

# 2006 Dairy Situation & Outlook

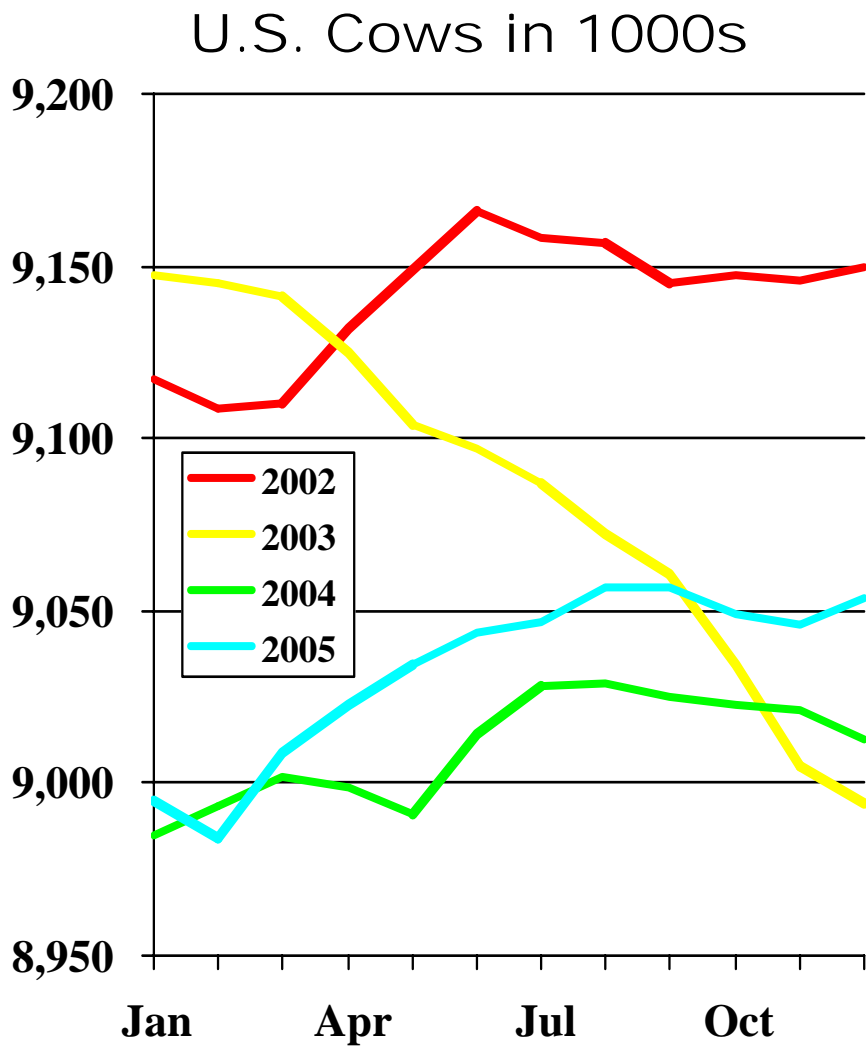
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*Cornell Program on Dairy Markets & Policy*

# Elements of "Supply & Demand"

	2005	2006
<b><u>Supply</u></b>		
<b>Cows Numbers (thous.)</b>	<b>9,045</b>	<b>9,063</b>
<b>Production/cow (lbs)</b>	<b>19,540</b>	<b>19,931</b>
<b>Production</b>	<b>176.7</b>	<b>180.6</b>
<b>Farm Use</b>	<b>1.1</b>	<b>1.1</b>
<b>Marketings</b>	<b>175.6</b>	<b>179.6</b>
<b>Beginning Commercial Stocks</b>	<b>7.2</b>	<b>7.4</b>
<b>Imports</b>	<b>4.7</b>	<b>4.9</b>
<b>Total Supply</b>	<b>187.5</b>	<b>191.9</b>
<b><u>Utilization</u></b>		
<b>Commercial Disappearance</b>	<b>180.1</b>	<b>183.7</b>
<b>Ending Commercial Stocks</b>	<b>7.4</b>	<b>8.1</b>
<b>DEIP</b>	<b>0.0</b>	<b>0.1</b>
<b>Net Removals (excluding DEIP)</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Use</b>	<b>187.5</b>	<b>191.9</b>

