



Dairy Outlook

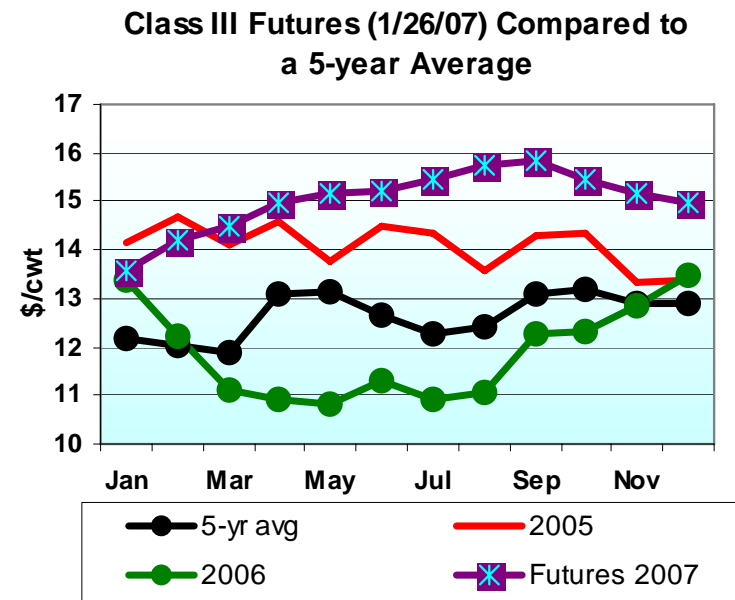
Ken Bailey

Penn State University

January 27, 2007

Class III Milk Futures

- Inventories of nonfat and dry whey very low
- Export demand strong
- Feed prices keep rising
- Market keeps bidding up prices
- Why will cheese prices get this high?

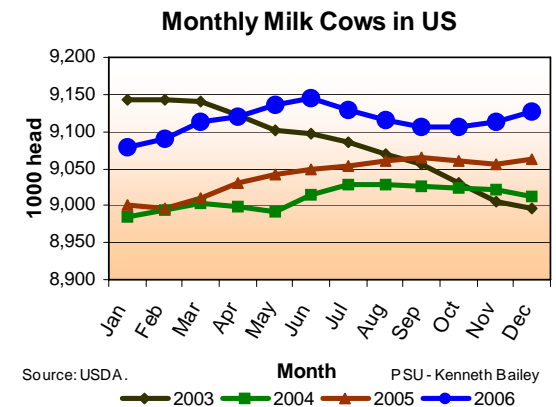
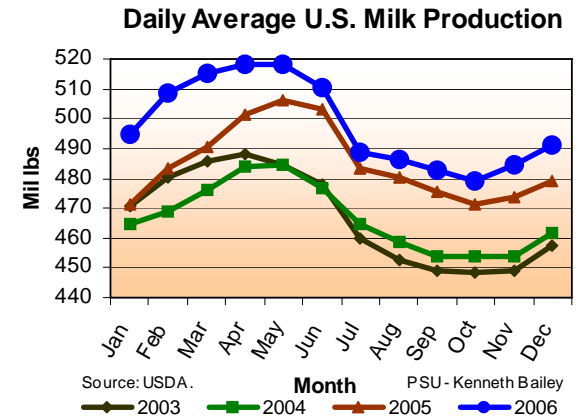


Top Five Things That Have Affected Markets in 2007

- Strong global demand for protein
- Feed prices expected to rise sharply
- USDA forecasting milk supply will grow just 0.7%!
- Domestic shortage of nonfat will drive cheese prices higher
- Imports of milk fat will moderate butter prices

