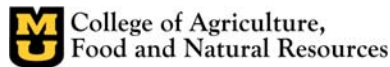


# DAIRY MARKET OUTLOOK

AAEA Dairy Outlook  
July 27, 2010

Scott Brown  
brownsc@missouri.edu



## 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

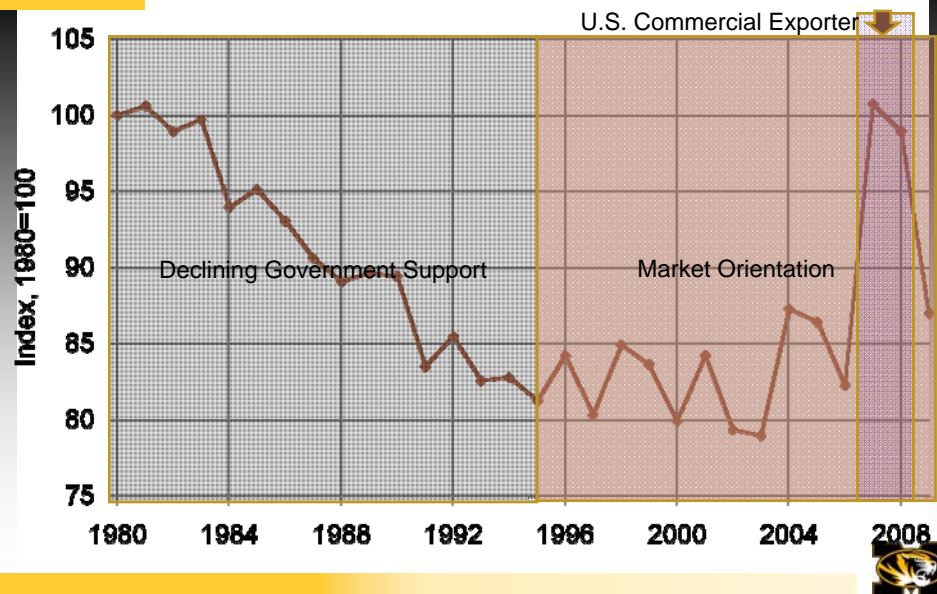
### General Economic Outlook

- What's in Store for Economic Growth
- What's Going to Happen in the Rest of the World





## MILK DEMAND INDEX



## 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

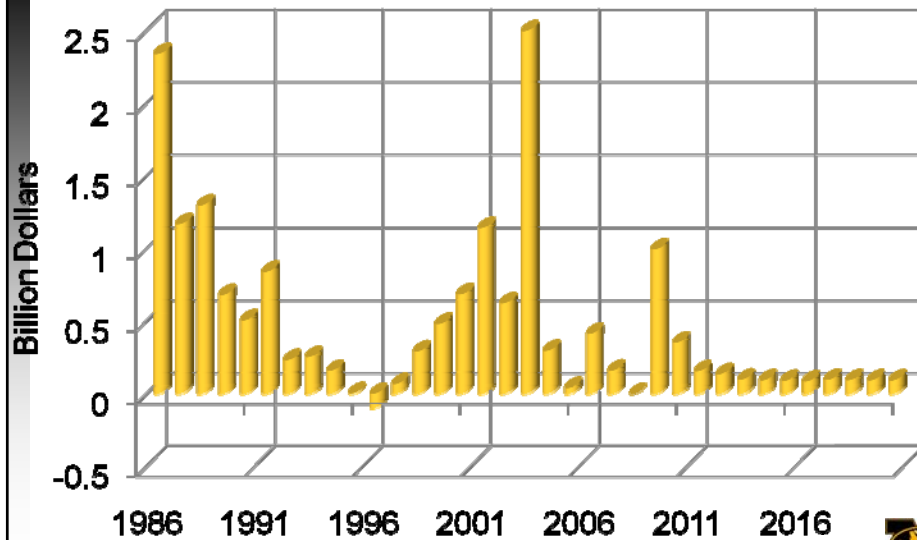
### Current policy less effective given feed costs increase

- Yes, MILC has feed price adjuster, however not all production qualifies
- Support prices remain low relative to production costs