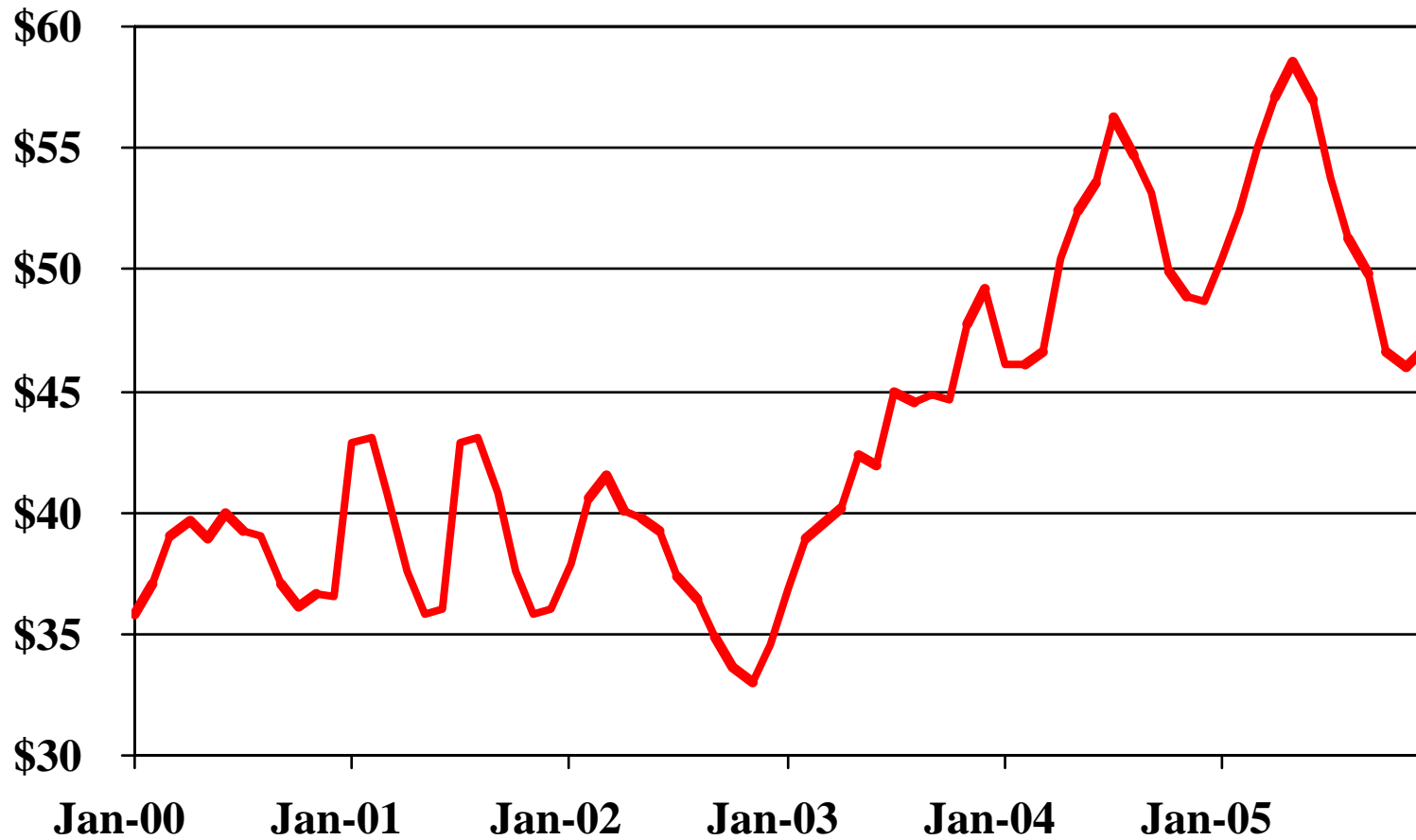
# Cow Numbers



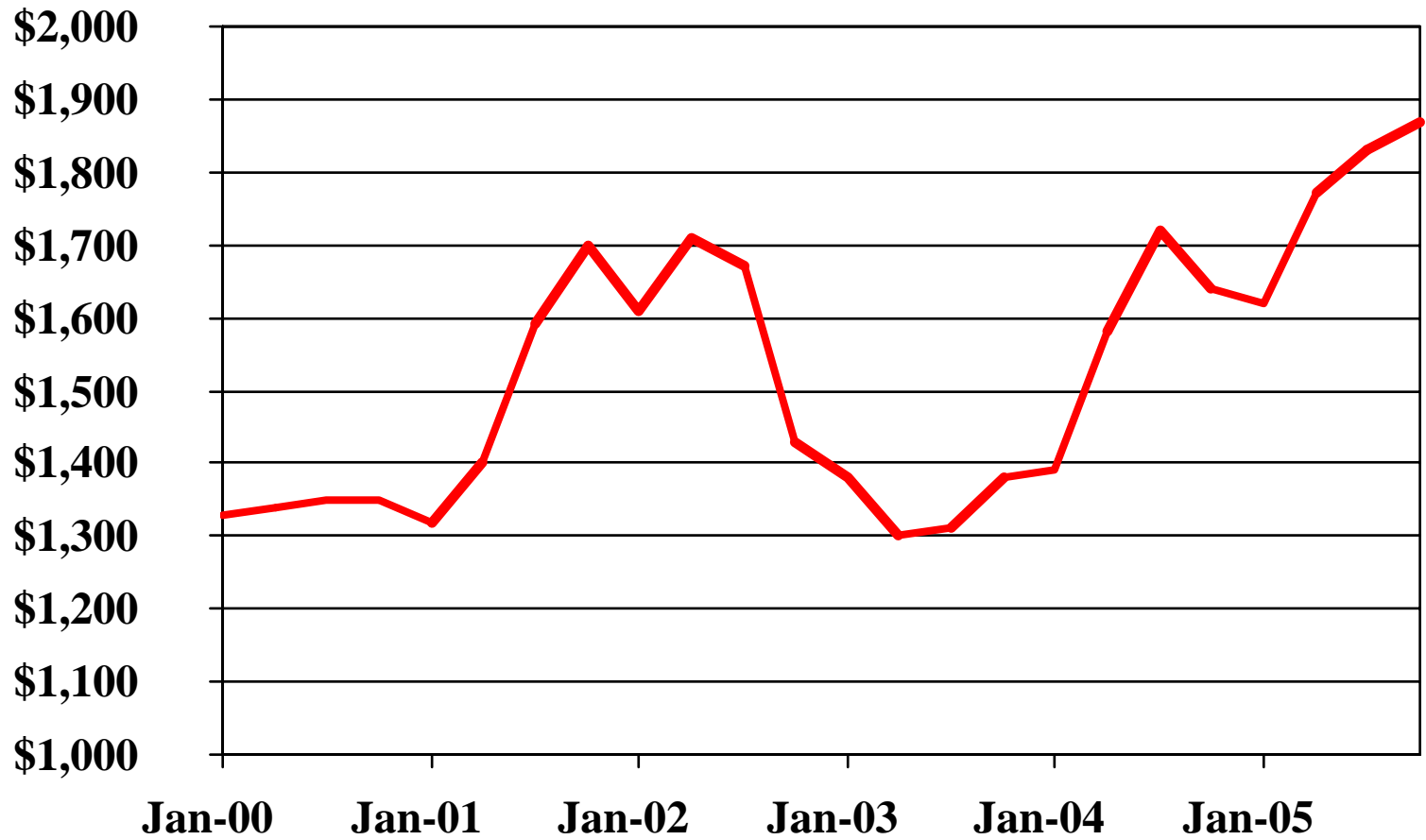
## ■ Factors

- High milk prices
- Abundant forage
- High replacement prices
- High cull cow prices
- CWT (70,000 cows)
- Canadian Imports

