	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual
Milk Cows (thou. head)	8,993	9,001	9,027	9,019	9,010	8,995	9,015	9,055	9,061	9,032	9,066	9,050	9,048	9,040	9,051
Milk Yield (lbs)	4,755	4,869	4,679	4,655	18,958	4,805	4,985	4,795	4,815	19,400	4,886	5,069	4,876	4,896	19,726
Milk Prod. (bil. lbs)	42.8	43.8	42.2	42.0	170.8	43.2	44.9	43.4	43.6	175.2	44.3	45.9	44.1	44.3	178.5
Product Prices (NASS Survey, \$/lb)															
Cheddar Cheese	1.399	2.007	1.558	1.610	1.643	1.531	1.505	1.415	1.392	1.461	1.410	1.320	1.250	1.360	1.335
Butter	1.707	2.089	1.722	1.778	1.824	1.570	1.465	1.422	1.410	1.467	1.420	1.350	1.310	1.350	1.358
Nonfat Dry Milk	0.808	0.835	0.858	0.862	0.841	0.899	0.931	0.925	0.930	0.921	0.920	0.900	0.880	0.860	0.890
Milk Prices (\$/cwt)															
Class III	12.66	19.31	14.54	15.06	15.39	14.31	13.97	13.03	12.72	13.51	12.95	12.02	11.29	12.18	12.11
Class IV	12.43	14.26	12.92	13.19	13.20	12.64	12.35	12.04	11.93	12.24	11.98	11.47	11.07	10.99	11.38
U.S. All Milk	14.10	18.53	15.50	16.07	16.05	15.67	15.20	14.20	13.80	14.71	14.05	13.02	12.19	12.85	13.03

# Summary

- Milk supply buildup continues through 2006
- Milk prices will become pressured with the mounting supplies
- Demand for dairy products strong in 2004
- Dairy policy will become front and center as MILC program is set to expire and reconciliation deadline nears
- Milk price volatility is not over