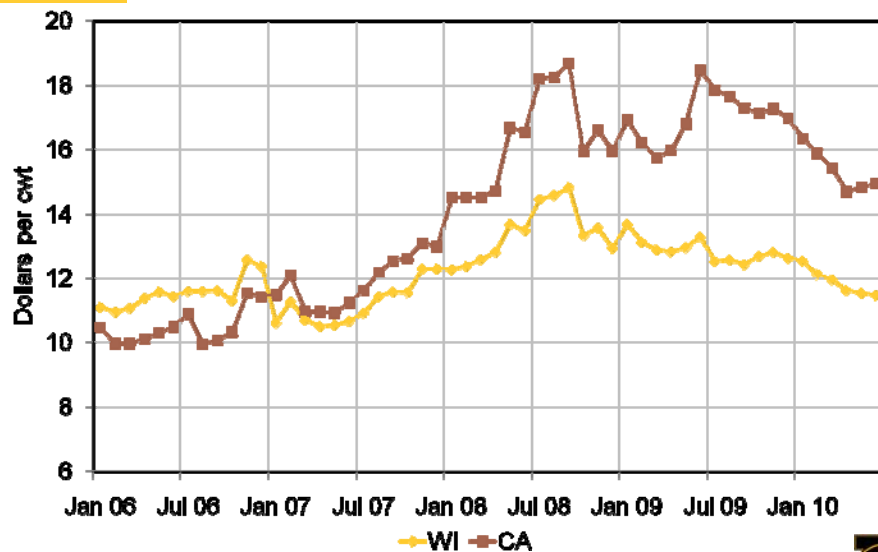
## DAIRY OUTLAYS



Source: CBO, January 2010

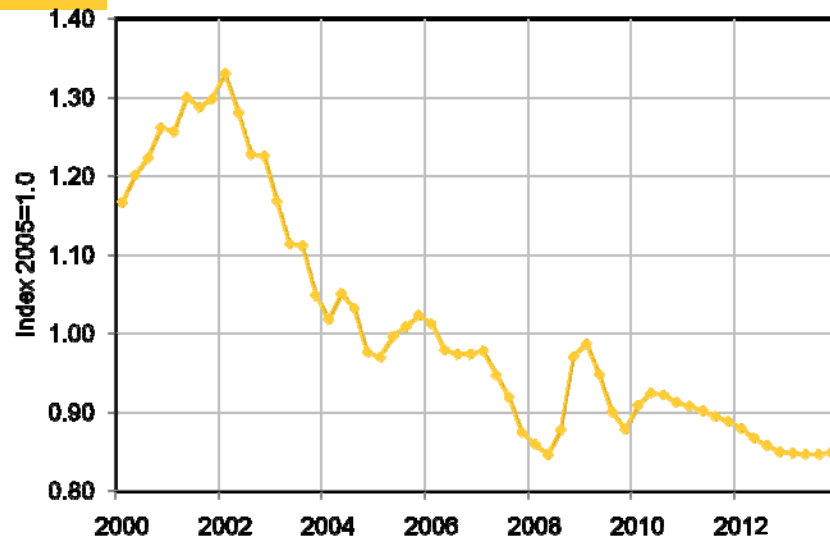


## SELECTED STATE DAIRY OPERATING COSTS, USDA/ERS





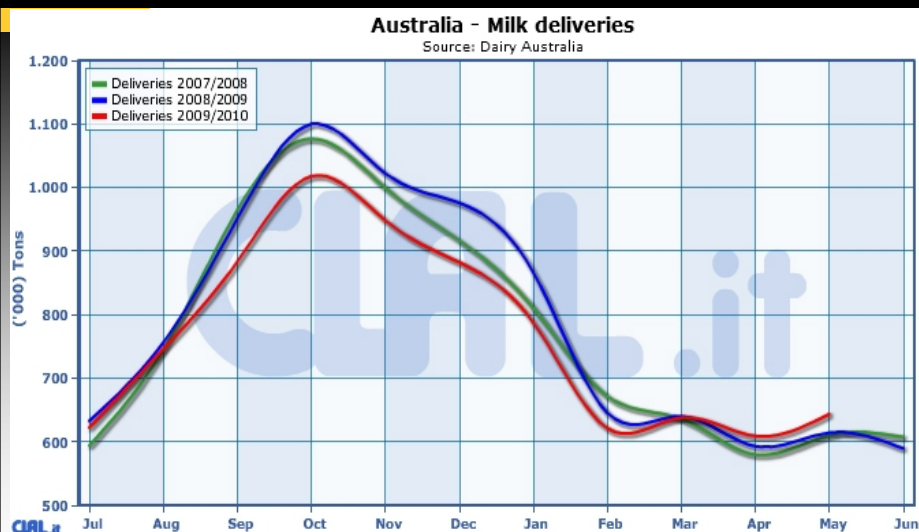
## U.S. EXCHANGE RATE VERSUS MAJOR TRADING PARTNERS