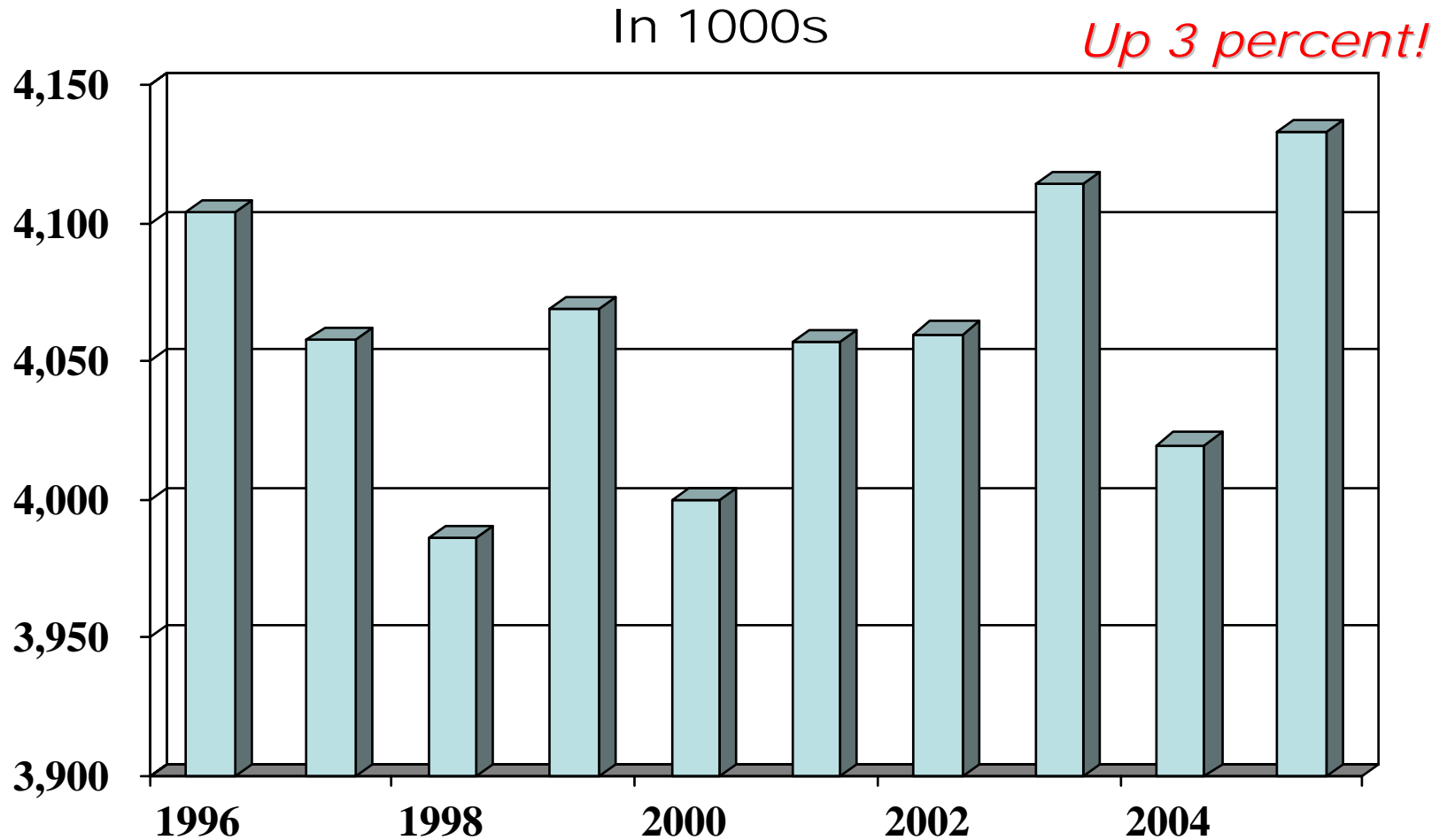
# Cull Cow Prices



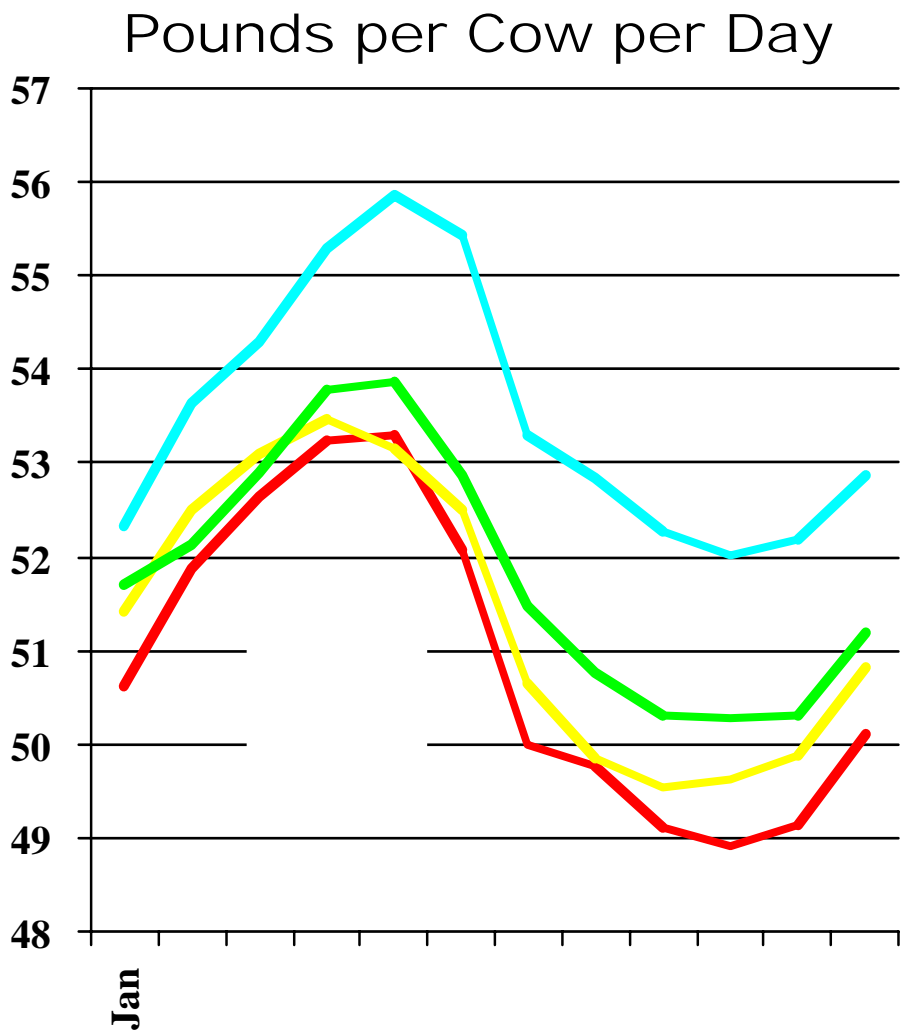
# Replacement Cow Prices



# Heifers are in the Pipeline!



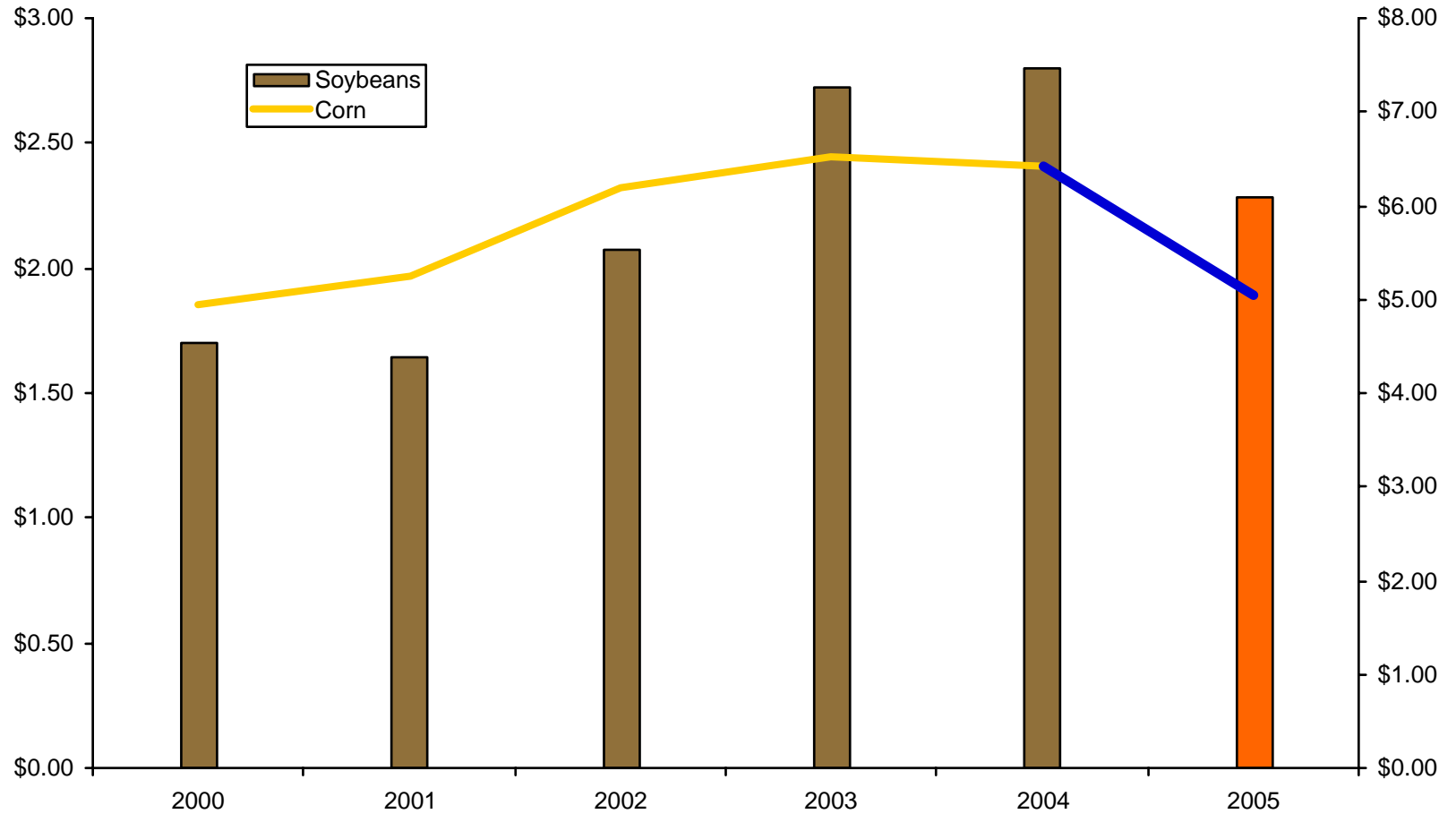
# Milk per Cow



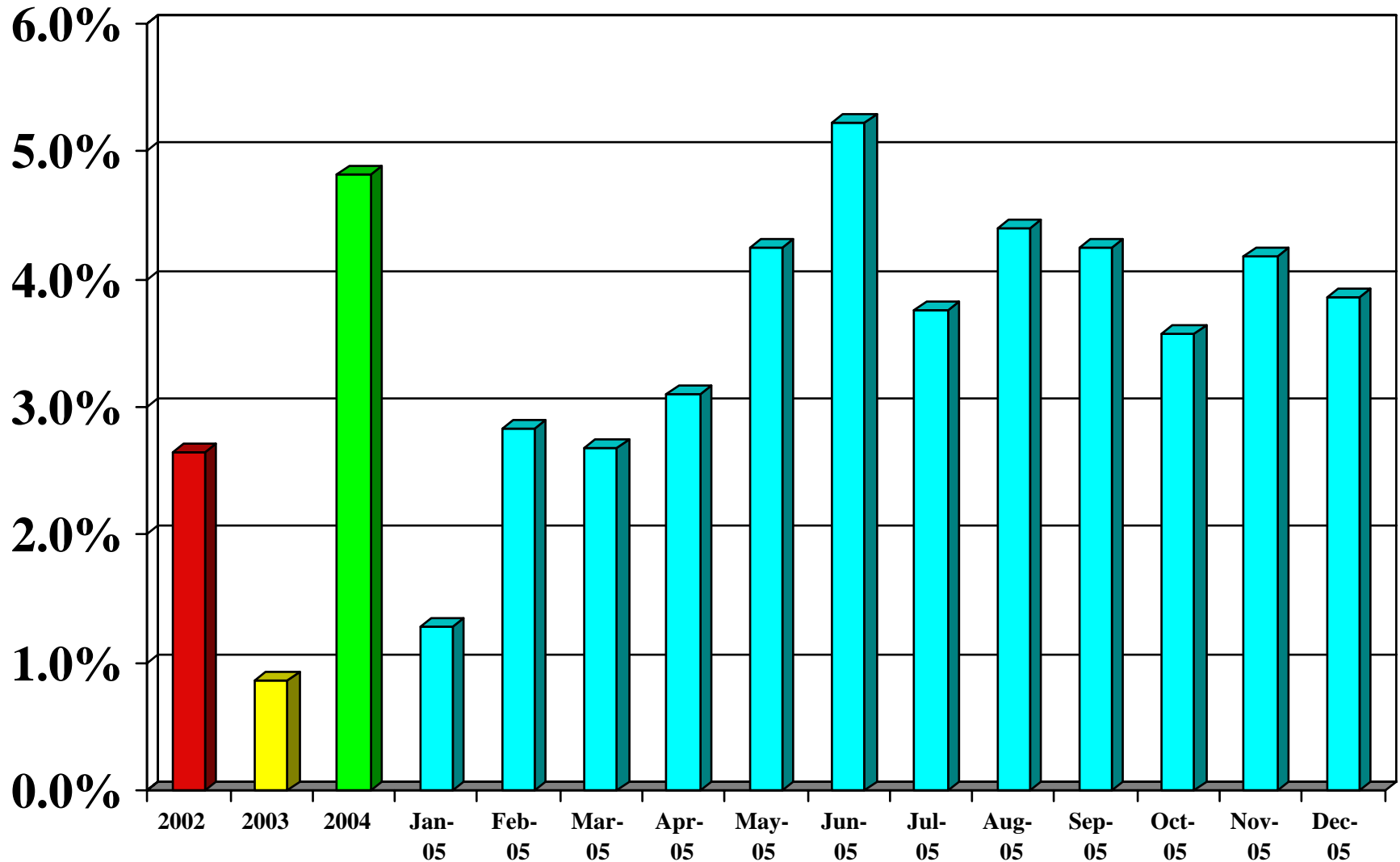
## ■ Factors

- High milk prices
- Abundant forage
- Higher level of culling
- Increased rBST allocation
- Lower concentrate prices

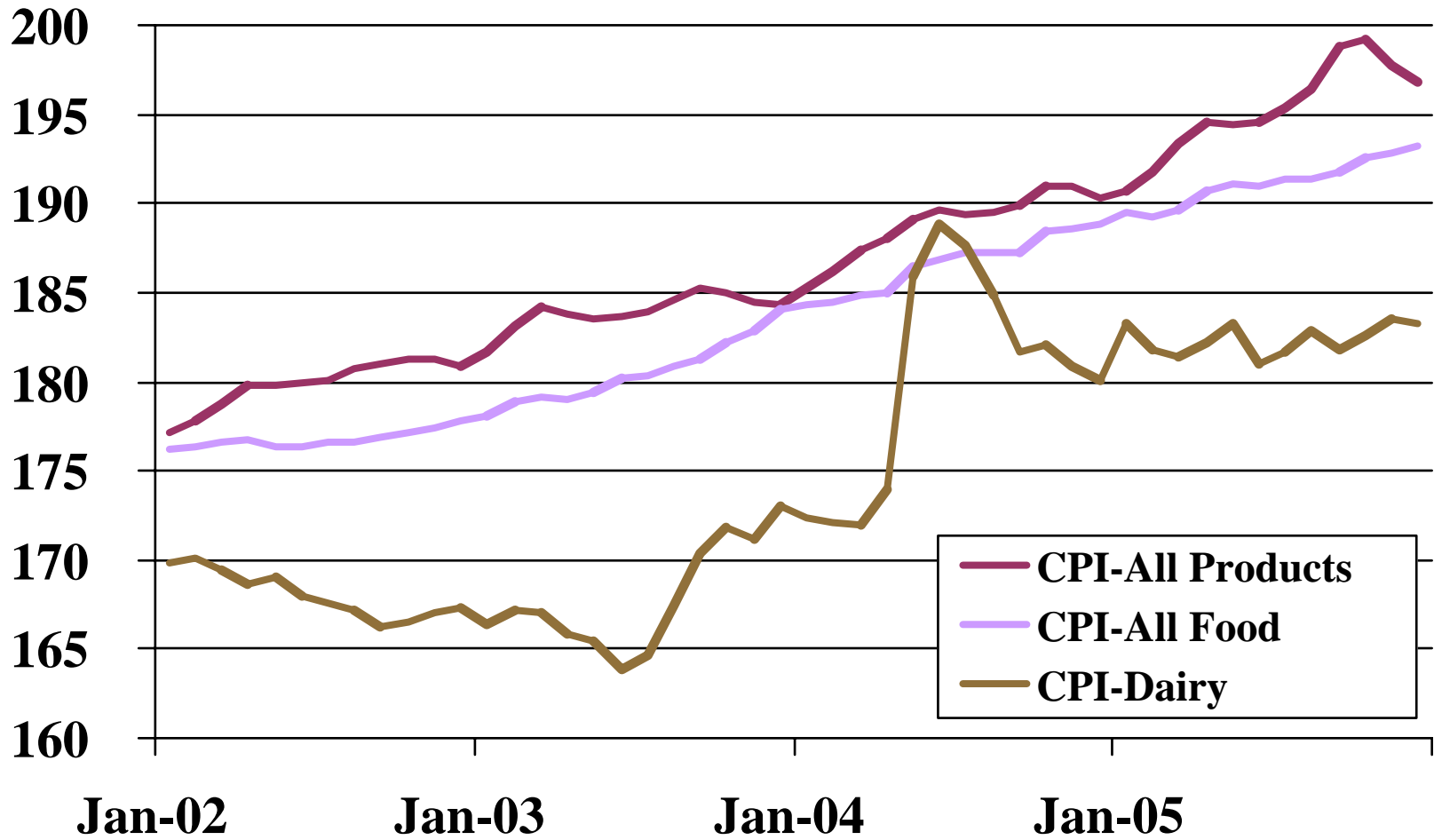
# Concentrate Prices



# Percent Change in Milk Production



# Consumer Prices have Stabilized



## Restaurant industry's Expectations Index falls to lowest level in history of survey

WASHINGTON — Due in large part to the