

Dairy Situation and Outlook

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March Milk Production Down 0.2%

March 2009 23 major dairy states milk production dropped 0.2%. Production per cow was down 6 pounds from one year ago. Milk cow numbers were 15,000 more than March 08 and 4000 less than Feb 09. Feb 09 milk production was revised down by 23 million pounds, a 0.2% point decrease. Milk production in the US during the first quarter of 2009 totaled 47.3 billion pounds, down 0.6% from first quarter 2008. Average milk cow numbers were 11,000 higher for the quarter compared to one year ago.

First quarter NE milk production totaled 284 million pounds up 19 million pounds. Cow numbers rose 3000 to 60,000 dairy cows.

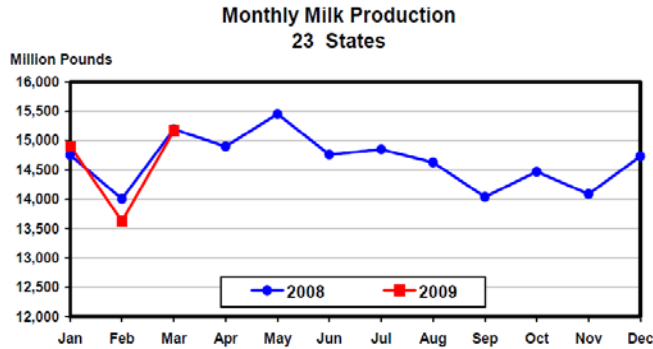
Iowa March 09 milk production was off by 0.5% compared to one year ago. Cow numbers were down by 1000 compared to one year ago and milk production per cow was the same as one year ago. Feb 09 Iowa cheese production was 7.5% higher than one year ago and 7.3% less than Jan 09.

Milk Production: Selected Dairy States, March 2009

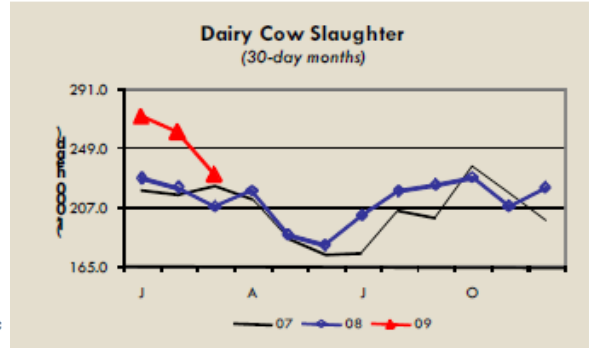
State	thousands			pounds			million pounds		
	2008 cow numbers	2009 cow numbers	% change cow numbers	2008 milk per cow	2009 milk per cow	% change milk/cow	2008 total milk production	2009 total milk production	% change total milk
Iowa	216	215	-0.46%	1730	1730	0.00%	374	372	-0.53%
MN	463	468	1.08%	1630	1645	0.92%	755	770	1.99%
WI	1251	1256	0.40%	1660	1685	1.51%	2077	2116	1.88%
IL	102	102	0.00%	1640	1675	2.13%	167	171	2.40%
CA	1842	1822	-1.09%	1975	1920	-2.78%	3638	3498	-3.85%
CO	126	128	1.59%	1945	1980	1.80%	245	253	3.27%
KS	115	122	6.09%	1790	1820	1.68%	206	222	7.77%
ID	540	549	1.67%	1885	1810	-3.98%	1018	994	-2.36%
NM	340	333	-2.06%	1990	2110	6.03%	677	703	3.84%
PA	549	550	0.18%	1680	1670	-0.60%	922	919	-0.33%
NY	626	623	-0.48%	1590	1540	-3.14%	995	959	-3.62%
TX	408	430	5.39%	1800	1850	2.78%	734	796	8.45%
23-State	8467	8482	0.18%	1660	1685	1.51%	15191	15164	-0.18%
US 1st quartr	9286	9297	0.12%	0	0	#DIV/0!	47610	47304	-0.64%

The April 2009 Livestock Slaughter reported 238,200 dairy cows were slaughtered in March. That number was down 11.7% from Feb 09. USDA estimated that “23,000 more dairy cows were culled in March 2009 vs. March 2008; however, since January, the cull rate as a