IHS, Global Insight, Mar 2010



## AUSTRALIAN MILK DELIVERIES

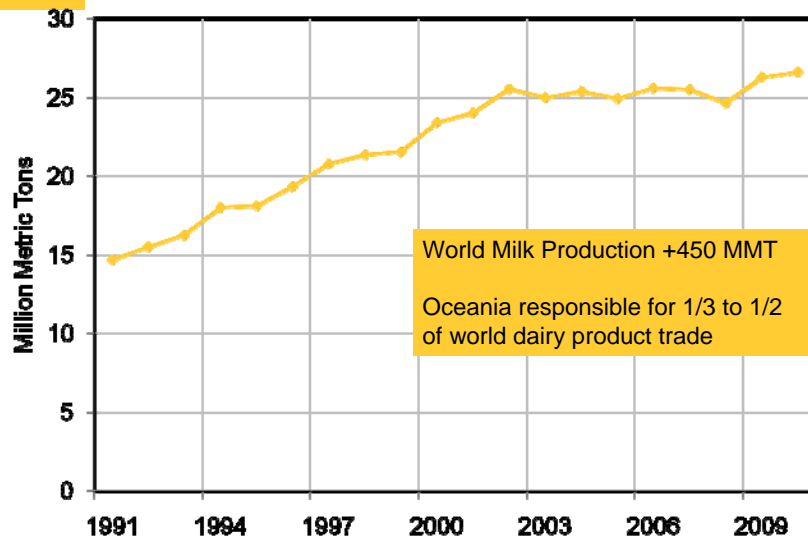


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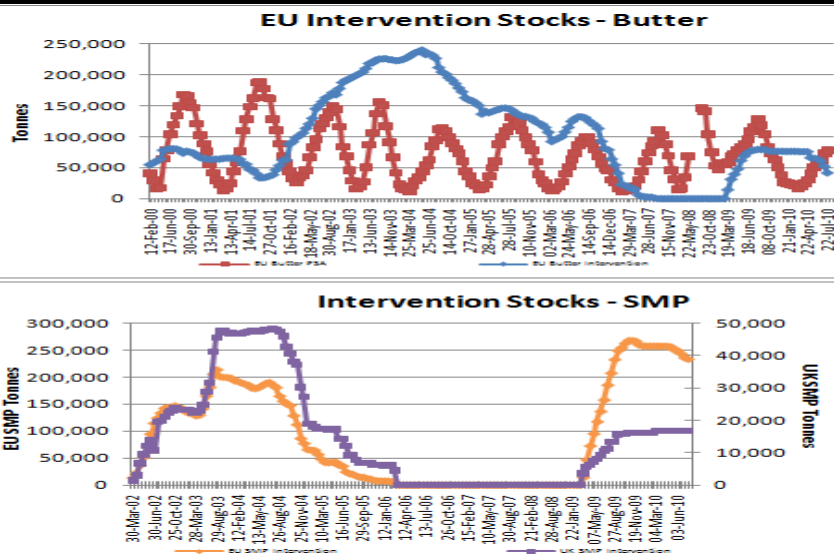