dampening effect of two hurricanes and strong gas prices on operator optimism, the National Restaurant Association's Restaurant Performance Index registered its second consecutive monthly decline in August.

The August Restaurant Performance Index — which was based on a nationwide survey of restaurant operators conducted in September — stood at 100.4, down 1.2 percent from a level of 101.7 in July.

The group's Expectations Index, which measures restaurant operators' six-month outlook for four industry indi-

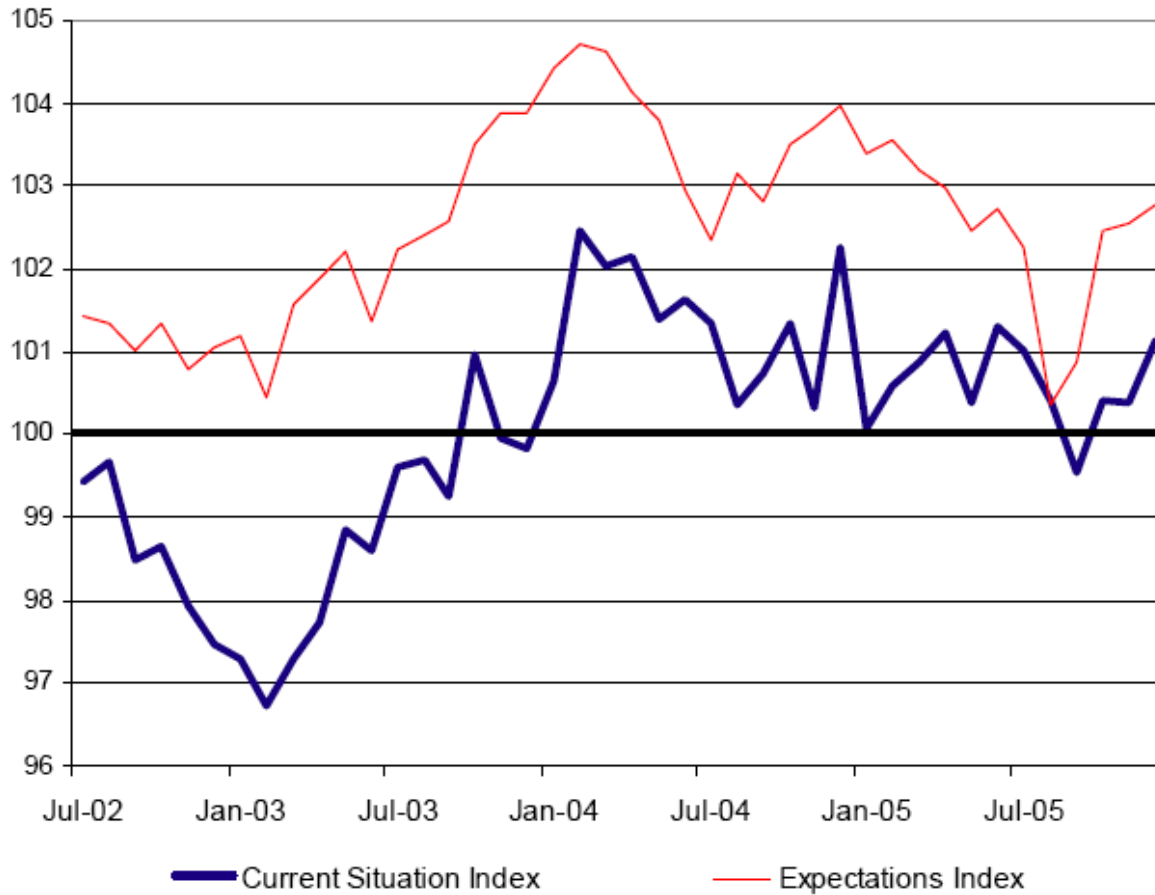
cators, dropped 1.8 percent in August to a level of 100.4, the lowest level in the history of the index.