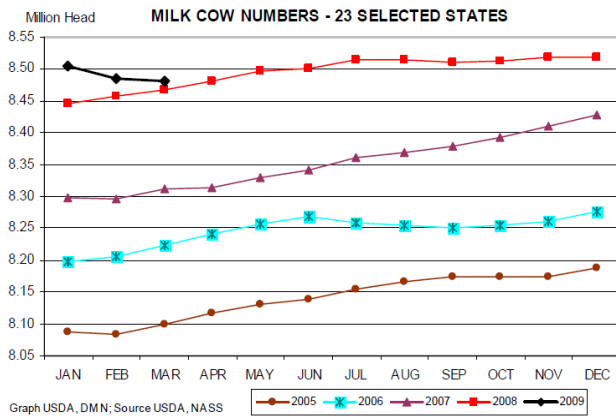
percentage of the total herd has dropped from 10.5% to 8.9%” observed a recent Valley Futures newsletter. The current reduced culling may be due to farmers waiting for their herd to go in the 7th round of CWT herd reductions.



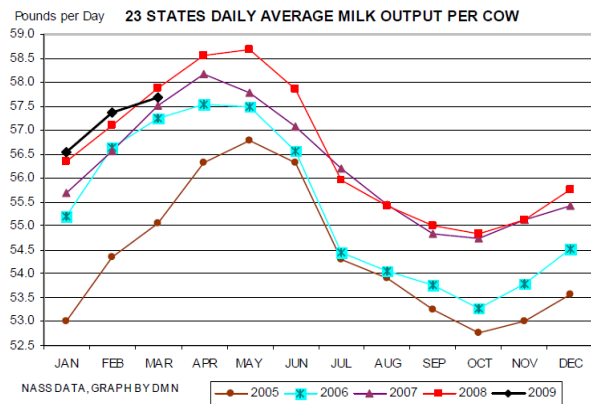
Source: Milk Production, NASS



Source: Daily Dairy Report



Source: Dairy Market News

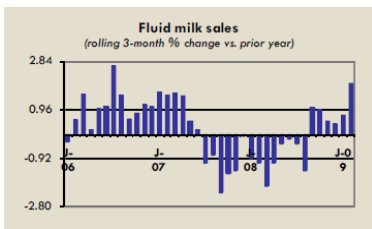


Source: Dairy Market News

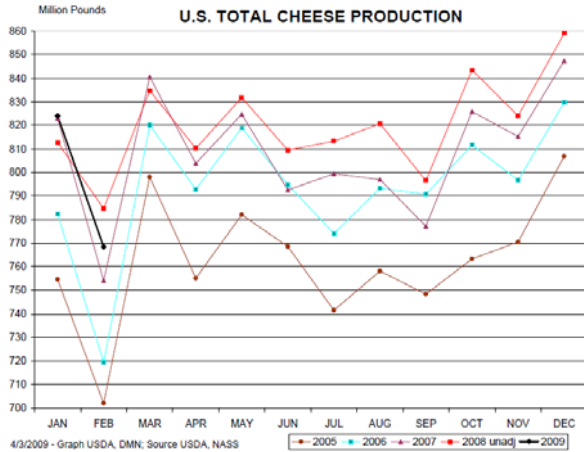
Demand or Disappearance

For February total cheese output was 769 million pounds, down 2.1% from one year ago and 6.7% less than Jan 09. Butter production was 145 million pounds, 1% less than one year ago and 16.7% less than Jan 09.

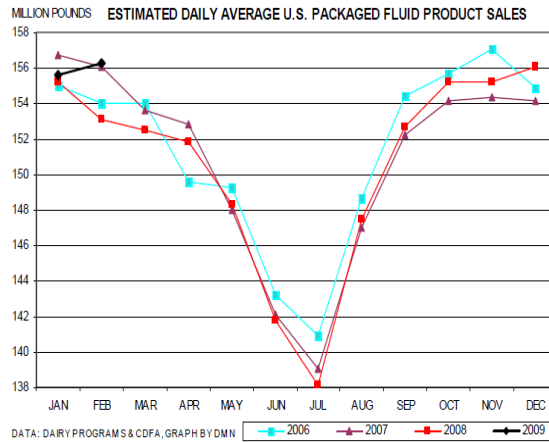
Fluid milk sales are improving. The CPI fell slightly for March 09 to the same as Oct 08. The dairy and related products decline was 2.4%. This followed declines during the previous three months.