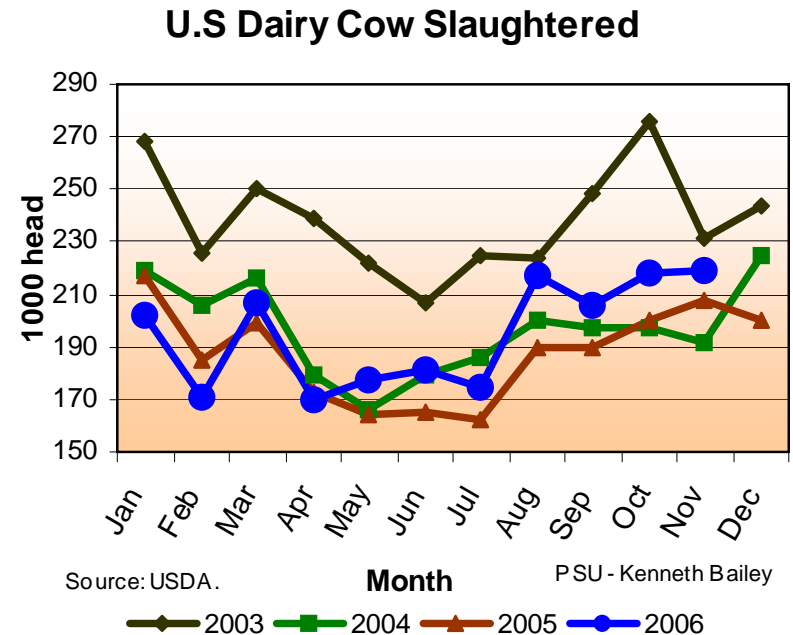
Milk Production Growing

- *December milk up 2.7%*
- *Milk per cow growing*
- *Cow numbers rising too!*



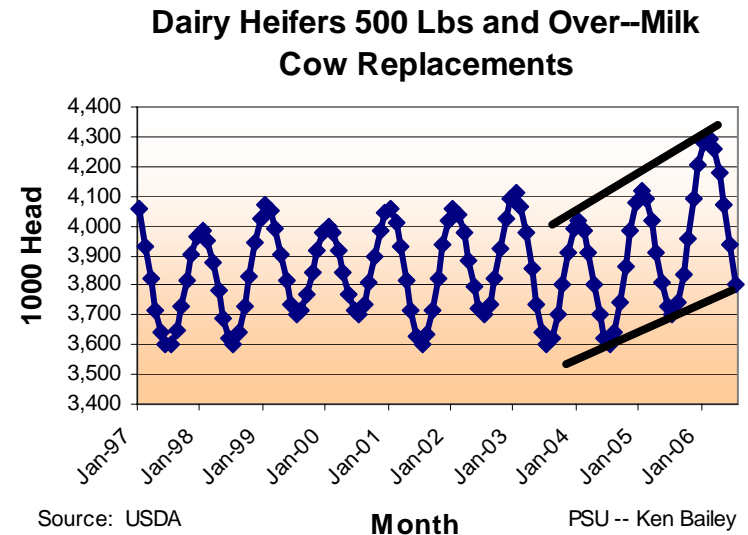
Dairy Slaughter Rates

- Slaughter rising
- Slaughter prices weakened from \$50/cwt earlier last year to \$43 by years end



Supply of heifers growing

- Heifers 500#'s and over growing in 2005 and 2006
- Border with Canada expected to open to bred heifers
- Expect more milking replacements will become available



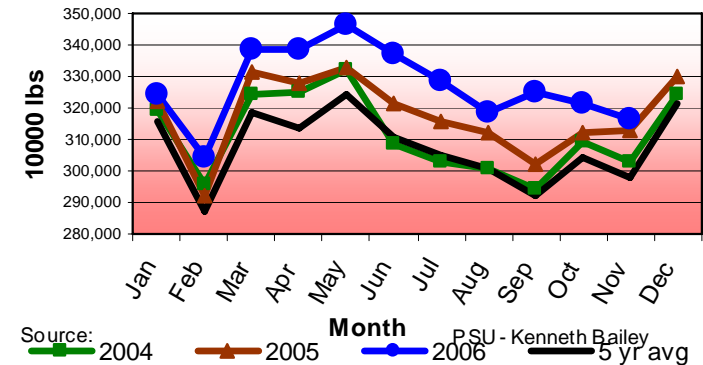
Fluid Consumption Strong

- Jan-Nov 2006 is 50.3 billion pounds
- Percent change +1.1%
- Helps tighten the market supply of milk!