"The aftermath of Hurricane Katrina, in addition to record gas prices, resulted in the sharpest expectations decline in the three-year history of the Restaurant Performance Index," says Hudson Riehle, senior vice president, research and information services, National Restaurant Association.

Twenty-two percent of restaurant operators said gas and energy prices are the No. 1 challenge facing their business — up from just 4 percent of operators who reported similarly two months ago. Over-

# Restaurant Outlook has Flat-Lined!

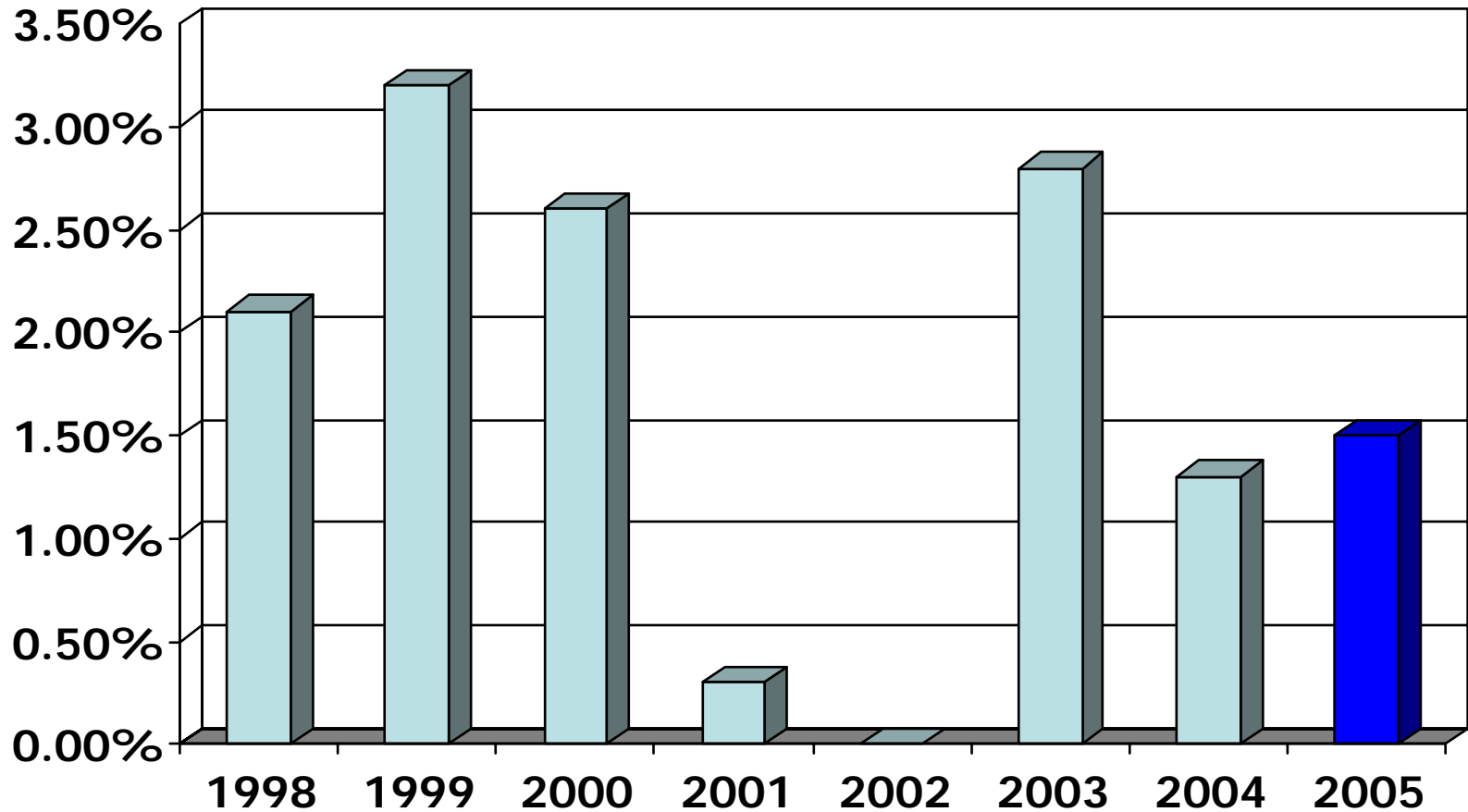
***Current Situation & Expectations Indices***



Source: NRA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

# Commercial Disappearance

Percent Change from Year Earlier Levels  
Butterfat Basis



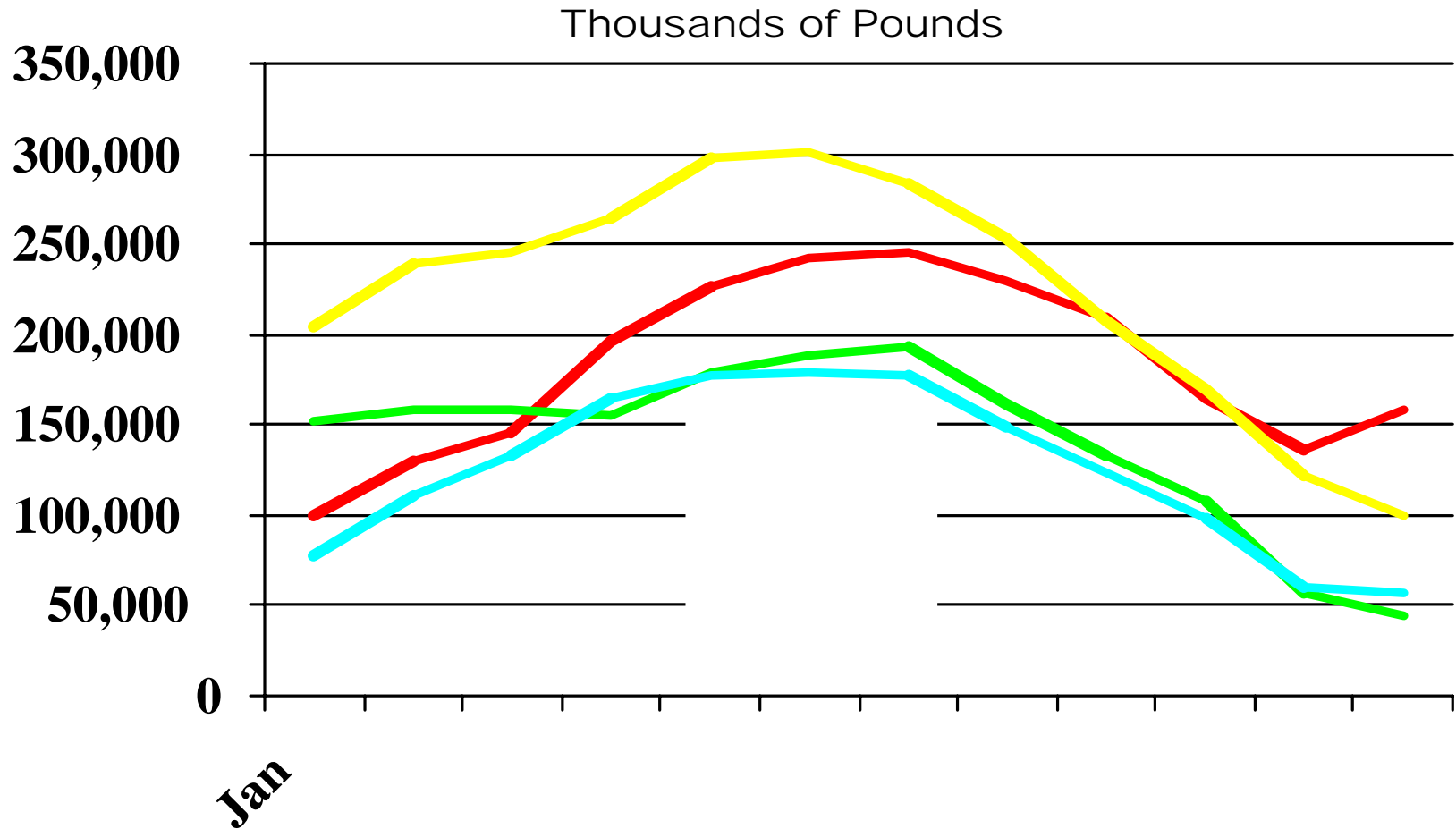
# Exports of Dairy Products

- DEIP
- CWT
  - \$1.40 Cheese
  - \$1.30 Butter
- Drought in Oceania
- Declining supports in the EU
- Weak U.S. dollar?