Source: Daily Dairy Report



Source: Dairy Market News

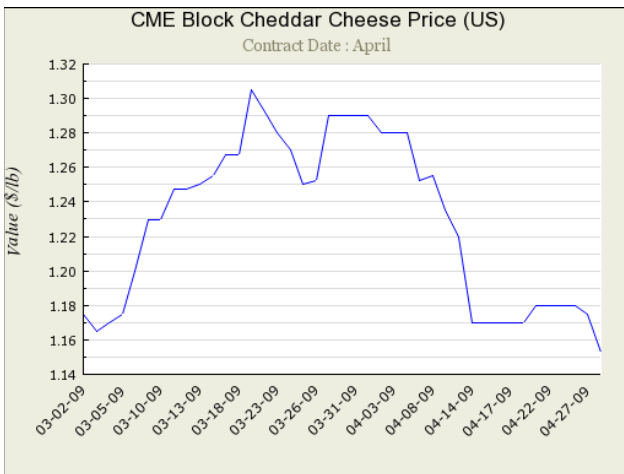


Source: Dairy Market News

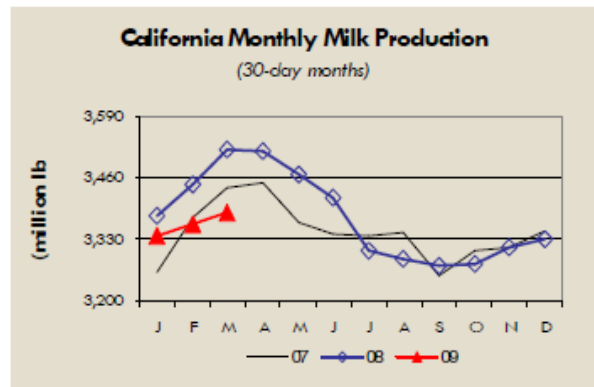
The Consumer Confidence Index reported for April rose to 39.2 the largest monthly rise since 2005. And it was a 5 month high. Another report indicated that 20 city home sale prices had the slowest rate of decline in February since 2007.

Analysis

April 28 CME traded barrel cheese prices were 1 cent below support price. Block prices lost 2.25 cents on the same day.



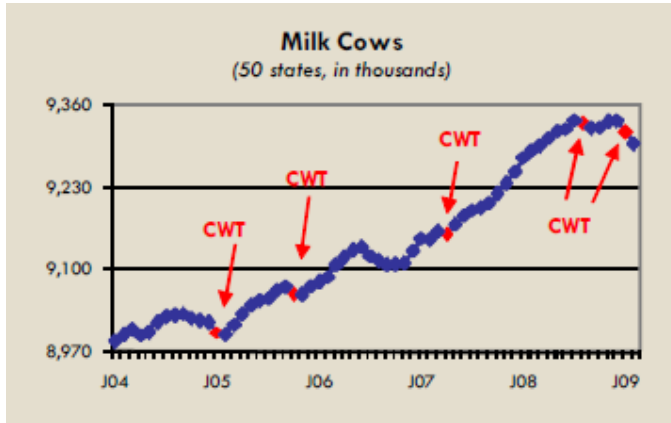
Source: UWEX: Understanding Dairy Markets web site



Source: Daily Dairy Report

The weakest milk production has been in the west so far. California and Idaho has seen much weaker total milk production. Both AZ and ID have higher milk cow numbers but the lower milk per cow led to lower total milk produced. CA had lower cow numbers and milk per cow. Feed cost and low milk prices continue to lead to poor dairy farm financial conditions. Those herds who buy feed are at the most risk of financial stress.

A seventh round of herd retirements was announced by Cooperatives Working Together (CWT). However the chart below shows that effect of these retirements has been short-lived. It will be difficult to separate the effects of the current financial stress in the dairy industry and the CWT dairy herd removal.



Source: Daily Dairy Report

Looking at current milk prices still offers little relief to stressed dairy operations. And the recent decline in CME cheese prices tends to lend concern for a longer period of weak milk prices than I had anticipated earlier this year. Pessimistic projections of milk prices put Class III milk prices at \$11 through summer with 4th quarter Class III milk prices from \$12-14.