American Cheese Production Growing

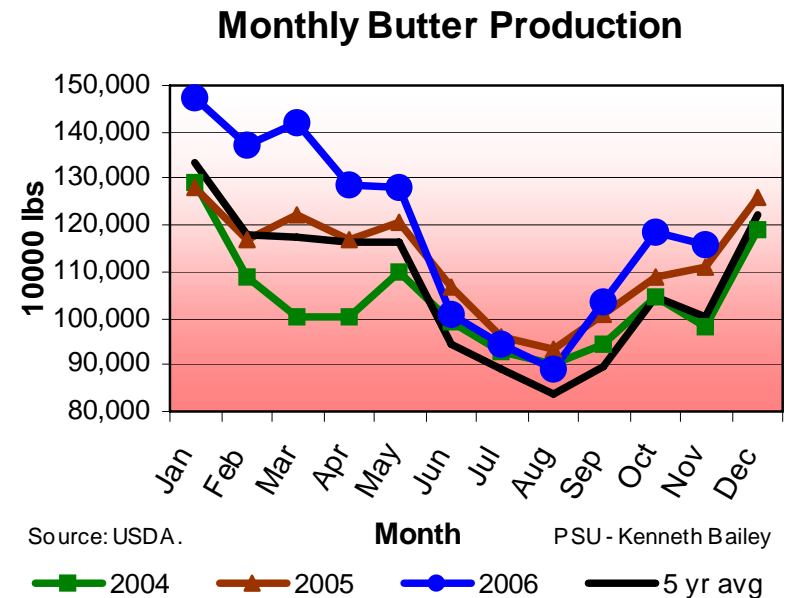
- American cheese production growing
- Well above the 5-year average
- Mozzarella production WAY up

Monthly Total American Cheese Production



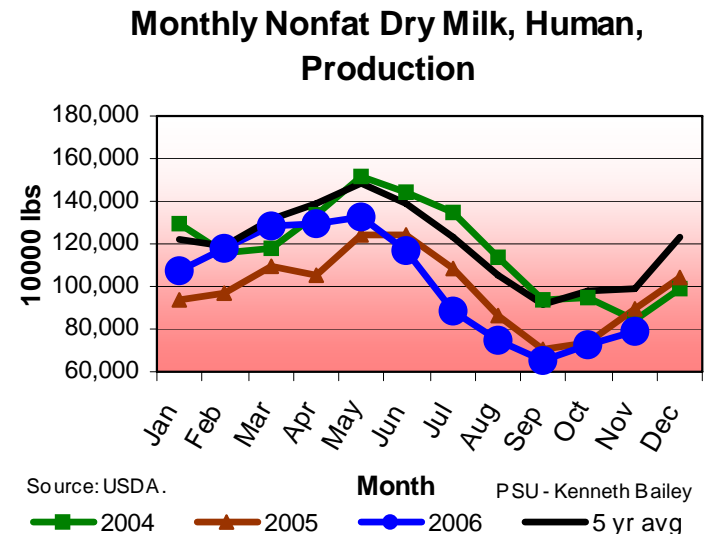
Butter Production Rebounding

- Butter represents surplus use of cream
- Butter production growing



Nonfat Dry Milk Production Limited

- Production hitting new lows
- There is some new production of “skim milk”
- California makes most nonfat, was hurt in summer of 2006



Commercial Disappearance, Jan-Oct 2006

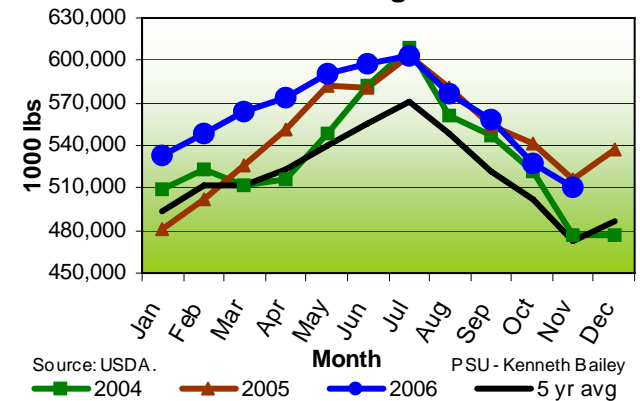
Select Product	Mil Pounds	Percent change
Butter	1,118	3.1
American Cheese	3,315	5.5
Other cheese	4,797	1.4
Nonfat Dry Milk	1,050	-3.6
Fluid Milk Products*	45,642	1.0