Euros per U.S. Dollar



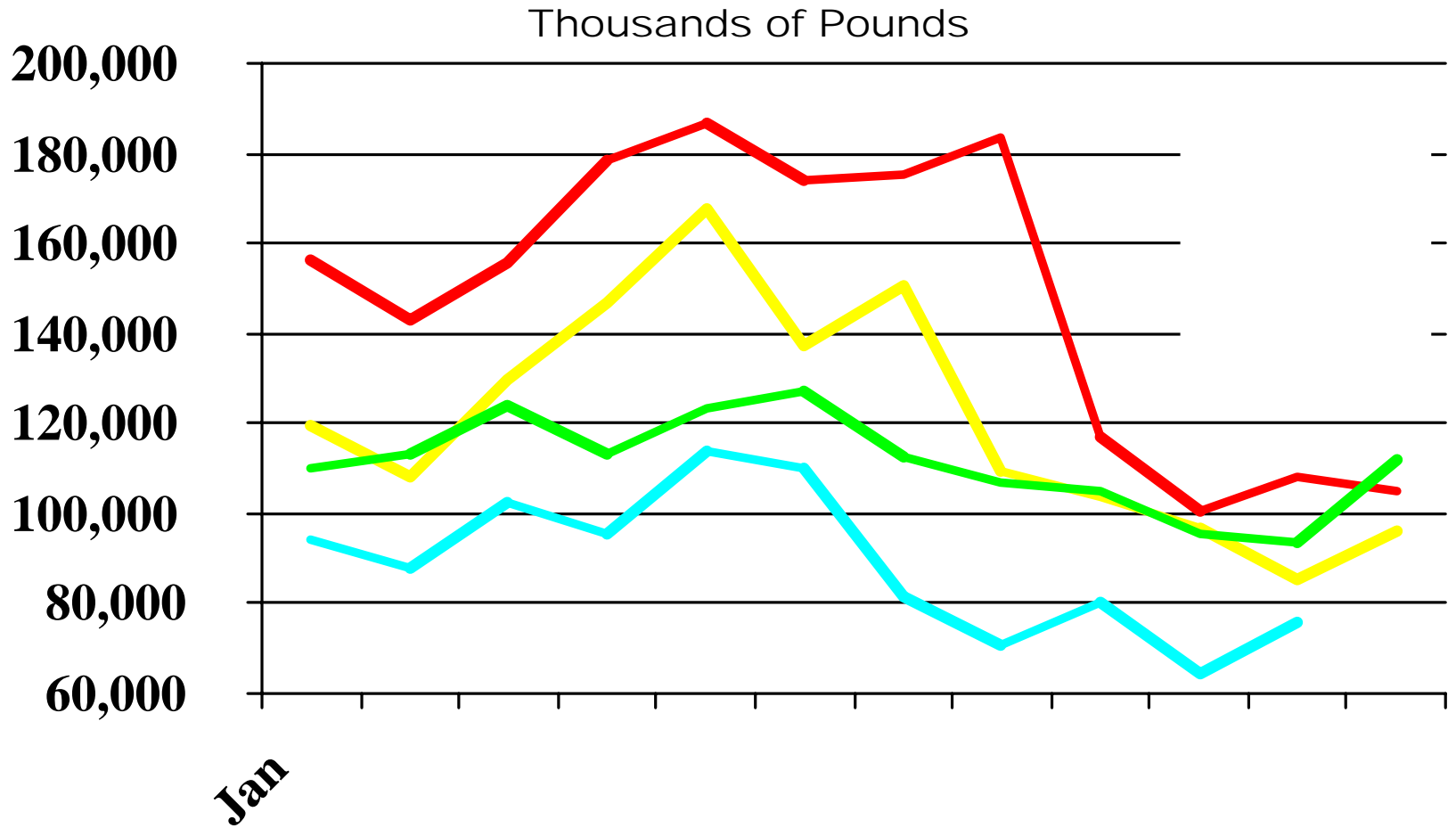
# Commercial Stocks of Butter



# Commercial Stocks of Cheese

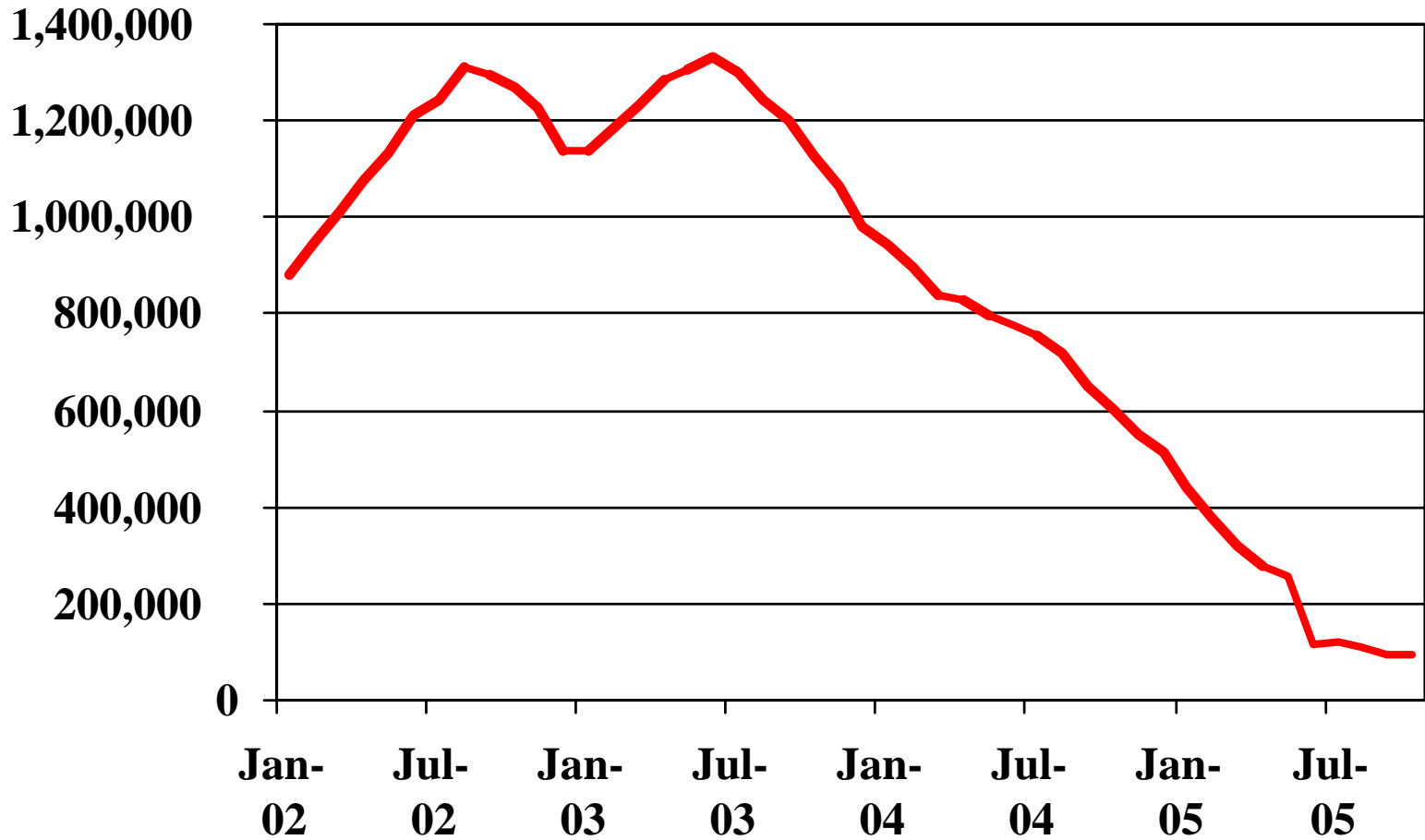


# Commercial Stocks of NDM



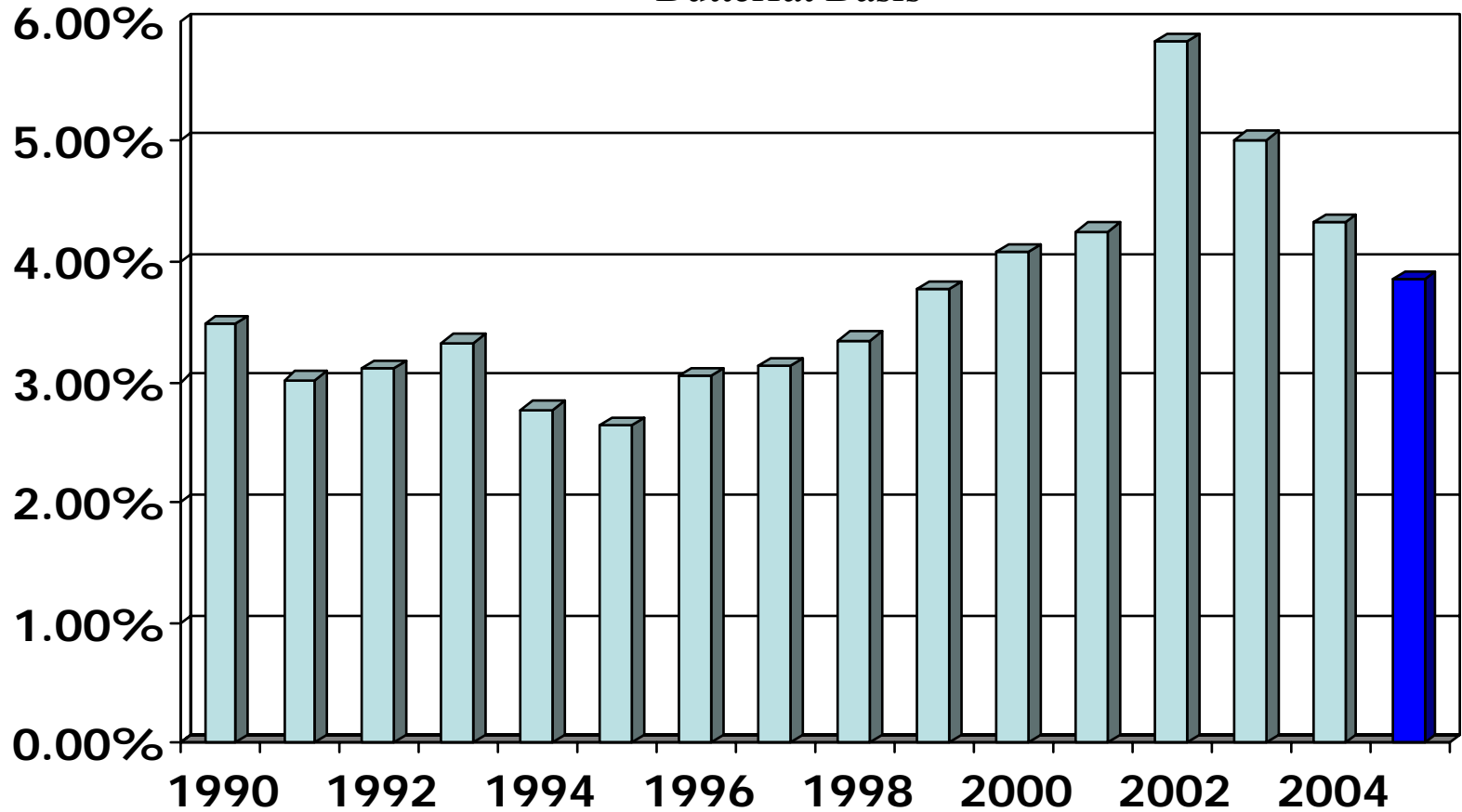
# Total Stocks of NDM

Thousands of Pounds



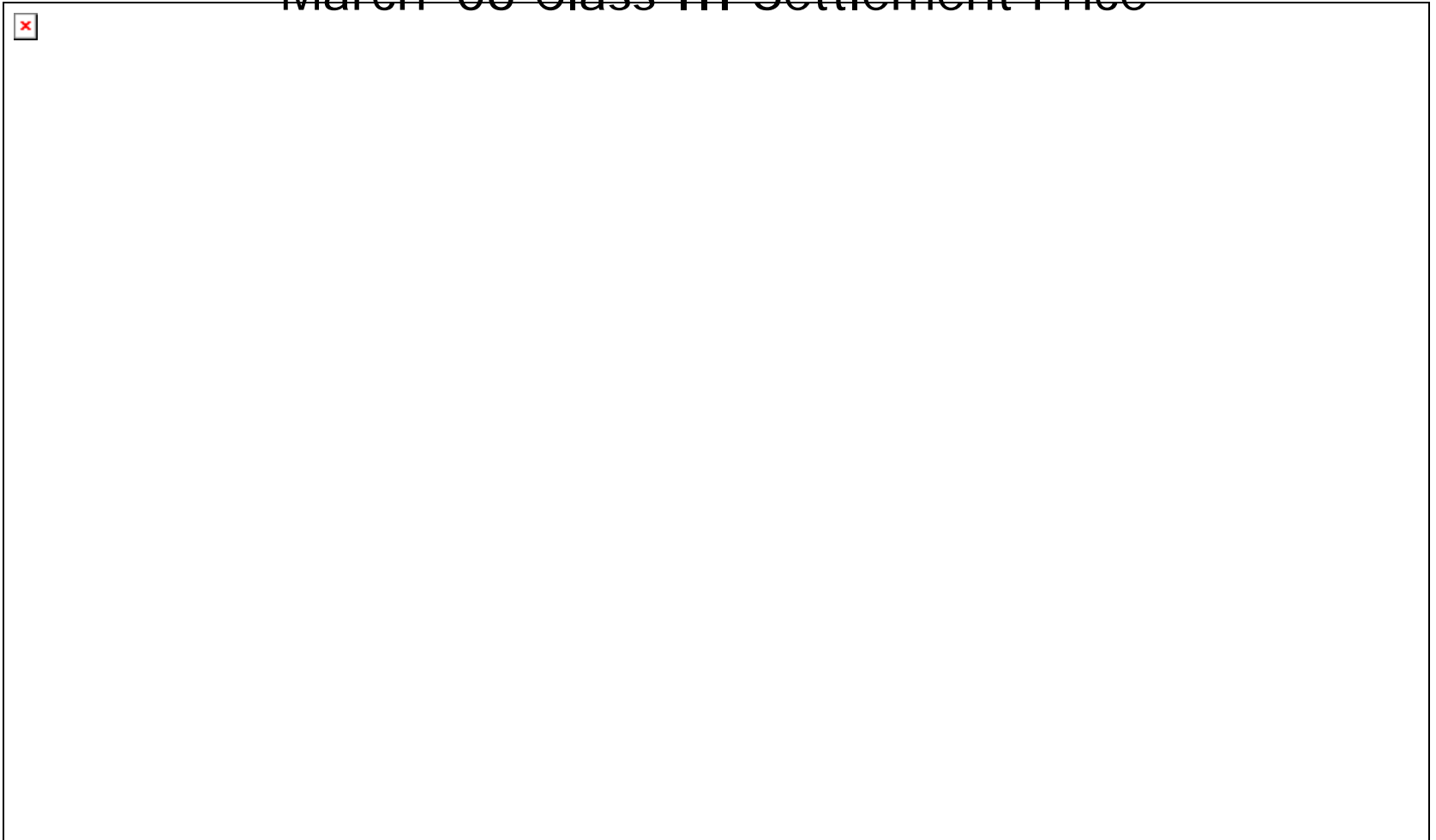
# Stocks of All Dairy Products

As a Percentage of Milk Production  
Butterfat Basis

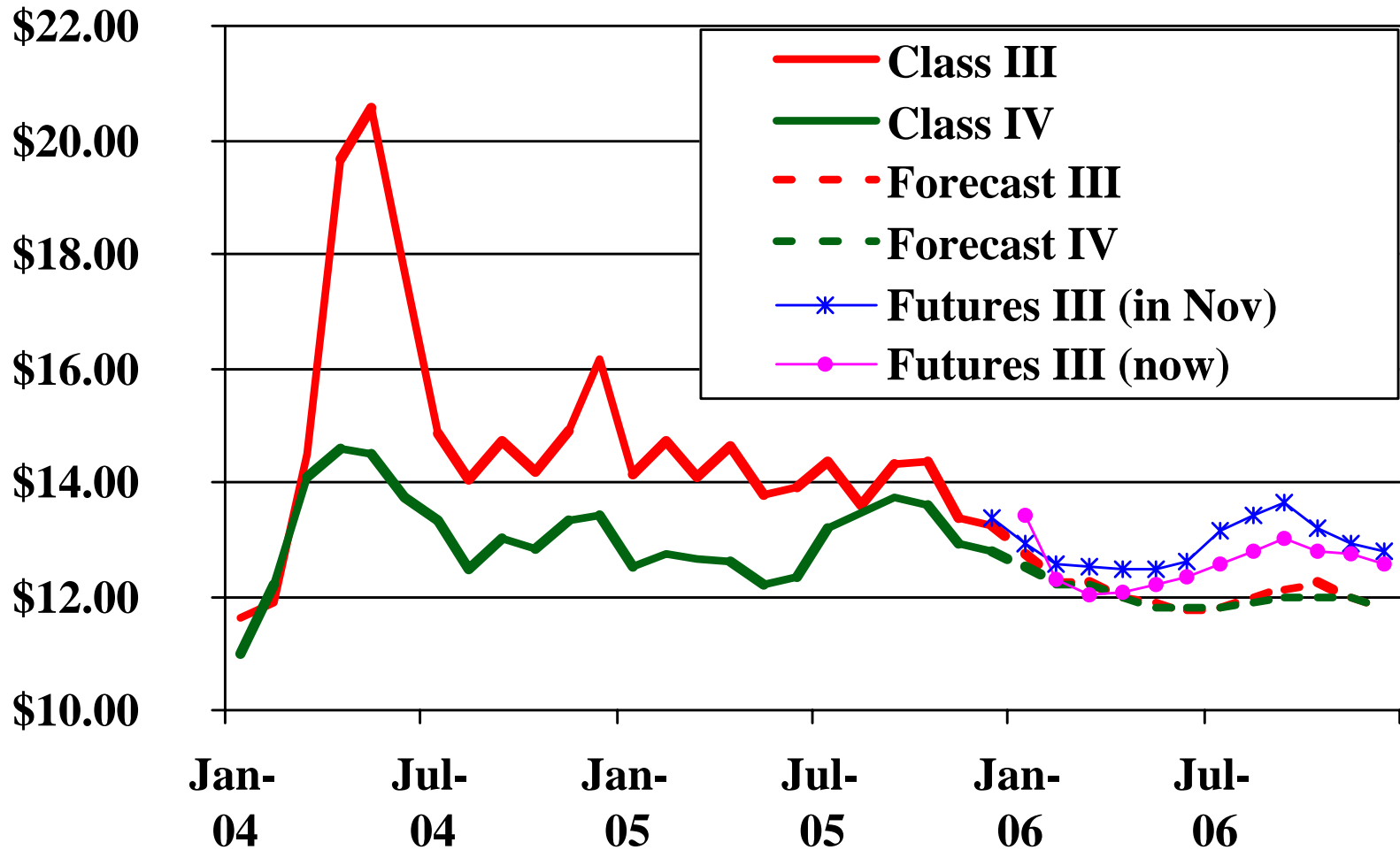


