WHAT LIES AHEAD FOR 2011?

Supply Adjustment Has Not Happened
- CWT Herd Retirement Gone?

Price Outlook Depends on Demand

Dairy Policy Alternatives Debated

Price Volatility Remains
- Milk Prices
- Feed Prices
- Other Input Prices

General Economic Outlook
- What’s in Store for Economic Growth
- What’s Going to Happen in the Rest of the World
A QUICK WORD ON DAIRY POLICY

ALTERNATIVES

- Policy alternatives attempting to reduce volatility
  - Large supply and demand shifts require a larger policy lever
  - Results in high government cost, higher base values
- Will the Federal budget deficit limit dairy policy?
  - Dairy remains one of few commodities able to obtain more dollars – FY10 appropriations
- Current policy less effective given feed costs increase
  - Yes, MILC has feed price adjuster, however not all production qualifies
  - Support prices remain low relative to production costs
U.S. EXCHANGE RATE VERSUS MAJOR TRADING PARTNERS

IHS, Global Insight, Mar 2010

AUSTRALIAN MILK DELIVERIES

Australia - Milk deliveries
Source: Dairy Australia
OCEANIA MILK SUPPLIES

World Milk Production +450 MMT
Oceania responsible for 1/3 to 1/2 of world dairy product trade

EU INTERVENTION STOCKS

Source, MDC Datum, July 2010
OTHER THAN AMERICAN CHEESE COMMERCIAL DISAPPEARANCE

FLUID MILK SALES
MY FORECAST

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<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tr>
<td>Milk Cows</td>
<td>9,189</td>
<td>9,315</td>
<td>9,201</td>
<td>9,115</td>
<td>9,120</td>
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<td>(thou. head)</td>
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<tr>
<td>Milk Production</td>
<td>185.7</td>
<td>190.0</td>
<td>189.3</td>
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<td>(bill. pounds)</td>
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<tr>
<td>All Milk Price</td>
<td>19.13</td>
<td>18.29</td>
<td>12.84</td>
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<td>(dollars per cwt.)</td>
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<td>Class III Price</td>
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<td>Class IV Price</td>
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SUMMARY

2009, the toughest year dairy producers have ever faced
- Domestic demand anemic
- World demand for US dairy products has been less
  - Increasing supplies from competitors
  - Slowing demand in Asian countries
  - Strong US dollar early in 2009, weakened through the year
- Feed costs above long run averages

2010 is a better year but may not heal all the wounds of 2009

Supplies have become very unresponsive to economic signals

Will new policy surface in 2011?
- Depends on milk price recovery
- Can the industry find compromise?
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