## OCEANIA MILK SUPPLIES



## EU INTERVENTION STOCKS

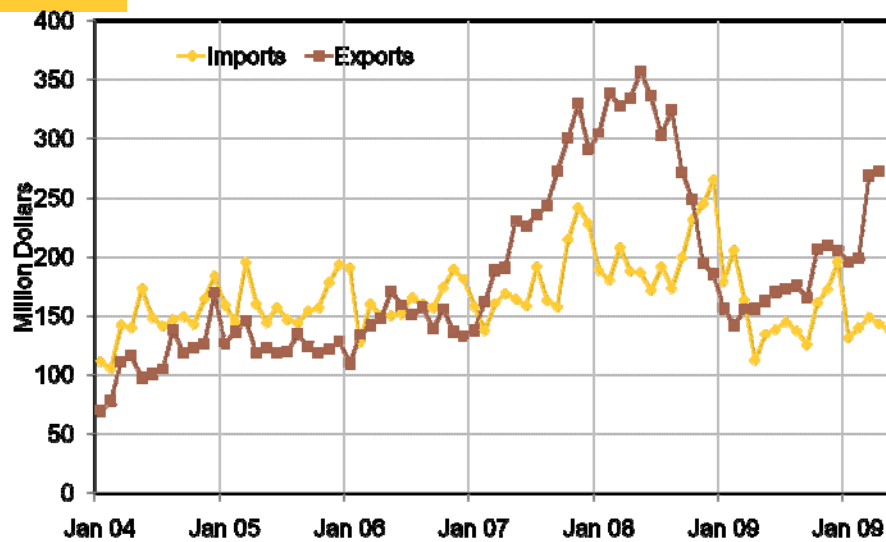


Source, MDC Datum, July 2010

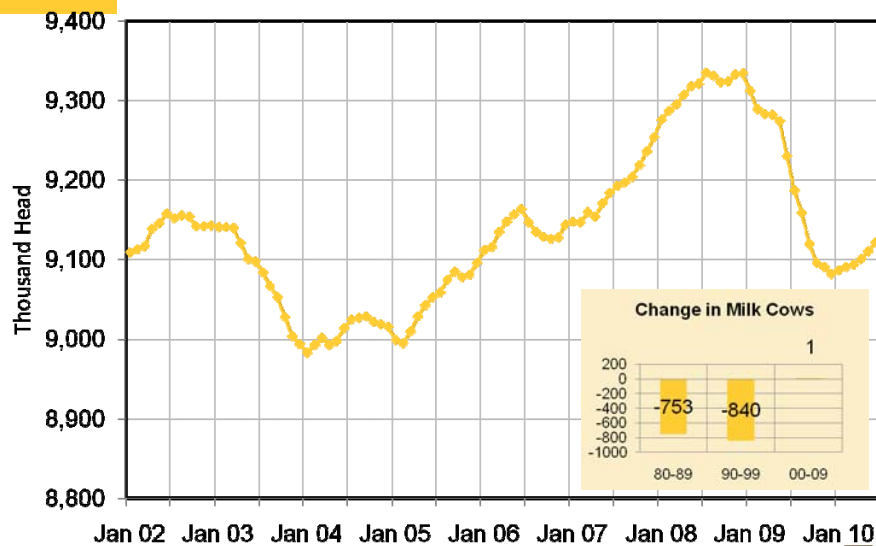




## VALUE OF U.S. DAIRY TRADE

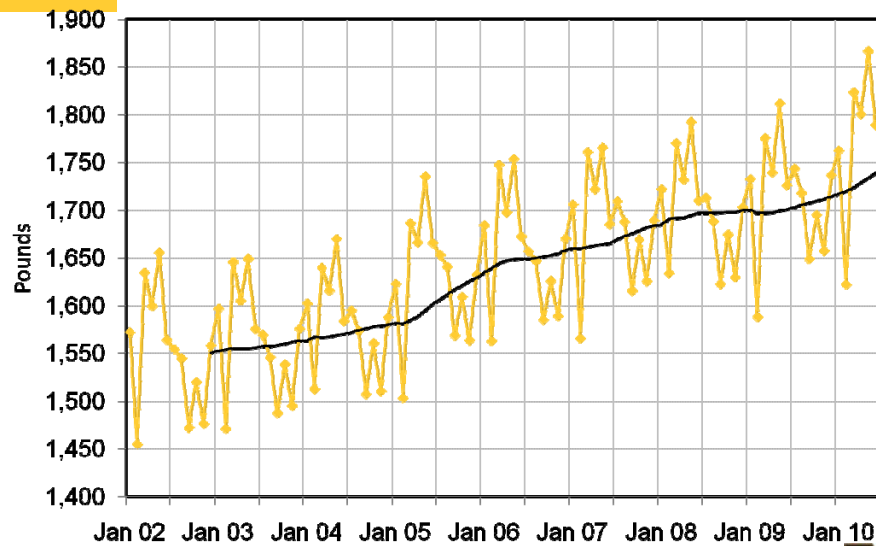


## MONTHLY U.S. DAIRY COWS

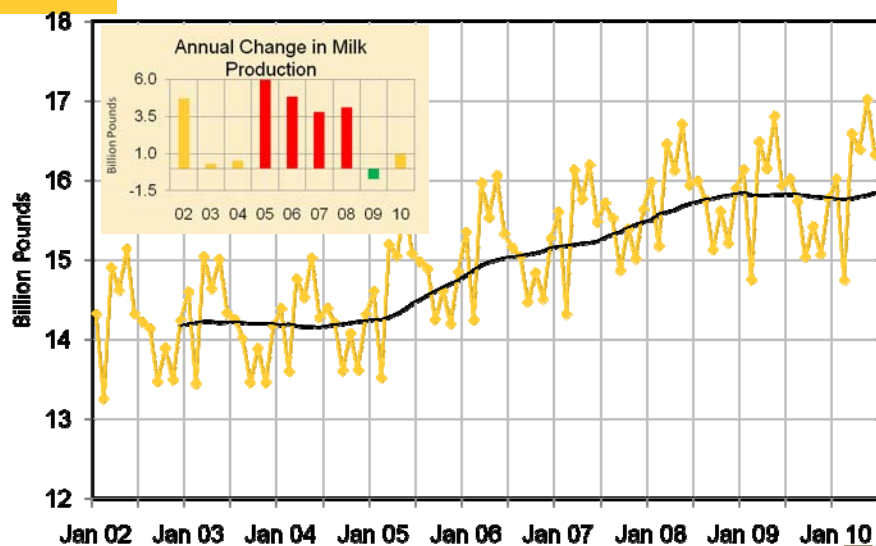