# Markets are Unsettled?

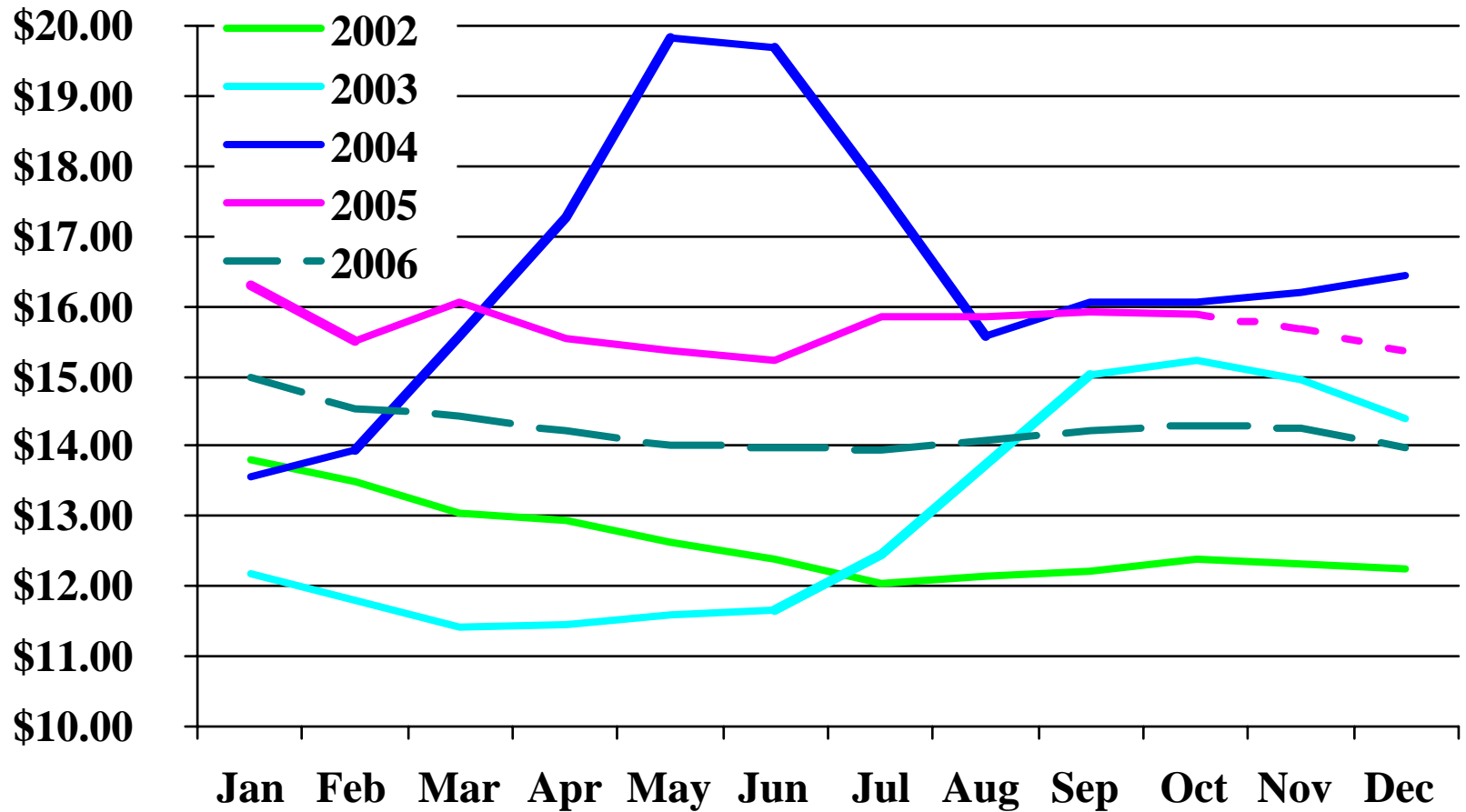
March '06 Class III Settlement Price



# Class III & IV Prices



# Northeast Uniform Price



# In Summary...

- 2005 has been another very good year for dairy producers
- Not so sure about processors (make allowance)
- Ample supplies of forages & low concentrate prices
- Producers have paid down many open accounts and restored their credit reserves
- Higher interest, energy and related costs will draw them down again

# In Summary...

- **I don't think that the economy can sustain this growth in supply**
  - Confusing reports on the economy
  
- **Watch cold storage and dairy products reports for stocks—they will be a key piece of evidence this year.**
  
- **2006 will be a much different year, but not disastrous!**
  - Class III price of \$12.07 (about \$2.00 lower)
  - Class IV price of \$12.00 (about \$0.90 lower)