**Daily average basis. Source: USDA.*

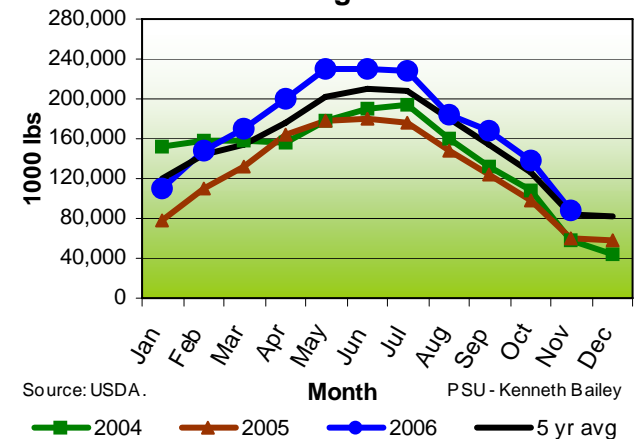
Inventories for 2006

- Inventories of butter and American cheese are in line with a year ago

Monthly American Commercial Cheese Ending Stocks

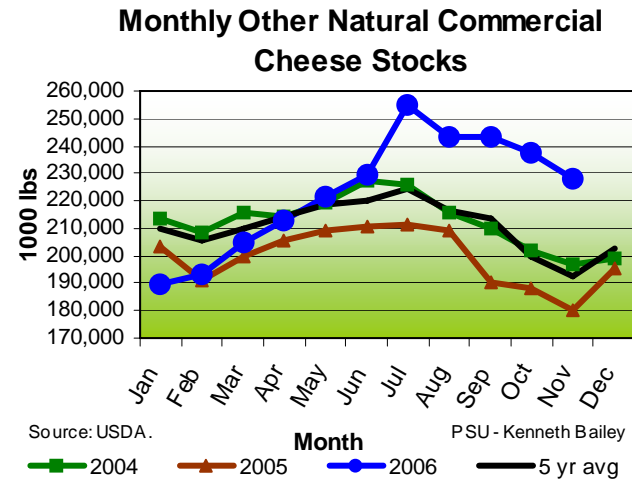
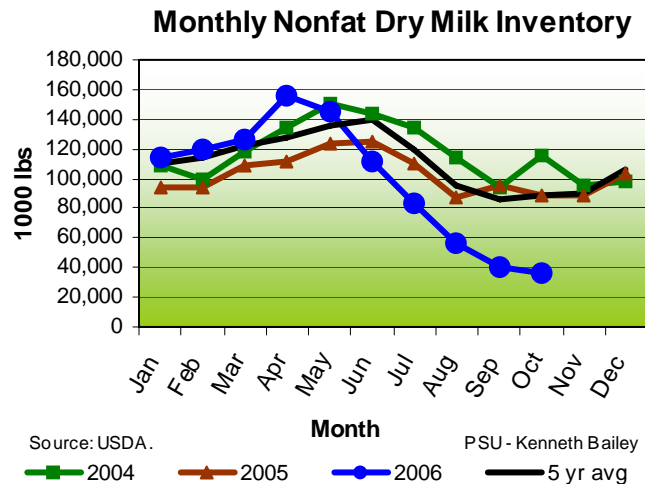