## MONTHLY U.S. MILK YIELDS

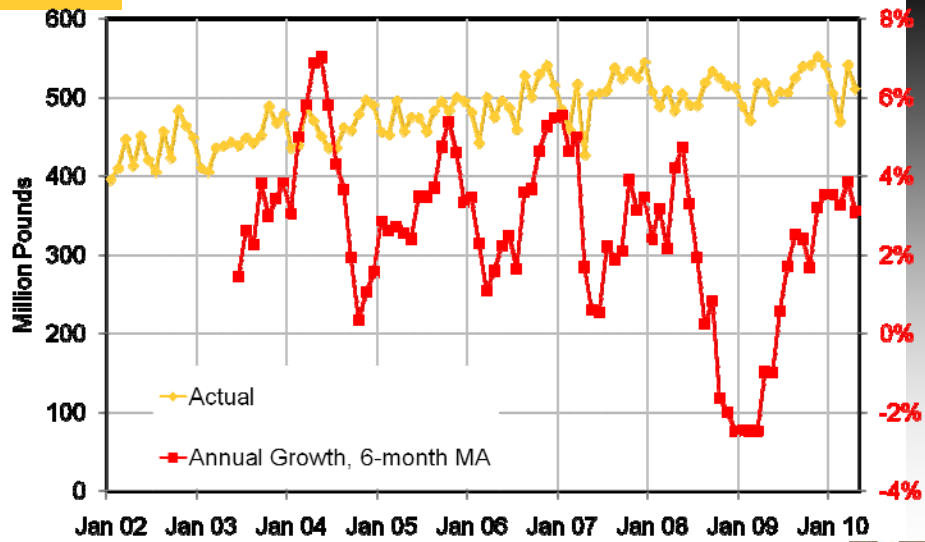


## MONTHLY U.S. MILK PRODUCTION

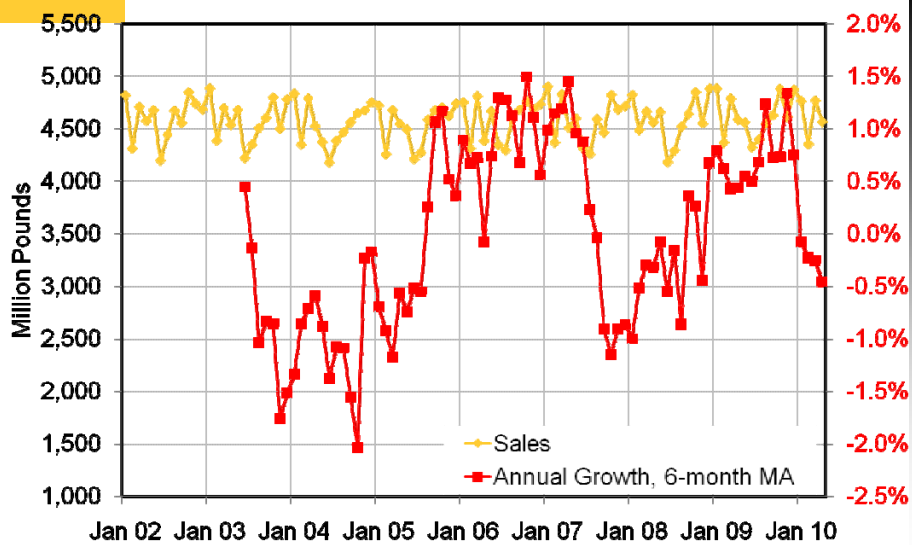




## OTHER THAN AMERICAN CHEESE COMMERCIAL DISAPPEARANCE



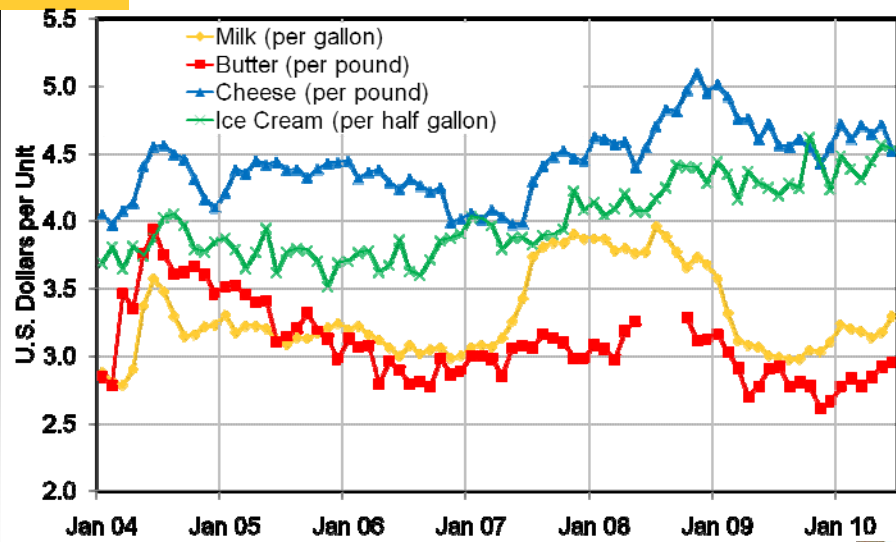
## FLUID MILK SALES



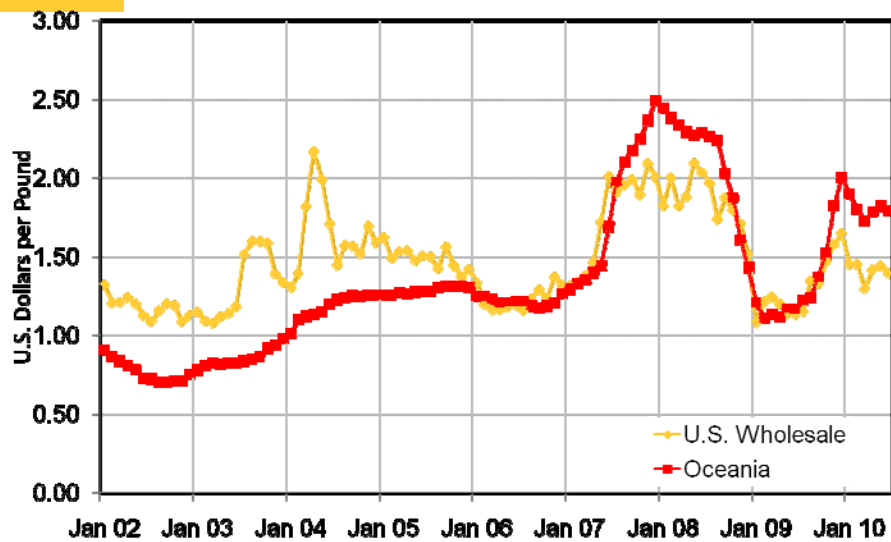