Monthly Butter Commercial Ending Stocks



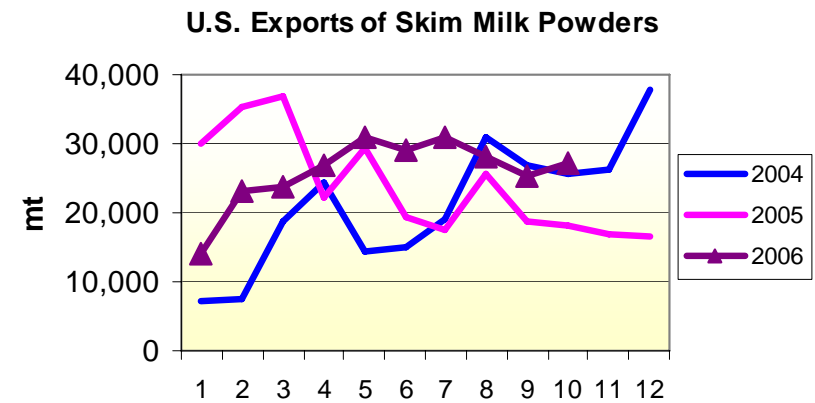
Inventories for 2006 -- continued

Nonfat dry milk way down, Other cheese way up!!!!



U.S. Powder Exports Steady

- Global demand for protein very good
- EU, Australia have limited exports
- World turning to U.S. for skim milk powder



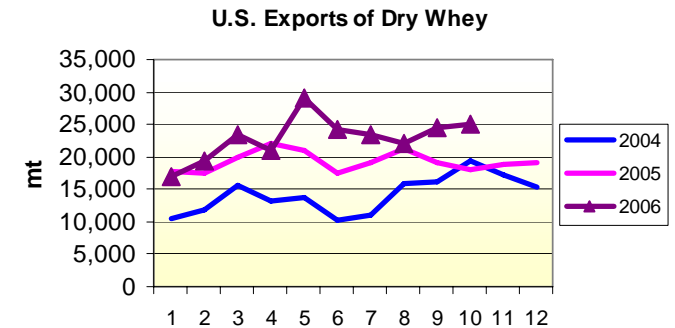
Source: USDA.

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Exports Jan – Oct 2006 up 2.6%

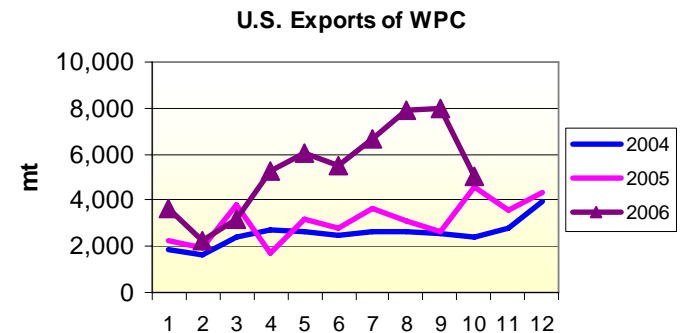
Exports of Whey Powder and WPC Also Strong

- International demand for whey and whey protein concentrate very good
- U.S. exporting all we have
- Leaving domestic market short



Source: USDA.

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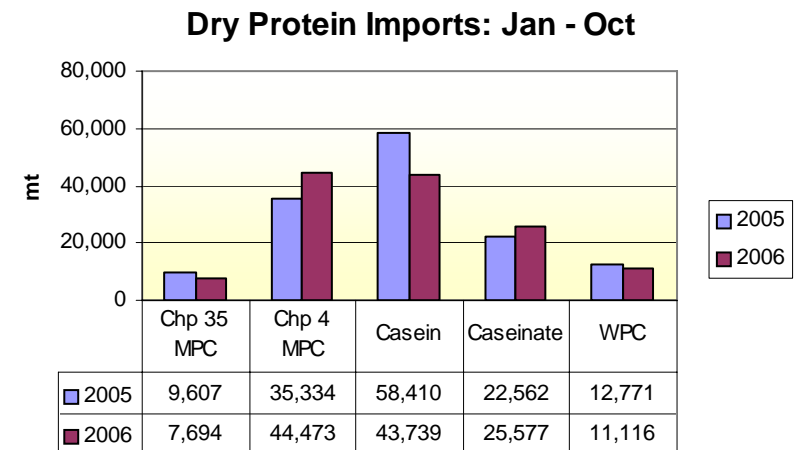


Source: USDA.

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Imports of Dry Proteins Mixed

- Chapter 35 MPC, casein, and WPC imports down
- Chapter 4 MPC and caseinate imports up
- Overall protein imports are down

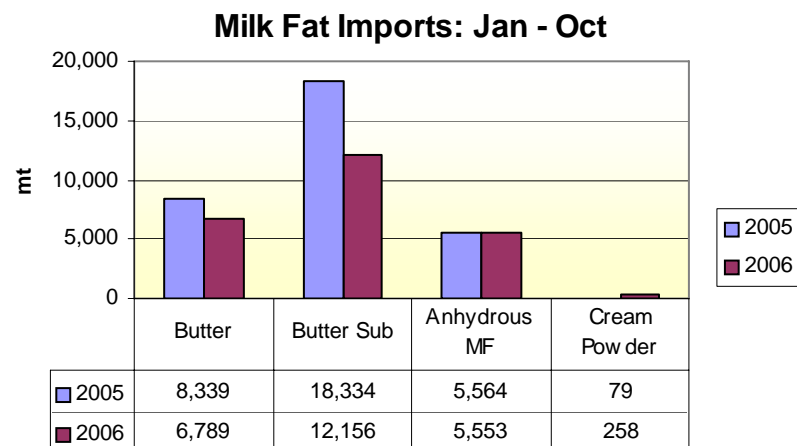


Source: USDA.

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Overall Imports of Fat are Up

- Fat from traditional import sources are down
- But fat from “food preparations” is up

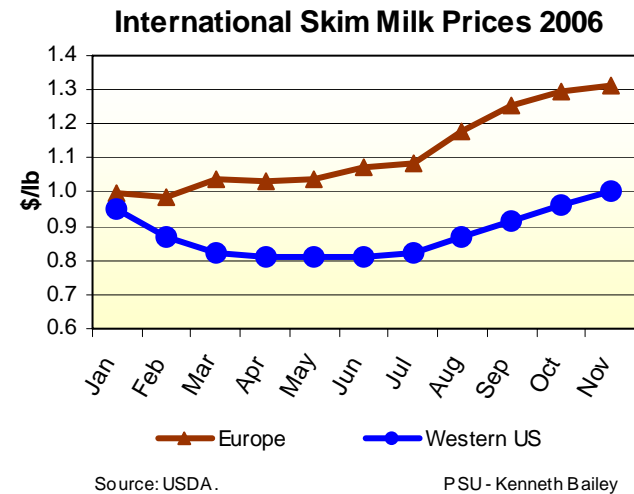
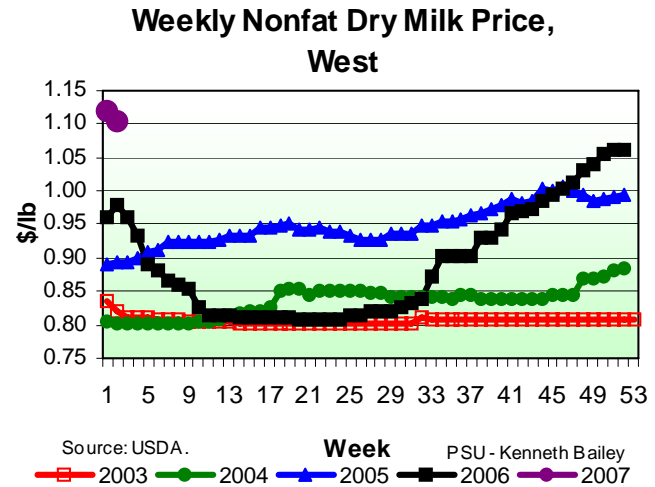