## RETAIL DAIRY PRODUCT PRICES

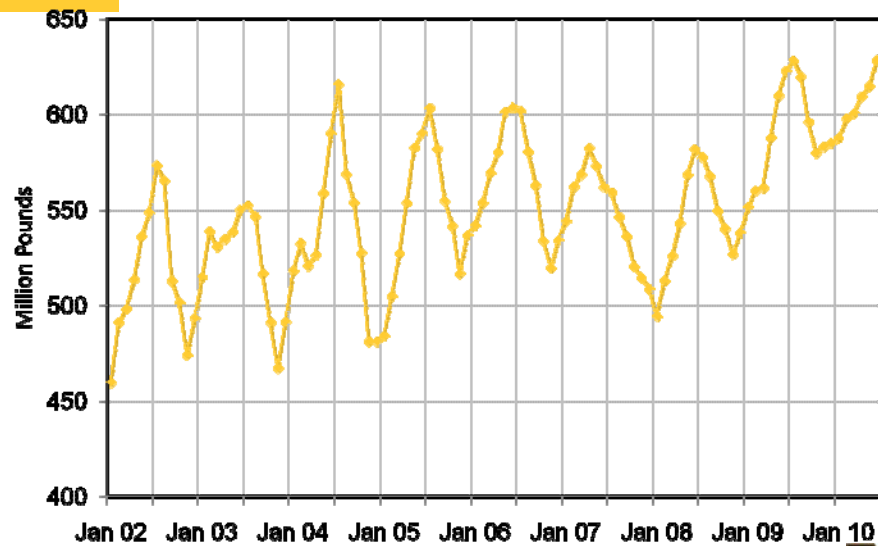


## CHEESE PRICES

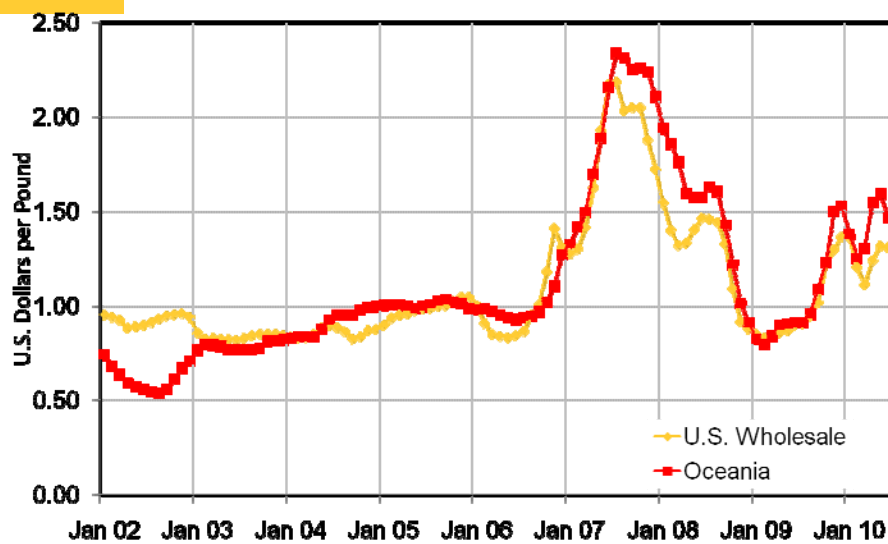




## AMERICAN CHEESE ENDING STOCKS

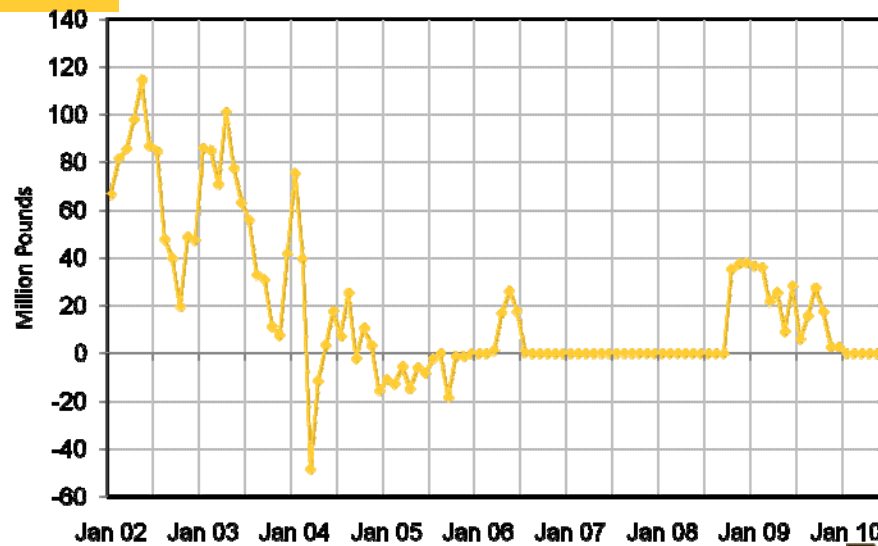


## NONFAT DRY MILK PRICES

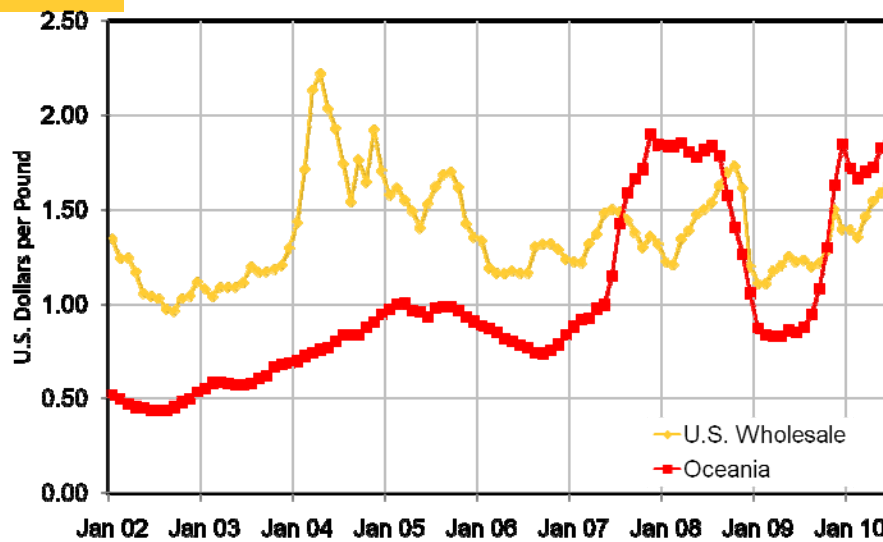




## NET REMOVALS, NONFAT DRY MILK

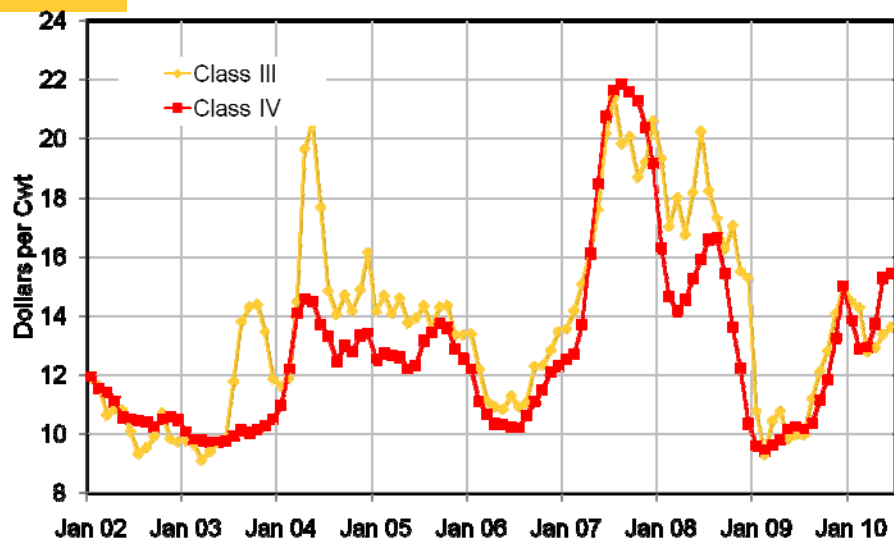


## BUTTER PRICES

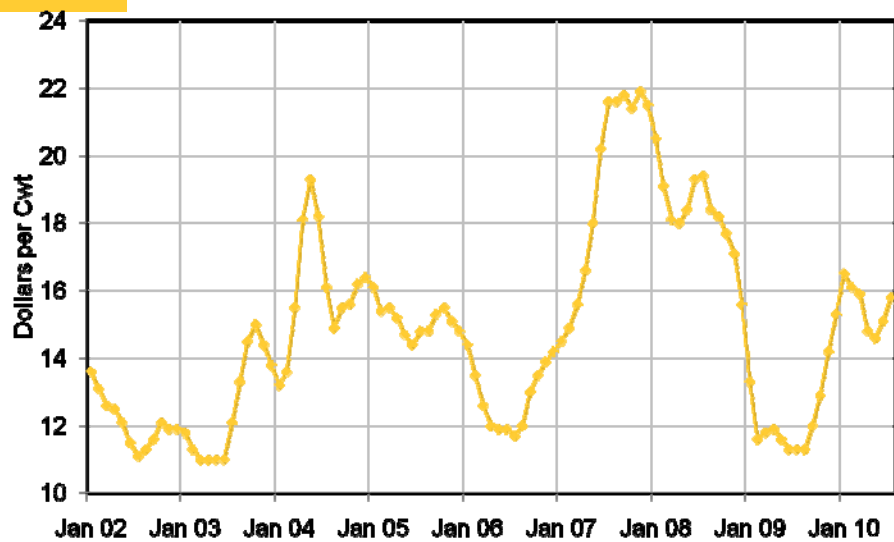




## FEDERAL ORDER MILK PRICES



## U.S. ALL MILK PRICE





## MY FORECAST

	2007	2008	2009	2010	2011
Milk Cows	9,189	9,315	9,201	9,115	9,120
(thou. head)					
Milk Production	185.7	190.0	189.3	191.3	194.0
(bill. pounds)					
All Milk Price	19.13	18.29	12.84	16.00	16.50
(dollars per cwt.)					
Class III Price	18.04	17.44	11.36	13.95	14.70
(dollars per cwt.)					
Class IV Price	18.36	14.65	10.89	14.80	14.75
(dollars per cwt.)					



## 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?





## QUESTIONS

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