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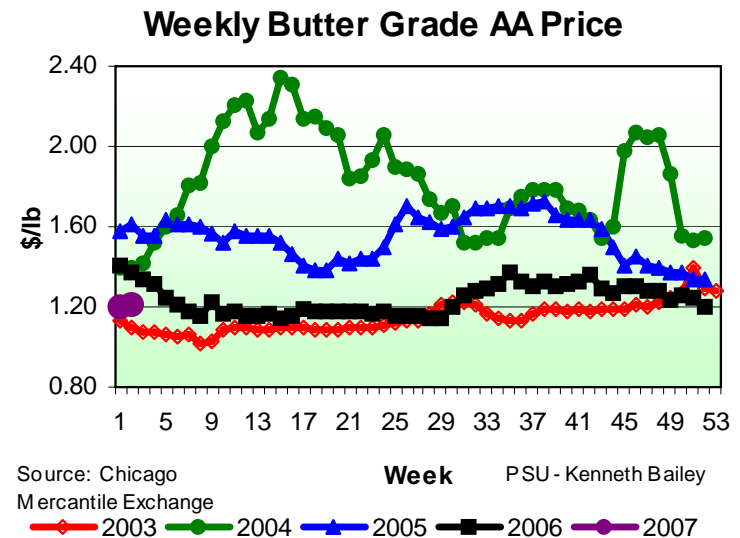
Nonfat Dry Milk Prices Strengthening

- U.S. powder inventory very tight
- Production off
- Global demand strong
- International prices much higher than in U.S.
- Forecast for 2007:
 - Will average \$1.16/lb



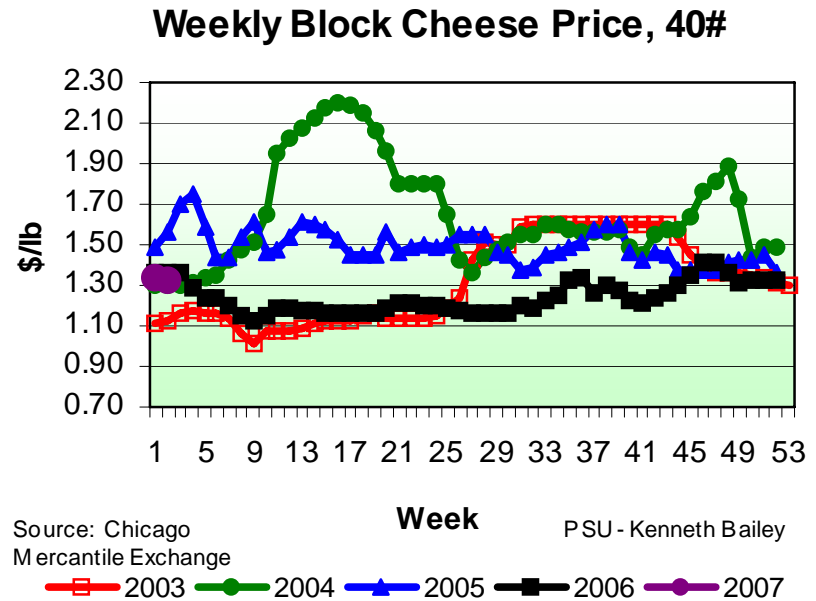
Butter Prices

- Prices moderate
- Inventory balanced
- Production recovered
- Outlook for 2007:
 - Will average \$1.35/lb



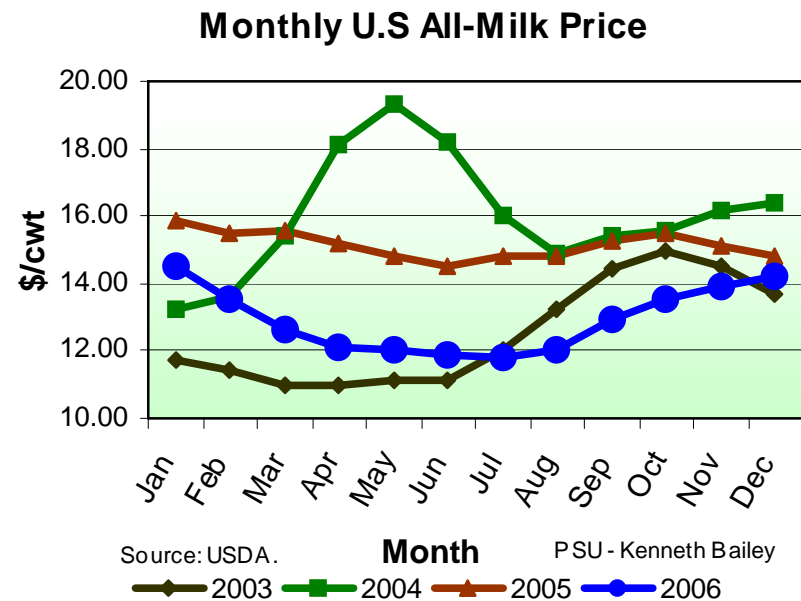
Cheese Prices Stronger

- Supplies are growing
- Prices rising with higher outlook in general
- Outlook for 2007:
 - \$1.44/lb



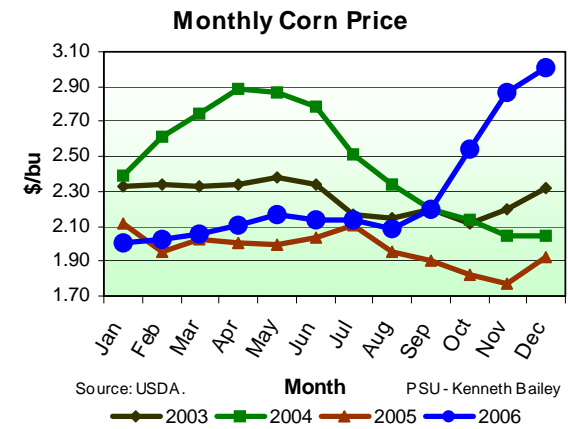
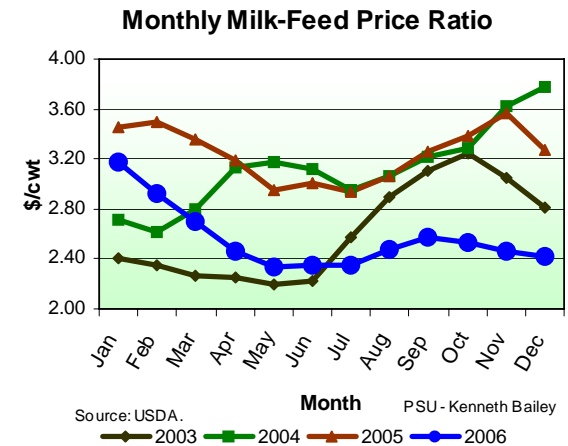
Farm-gate Milk Prices Improving

- All-milk price forecast to improve
- Five-yr average \$13.59/cwt
- Forecast for 2007:
 - \$15.53/cwt



What About the Milk-Feed Price?

- Milk-feed ratio declining
- Feed prices will hurt margins
- Forecast:
 - down from 2.56 in 2006 to 2.31 in 2007



Forecast for 2007, \$/cwt

	Actual 2006	Forecast 2007	Change
Class III	11.89	14.23	2.34
Class IV	11.06	13.73	2.67
All-milk	12.91	15.53	2.62

As of January 22, 2007

Dairy Farm Policy

- Cash flow for dairies are bad
- Feed prices rising due to ethanol
- Farmers facing higher make allowances
- Told can't use rBST
- *Milk prices not rising fast enough!!!!*

Secretary Wolff's Dairy Round Table Discussion



Pennsylvania Department of
AGRICULTURE

- Strengthen and safety net for producers
- Develop export markets
- Improve the federal order system
- Make the markets more transparent

Policy Issues

- Federal orders:
 - Go to two classes
 - Improve Class I pricing formula
- Eliminate the Price Support Program
- Improve the MILC program
 - Move to a target price/deficiency payment approach

Policy Issues -- continued

- Market transparency:
 - Go to daily commodity price reporting
 - Make reporting mandatory
 - Eliminate the NASS lag
- Other forms of safety nets:
 - Dairy Options Pilot Program
 - Expand crop insurance to revenue insurance